CHAPTER 8

The way forward to achieving sustainable development in Africa

Key messages

- Achieving development goals remains an unfinished business for African countries. The **SDGs fit accurately with Africa's priorities** for the next fifteen years. The future of growth and its impact on poverty reduction in Africa hinges on what happens to structural transformation. A new development trajectory **of structural transformation is required to ensure improving productivity** as Africa industrialises. This requires huge investment in both human and physical capital. Key priorities would be: Investment in infrastructure, especially energy; and, improvement of labour force productivity, to fit the needs of manufacturing and agro-industries.

- The African Development Bank supports its **Regional Member Countries (RMCs) to achieve structural transformation that will eradicate poverty** on the continent. As a first priority, the Bank focuses on improving Africa's production capabilities through infrastructure development. The Bank recently initiated a New Deal for Energy that will help to power Africa's transformation, and to fast-track universal access to energy, by 2025. The Bank will also focus on integrating and industrialising Africa, by promoting private sector development. The ultimate goal of the Bank is to improve the quality of everyday life for all Africans, by helping them to have equal access to quality jobs, and enough food.

8.0 The need for Africa to adopt a new development trajectory

During the past decade, Africa's economic pulse has quickened, in comparison with previous decades. However, the recent decline in commodity prices could have adverse impacts on this momentum, especially for commodity-dependent countries. In chapter 1, we evaluated the main determinants of this growth performance and highlighted: favourable commodity price developments, from 2002 to mid-2014; more FDI inflows, especially toward resource-rich countries; improvement in the quality of governance; increasing numbers of middle class consumers; plus, more stable political conditions. In many African countries, impressive economic growth has been accompanied by improved poverty reduction and social outcomes. However, compared to the rest of the world, the continent is the only region where the number of poor people has increased during the past fifteen years (chapter 2). In addition, growth's contribution to reducing inequality remains low (chapter 3). The transformation of growth into poverty reduction is partially impeded by persistent inequality. Therefore, the recent economic growth in Africa did not benefit the majority of Africans who still live on less than $1.25 a day. Following from the lack of inclusive growth on the continent, evidence in chapters 4 and 5, showed that women and youth have been left behind. Similarly, recent growth has not taken place in all sectors of the economy. Most of the value addition has come from the service sector, with the contribution of agriculture and manufacturing sectors either remaining the same, or, experiencing contractions. Given that not much of the recent growth is attributable to agriculture, the majority of people, who work in this sector, have remained poor.

Agricultural mechanisation, research and development, together with more focused and coordinated intervention are necessary to tackle many hurdles that limit productivity in this sector. These include the lack of infrastructure, seed capital, market access and incentive issues, on the side of policymakers.

More precisely, in chapter 4, we discussed in depth how gender inequality limits Africa's progress in tackling poverty. Gender inequality is not only a pressing moral and social issue, but also a critical economic challenge: Women represent more than half of Africa's population, but contribute only 39% of its GDP. Though, substantial progress has been made over the past fifteen years, especially regarding gender parity in primary school enrolment, increasing women's participation in decision-making, and in reducing maternal mortality are among many outstanding challenges. Women still constitute the majority of Africa's poor. Above all, they are victims of domestic violence, with average prevalence of about 37% in the continent, and close to 50% in some countries.

Chapter 4 highlighted the consequences of domestic violence, which affects women's productivity, as well as their health. The trans-generational effects of intimate partner violence are visible from the distorted reproductive choices of women to resource allocation distortions that directly affect their children. In other words, gender based violence has a fundamental impact on economic growth, which could spread to several generations. Many studies have attempted to quantify the costs of violence against women, focusing largely on the costs of services and economic losses due to lost output. The magnitude of the costs of violence against women is estimated to be between 1-2% of GDP. These values are widely accepted to be under-estimated, given the conservative methodology used and the gross under-reporting of violence (KPMG, 2014). Yet, our analysis showed that empowering women, through better education and equal access to decent jobs, would reduce gender-based violence and inequality. According to McKinsey Global Institute (2015), the potential gain for SSA in addressing the gender gap by 2025 is an estimated additional 12-27% of GDP. In sum, gender inequality will remain a great challenge for Africa, and the continent would benefit by focusing on the economic opportunities arising from improving parity between women and men.

The analysis in chapter 5 showed that African youth did not benefit from the recent economic growth, since many of them either lack the relevant training or are unable to access capital to improve production. Nevertheless, Africa accounts for a significant fraction of the world's youth (1/5th in 2012). This share is expected to increase to 1/3rd of global youth by 2050. If Africa wants to benefit from the potential demographic dividend over coming decades, it will be crucial to empower its youth with the relevant skills to meet the continent's future job market needs. In today's labour market, the transition from school to work is already challenging: Youth unemployment/underemployment rates are two to three times as high as those of adults. The "Arab Springs" demonstrated that youth unemployment might be a "ticking time bomb" if the transition from school continues to lead to unemployment. Chapter 5 discussed the challenges faced by the youth when searching for wage employment, in both the formal and the informal sectors. It highlighted the need for governments to make the appropriate supply-side responses to improve both the quantity and quality of education and skills training. This will require collaboration between governments and the private sector in order to create an enabling macroeconomic employment environment. In addition, because of the high prevalence of informality in Africa, a further challenge will be to find an effective way to harness the potential of youth entrepreneurs.

In sum, Africa's recent growth performance did not help to address issues of inequality resulting in the exclusion of both women and youth from the benefits of growth. Therefore, inequality and poverty are still Africa's major challenges. These need to be addressed in the next fifteen years, in order to achieve the SDGs. Over 120 million Africans are out of work, and more than 672 million live in poverty. As a consequence, Sub-Saharan Africa is the region with the highest prevalence of hunger: With one in four people being undernourished; More than 32 million children under-five are underweight; and, about 45% of deaths in children under-five are caused by poor nutrition (FAO, 2015). In addition, out of Africa's 312 million adult women, 115 million are at risk of domestic violence. This disrupts their productive and reproductive roles as well as being a clear violation of their human rights. Therefore, achieving the MDGs remains unfinished business for most African countries. The solution we propose is to adopt a development trajectory that is both more inclusive and sustainable.

As discussed in chapter 7, the continent did not realise real structural transformation, despite high economic growth. Instead, African countries remain major commodity exporters. Many countries have taken advantage of the positive commodity price shocks experienced over recent years. As a consequence, the resultant growth did not create sufficient jobs for the majority of Africans. The benefits of the resource-led boom were concentrated in a few enclave sectors and thus limited to a narrow group in society. Governments were not able to implement income redistribution strategies to benefit the poor and most vulnerable in society. Growth in labour-intensive sectors, such as agriculture and manufacturing, remained low. Instead, these sectors were characterised by low productivity, low wages, employment insecurity, and, above all, by poverty. The majority of people engaged in these sectors did not benefit from the wealth generated during the recent growth surge. In addition, over recent decades, industrialisation in Africa has been penalised by the boom in exports of natural resources. This has exacerbated poverty and inequality. The continent experienced a stagnation, even a decline, in the industrial and manufacturing sectors since the 1970s. Average growth in these sectors was just 3.5% between 1970 and 2012. This is in direct contrast to what happened in emerging economies elsewhere: Industrialisation has played a key role in lifting millions of people out of poverty by providing them with decent and secure jobs.

What should Africa do to rectify its development trajectory and to make economic development more inclusive? A new development trajectory should enable Africa to provide decent jobs, including, in particular, to the majority of the youth and women. It also needs to produce enough food for Africa's population, especially the most vulnerable. To do so, Africa needs to industrialise, but this requires that the continent resolves some of its major deficits first. One priority is to address the infrastructural deficit, especially the energy deficiency. Without energy, nothing else can happen. Energy fuels economic activities, especially production, industrialisation and the delivery of services. The continent will also need to resolve important shortfalls in its labour market, in particular, labour productivity and costs; and, the adequacy of skilled labour for market needs, especially in the industrial and manufacturing sectors. Another important priority for Africa will be to expand domestic market sizes in order to benefit from potential economies of scale across the continent. This can be achieved by increasing intra-regional trade so that Africans can feed themselves, instead of allocating most of their income to imports from mainly western and emerging markets. Adopting such a development trajectory will lead to a real structural transformation in the continent and, thereby, to improvements in the living conditions of many of Africa's poor people. These are precisely the priorities of the African Development Bank for the next decade.

This chapter proceeds by recalling the major challenges Africa faces in its efforts to achieve inclusive and sustainable development. It then discusses the new SDGs and how they fit with the continent's development priorities. Finally, the chapter ends with discussion on how the African Development Bank is refocusing its strategies to effectively respond to the continent's development challenges.

8.1 Africa still faces major challenges in making growth more inclusive

In this section we discuss major challenges Africa still faces in order to achieve a structural change that will be accompanied by poverty reduction and less exclusion.

8.1.1 Enhancing income growth and income distribution

Africa has made considerable progress in poverty reduction since the mid- 1990s, about the same period that the region's (per capita GDP) growth has trended upward. This performance is a reversal of the trend over the previous 15 years, when growth was quite anaemic in the region. In general, the upward-trending growth has been translated into significant poverty reduction. However, this has not been the case in all countries. Worsening income distribution has been the major culprit for most countries experiencing deepening poverty levels. Polices that enhance both income growth and income

distribution would be preferable. One way to accomplish this is to improve the complementarity between physical capital and education, especially at the level of basic education. This would entail a focus on vocational training in the last three years of basic education, for example. In addition, social-protection programmes would help to insure against downside risks of economic shocks (Thorbecke, 2013). Policies that limit the excessive power of the executive would also help. Fosu (2013), for instance, finds that stronger constraints on government executives could increase the prevalence of growth-enhancing 'syndrome-free' regimes. Constraints would achieve this through limiting the potentially pernicious effects of ethnicity. Such a policy could also help to lower inequality, which often tends to be adversely correlated with ethnicity..

8.1.2 Addressing domestic violence to pave the way for gender equality

In chapter 4, we discussed in depth, the issue of domestic violence and its consequences on the victims, including women and children. A substantial proportion of African women are victims of domestic violence. However, addressing this issue has remained a substantial challenge for international development partners, governments, and the local population. Inequalities, drawn mainly along gender lines, have resulted in unfavourable outcomes for women, especially those in marital relationships. Such inequalities have been associated with implications reaching beyond women: They also affect outcomes for children and for society as a whole. Concerns remain as to how society can address these imbalances that ultimately lead to violence against women within the walls of their own homes.

Governmental and nongovernmental efforts targeted at addressing abuse against women are diverse, both in terms of their approach and scale. While some approaches are confrontational in nature, such as tracing and prosecuting perpetrators, other approaches have focused on more indirect means. Direct measures of addressing violence, through the use of legal institutions, have had limited impact, especially in environments where reporting violence is socially difficult. This is particularly the case in developing countries, where education and awareness of civil rights are in short supply among women and the poor. Fears of further aggression or other consequences, such as divorce, have left many women suffering in silence at the hands of their aggressors. It is not surprising, therefore, that the level of violence reported in surveys indicates a higher prevalence of violence than the level reported to the police or other law enforcing agencies.

The indirect approach to addressing violence attempts to address the inequality within the household that leads to violence in the first place. Proponents of this approach claim that realising their value, their rights and their ability to command resources will empower women and increase their bargaining power. This means that women will earn better outcomes from intra-household bargaining. Empowerment strategies can be used to achieve this, such as education or ensuring an independent source of income for women (further discussed in chapter 4). Education enhances women's bargaining power by enabling them to value the roles they play in the development of the household and by opening up opportunities to define their rights and entitlements in society. Knowledge of the set of alternatives available to women is therefore a strong determinant of their weight in the bargaining process.

In addition, educational attainment is associated with better employment outcomes. Having an independent source of income is expected to increase women's bargaining power. Since the outcome of bargaining depends on what each partners' alternatives are, in the absence of consensus, women who are entirely dependent on their partner's earned income, become considerably vulnerable. As a result of these effects, indirect approaches against intimate partner abuse have largely focused on addressing the gender gap in education and employment.

Numerous policy measures work most effectively together to address the root causes of violence at household levels. Addressing the power imbalance between men and women should, for example, be pursued alongside condemnation of social attitudes and beliefs that justify violence against women. A combination of legal tools, that discourage female subordination and punish violence against them, together with approaches addressing power asymmetries, can further the course of eradicating violence against women. Finally, addressing poverty at household levels could also help to reduce violence against women because lack of wealth contributes to increasing tensions among household members.

8.1.3 Addressing youth unemployment to enable Africa to benefit from the demographic dividend

Africa faces a variety of complex challenges to ensure growth inclusiveness for all segments of society, especially the youth. Given the projected growth of Africa's youth group, it is essential for governments and regional institutions to carve out workable strategies to target these challenges.

Many countries on the continent have been taking active steps towards more youth centred economic policy frameworks. Several countries now have a national youth policy, for example, as a result of the African Youth Charter endorsed by the African Union in 2006 (ILO, 2012). By 2014, 42 countries had signed the Youth Charter and 36 members had ratified it. In many countries, youth policies are the responsibility of a dedicated youth ministry, or, have a minister responsible for youth combined with other portfolios, such as, sport, or, women and children's affairs. Other departments in the government may also implement important initiatives to help young people. In South Africa, for instance, the National Treasury and the Revenue Authorities administer a (recently introduced) youth wage-subsidy, while the Department of Public Works runs an expanded public works programme, which provides direct employment to young people, among others.

Policies to address youth unemployment are shaped by: Technocratic discussions; Political pressures; Local socio-economic realities; and, international best practice. Policymakers often introduce relatively easy to target policies, designed to yield short-term gains in response to pressures to address economic issues facing young people. Moreover, governments may adopt policies to signal their commitment to good governance. Kenya, Uganda and Tanzania, for example, have opened funds for young entrepreneurs, with the support of the ILO (Elder and Koné, 2014).

The influence of social actors on policies may be explicit, where institutions of social dialogue and consultation exist. The Democratic Republic of the Congo, for example, has a Consultative Group on Youth Employment and a National Youth Council to facilitate engagement with young people (ILO, 2012). However, in general, young people are not sufficiently involved in policy development in Africa (World Bank, 2007). When policymakers do consult the youth collectively, specific groups may shape outcomes. Educated, urban and male youth, for example, might have greater access to policy discussions than other young people, thereby shaping policy outcomes in a way that might not represent the challenges of female and/or rural youth. This might reflect the relative ease of engaging with young people who have strong networks and who are located in urban centres (for example, university students). It is, therefore, important to recognise that when policymakers give space for the 'youth voice' they are aware that selected informants may not represent all young people. There is a definite need to engage with the 'youth voice' in a more representational manner, such as through youth surveys, however, these opportunities are rare and can be expensive.

Poor coordination, among the actors responsible for policies targeting the youth, may undermine their effectiveness. Youth policy may require action on a number of fronts and it could be difficult to align the relevant actors around a common vision and set of priorities. Policies to support young people may rely on different levels of government, such as municipal government, which may face capacity and fiscal constraints in their ability to support national directives on youth. In addition, ministers in charge of youth and related policies are typically political appointees who may have low levels of interest in achieving objectives that extend beyond their term(s). An effective steering committee, that can coordinate policies across departments, may be important for policy coherence and effectiveness. Alternatively, recognising the constraints of a government or uneven capacity across departments, success might lie in a limited number of agencies developing focused policies on youth employment.

Policies can also be differentiated with respect to their time horizons. Employment problems comprise challenges that policies could address over a relatively short time horizon, such as soft skills training or providing information about existing vacancies to suitable candidates. Other challenges will take a much longer period of time to achieve results, such as improvements to basic education or, most critically, addressing a fundamental shortage of jobs through demand-side policies.

Finally, the efficacy of a policy may depend on its complementarity with other policies. For example, an initiative encouraging the government to contract small enterprises may depend on support for small companies to allow them to compete with more established firms. One of the lessons from past policies is that programmes are more likely to succeed if they link financial and skills training in the same programme (AfDB et al., 2012). An analysis of youth programmes in Nigeria indicates that the government has focused on training but neglected the provision of soft loans (Akande, 2014).

In sum, many African governments have implemented policies to support young people in the labour market, especially training and support for entrepreneurs, with varying degrees of success. To some extent, the current set of policies does not reflect a shift from the standard international set of youth policy recommendations. Moreover, intergovernmental coordination, direct youth participation and interest groups will, in part, determine the design, and thus the success, of youth policy.

8.1.4 The challenge of fine-tuning Africa's structural transformation

To reduce poverty and to achieve a more equal income distribution, the resources of the poor must be strengthened. But a growth process that generates demand for these resources of the poor is also needed. The future of growth and its impact on poverty reduction in Africa therefore hinges on what happens to structural transformation. Large employment shares in the agriculture sector help lever the sector's contribution to GDP. Achieving more growth in agriculture will, directly or indirectly, feed into development of the industrial sector. Therefore, developing agriculture pays off both as a direct source of employment and livelihood and as a sector that forms the basis for growth in other sectors of the economy.

In most of Africa, the majority of the poor live in rural areas and earn their livelihood primarily from agriculture. Given this attribute, policies targeted to the agriculture sector tend to have significant impacts on the poor. In terms of the aggregate impact of agricultural growth, it is important to note that while this sector may not easily turn into the leading source of growth in many African economies, its roles in poverty reduction, averting food insecurity, and as a springboard for the development of sound agro-based industries are crucial and often under-estimated. Moreover, in the wake of global commodity price shocks, diversification into agriculture has become more relevant than ever before, especially for oil and gas exporting countries.

8.1.5 Growth that generates labour demand

Poverty reduction in Africa requires growth that generates labour demand outside traditional agriculture and the extractive resources sector. In Asia, successful poverty reduction was achieved by having a rapid increase in the demand for unskilled labour in the manufacturing sector. This change was often preceded by a green revolution in agriculture, which increased productivity and incomes in that sector. This both created demand for manufactured products and released resources for the expanding sector. We have not seen such a breakthrough in Africa's agriculture as yet. An export strategy based on labour-intensive manufacturing, but also agricultural and rural development, with encouragement of new technologies, must play a role. Investment in physical infrastructure and human capital are also crucial. There must be efficient institutions that provide the right set of incentives to farmers and entrepreneurs. Social policies are required to promote health, education, and social capital, as well as to provide safety nets to protect the poor.

It is clear that the quality of governance is a fundamental determinant of development, but it is less clear how countries can achieve it. The key point, as mentioned in Acemoglu et al.'s (2012) analysis, is that development hinges on inclusive institutions (i.e. institutions that make it possible for broad segments, or groups, within society to participate in political and economic decisions). Since political institutions are a strong influence on the economic institutions that generate development, their development is clearly crucial. Acemoglu et al. describe the desired institutional set-up as 'inclusive governance' (i.e. a system of governance that distributes power broadly in society and subjects it to constraints). For inclusive governance, political power should rest with a broad coalition, or a plurality, of groups.

The most effective redistribution policy would probably relate to assets, rather than incomes. But, asset redistribution is hard to do, except under exceptional circumstances - often related to political violence. It is easier to redistribute incomes with the help of taxes and transfers, but these may have detrimental effects on growth incentives: By reducing the returns to human and physical capital investment, income taxation reduces the incentive to save and invest. If one assumes that it is primarily the rich who have the possibility to save, redistribution away from them in favour of the poor would reduce savings. Most types of redistribution policy are controversial, and to be able to undertake them requires the support of influential groups. It could be argued that it is in the interest of the elite to see a strong middle-class emerge, which might mean that they, for example, would be willing to support a broad push for education. It could also possibly undermine the power of the elite, but at the same time, the growth of a middle-class would tend to reduce social tensions, as well as the risk of future confiscation of assets.

There is an emerging literature concerning how social safety nets contribute to growth by helping to overcome constraints due to market failures (Alderman and Yemtsov, 2014). The availability of social safety nets is intended to protect the consumption of the poor from negative shocks, but at the same time, they may trigger increased investment. It is clear that safety nets (cash transfers and public works directed to the poor) contribute to the reduction of inequality, but they can also contribute to growth. Transfers can help support investment by relaxing credit constraints (see, for example; Ardington, Case, Hosegood, 2009; Berhane et al., 2011). Poor households may be forced to trade-off income gains against risk reduction, with negative efficiency consequences. They also may have to sell off assets and forego investment opportunities so as to smooth consumption fluctuations. Safety nets can, in such a setting, contribute to growth by smoothing incomes. They can thereby make farmers and entrepreneurs more willing to invest, even in risky environments. In this way, safety nets may be a substitute for functioning insurance markets. In principle, specific insurance systems could be developed for particular risks (e.g. for crop producers). But these markets are not well developed in Africa. Berhane et al. (2011) find that beneficiaries of Ethiopia's PSNP had fewer distress sales than other farmers. Beneficiaries also saw a statistically larger increase in assets over time.

Social safety nets can also be seen to reduce inequality and, thereby, to contribute to national cohesion, which is good for growth (World Bank, 2006). They may make it possible to avoid inequality traps, and they can also affect political institutions by reducing the scope for rent-seeking. On the other hand, there may be negative effects on labour force participation, for example, as a result of the taxation required to fund expenditures on social safety nets. The net effect, although likely to be positive, would therefore be smaller than the gross effect.

Focusing too closely on policies with short-term poverty-reducing effects is no panacea: It risks policy errors. The optimal development path, from a poverty reduction perspective, would probably best be defined as one that minimises the discounted sum of future poverty. A policy package that achieves this would be different from one that minimises poverty in the short-term. There are many policies that increase consumption today, at the expense of consumption tomorrow. At the same time, there are policies that will generate growth and poverty reduction over the longer-term. For example, financing investment in infrastructure through taxation. These policies may have negligible, or even negative, effects on the consumption of the poor today. Redistribution from the future to the present, and from the currently non-poor to the poor, can reduce poverty in the short-term, but consider how it affects future poverty and inequality.

8.1.6 Pursuing diversification for effective structural transformation

Despite uncertainty regarding the evidence, it does seem that current economic growth in Africa is at a historical high. The patterns associated with this recent growth period appear to be quite different from those seen in Asia, where growth was fuelled by labour intensive, export-oriented manufactures. It is also different from previous periods of economic growth in Africa, in that it has not been associated with a marked expansion in the activities of the state, and that the external sector has grown rapidly. To the extent that we can be certain about data on structural change in Africa, it appears that manufacturing is not growing rapidly, that agriculture is in relative decline and that tertiary sectors are expanding.

Future growth will depend on a multitude of factors. However, it is beyond doubt that world markets, local political conditions and the costs of factors of production in the domestic economies will pay a large role in determining future growth trajectories. To predict the growth of the world economy is a tall order. Our best guess is that the markets will continue to fluctuate, as they have done in the past. However, this will not mean more of the same for Africa. The way in which African economies are integrated into the world economy has changed. In particular, the rise of Asia has changed and diversified the pattern of geographical dependency for many African economies. This gives us cause to think that Africa's continued external market dependence will not result in such volatile conditions as it has done in the past.

Therefore, it is important for African countries to continue to diversify their export partners, as they have done during the previous decade. But, countries should also move from specialising in the export of raw materials to exporting high value added products. By doing so, resource-rich countries will be able to improve their performance in terms of poverty and inequality reduction. In fact, when natural resources are transformed using low or medium technology manufacturing processes, their contribution to poverty reduction is much higher, compared to raw materials alone.

Enhancing their diversification process will help African countries to avoid falling foul of the 'natural resource curse'. The logic of the natural resource curse thesis disregards diversification in trading patterns, and argues that nations dependent on natural resource exports are fundamentally politically weak. It is argued that natural resource dependence causes the political elite to have no incentive to promote development, when rents are secured through mineral rents (Auty, 2001).

The applicability of this argument to Africa is weakened by several conditions. First of all, there are many African economies that are not rich in mineral revenues, and it is not evident how the political economy argument would work in the case of agricultural exporters. Moreover, the applicability of the natural resource curse thesis does not apply empirically to all countries, all the time. We know that countries that are rich today, such as Canada and Norway, have grown through the export of raw materials. Finally, there is a lack of empirical evidence within Africa to support the natural resource curse. A study of commodity export prices and African economic growth found no clear support for the resource curse thesis. Instead, it found that African economies do better when commodity prices are high, and that they suffer when prices are low (Deaton, 1999). Thus the 'paradox of plenty' does not apply, or, at the very best, it is a misstatement of the problem.

When growth failed in Zambia in the 1970s and 1980s, growth was sustained during the same period in Botswana. This paradox occurred, not because Botswana was more diversified or less dependent on mineral exports, but because the prices of copper plummeted, whereas the prices for diamonds remained stable (Jerven, 2010). There are opportunities, rather than curses, deriving from commodity exports in Africa. How these opportunities are taken depends, to a large extent, on the political and domestic economic conditions.

8.1.7 Policy options for sustainable and inclusive growth at national, regional and global levels

Earlier sections have hinted at the challenges that Africa is likely to encounter in its quest to eliminate extreme poverty and to achieve sustainable and inclusive growth. Based on various quantitative simulations presented in chapter 7, attaining a 3 percent poverty target under current pattern of income distribution would require consumption growth rates in excess of 5 percent per annum until 2030. The goal of reducing poverty to 3 percent of the population by 2030 is more likely when Africa combines accelerated growth with effective income distribution policies. By complementing growth with inequality reduction, Africa can reach this goal at lower growth rates and before 2030.

Several implications follow directly from this analysis. First, efforts to reduce poverty to very low levels in SSA cannot overlook large, low-income countries, such as the Democratic Republic of Congo. However, that does not imply that small, middle-income countries, with high prevalence of poverty, such as Swaziland, should be marginalised. Second, as discussed in chapter 7, poverty in SSA will be increasingly concentrated in countries undergoing fragile situations today, and, in particular, in the Democratic Republic of Congo, which also has high population growth. Policymakers cannot neglect safeguarding stability and peace building in the DRC, nor in other fragile countries with high poverty rates, such as Liberia. The Bank's Strategy for Addressing Fragility in Africa (2014-2019) (AfDB, 2014a) outlines ways to reduce poverty and to safeguard stability in these countries. Third, factors impacting both Africa and the global economy point to negative pressures on the region's trend growth. These factors underscore the importance of, and the challenges involved in, trying to raise growth from the current 5 to 7 percent a year. Policymakers will need to take these long-term trends and factors into account when designing poverty-reducing policies.

To effectively tackle poverty, African countries will need to adopt appropriate national and regional policies and capitalise on opportunities in global forums. However, country-specific circumstances vary. Experience shows that it is often a unique combination of traditional and unorthodox policies that has succeeded in other regions. In that regard, SSA countries will also need to find their own paths. The following sub-sections discuss these policy options.

8.2.6.1 National policies

Experience of other regions indicates that maintaining, and even accelerating, growth should remain a priority for the poverty reduction agenda (Dollar et al., 2013). In 2008, the Commission on Growth and Development studied 13 countries that grew at 7 percent a year, or more, for at least 25 years between 1950 and 2006 [72]. They highlighted that all 13 countries had a capable, credible, and committed

72 The Commission comprised 19 development leaders and 2 academic economists.

government (Venables, 2008). Further, they emphasised the role of the state in incentivising domestic savings and encouraging domestic resource mobilisation, alongside high investment.

Rodrik (2013) pointed out that two dynamics tend to drive growth: Fundamental capabilities; and, structural transformation. Industrial policy - that is, the prioritisation of high-potential sectors - is instrumental for structural transformation in SSA. Successful countries have shared common policy features, namely: A stable but flexible macroeconomic framework; Incentives for restructuring, diversification and mobility; Investment in physical and human capital as well as skills and technology adoption; and, strong institutions. Country-specific circumstances then determine which 'constraint' is binding, and should, therefore, receive priority.

Macroeconomic policies can help facilitate high, stable and balanced growth. The global financial crisis illustrated the importance of fiscal space and the ability of countries to use it for discretionary counter-cyclical measures to protect growth. Going forward, Africa needs to accumulate sufficient reserves, during the booms, to cushion the downturns. Resource rich countries, in particular, should adhere to medium-term expenditure frameworks so as to decouple revenue booms from outlays (Brixiová and Ndikumana, 2013). Fiscal policies should be complemented by credible, but flexible, monetary policy frameworks. Flexible inflation targeting frameworks are not unique to SSA, or to emerging markets. In fact, all inflation targeting countries, including the advanced economies with quantitative easing measures, have been targeting inflation while accommodating real shocks (Heintz and Ndikumana, 2011).

Structural reforms are critical for both inclusive and sustainable growth. For example, the lack of efficient infrastructure (both in terms of access and quality) hampers Africa's competitiveness and productivity, its ability to reach development goals, and its participation in the global economy. Infrastructure is also critical for promoting human development through improving the access of citizens to social services and their inclusion

in societies. Estimates suggest that in SSA, real GDP growth could increase, by 1-2 percentage points a year, if the region's infrastructure gap were to be closed (Foster and Briceño-Garmendia, 2010).

Besides infrastructure, what measures can support the shift to more productive activities, i.e. structural transformation? On the supply-side of the labour market, policies could aim at increasing the 'quality of population' (Behrman and Kohler, 2014). This means raising access to, and quality of, education with a view to increasing the share of graduates in technical subjects. This should be complemented by increased availability and quality of health services, to enhance the quality of human capital, productivity and well-being. On the demand-side of the labour market, measures should aim at private sector development together with efficient and effective social protection.

Structural transformation can drive reductions in inequality and poverty. The sources of growth clearly matter for poverty reduction and inclusion effects: New jobs need to be created in productive and employment-intensive sectors. Growth needs to generate productive jobs for large segments of the population, based on lessons from Latin America, and other countries who were successful in reducing poverty. The lessons from China suggest that, to reduce poverty, African countries should focus on raising the productivity of agriculture through market-based incentives and public support. Increased agricultural productivity also facilitates structural transformation, as manufacturing can absorb migrant workers from rural areas.

Brazil has shown that governments can help to reduce poverty through well-designed redistributive programmes and social protection. So far, this approach is missing in most of Africa [73]. Public services and cash transfers have been the key for Brazil's progress in reducing poverty and inequality. The 'Bolsa Familia' social protection programme was key (Arnold and Jalles, 2014).

In this era of increased frequency of extreme weather conditions and climate change, SSA countries' prioritisation of their transition to green growth will be critical for reducing economic, social and environmental risks. African priorities in reaching green growth include: Building resilience to climate shocks; Climate-proofing infrastructure; and, efficient management of natural resources, especially water [74]. Green growth would also strengthen agricultural productivity and food security in the region (AfDB, 2013).

8.1.7.2 Regional policies

Regional integration has gained momentum recently in several regional economic communities (RECs), as evidenced by increased intra-regional trade and flows of foreign direct investment, as well as announcements aiming to formalise relations. Successful regional integration would allow countries to specialise in their comparative advantages and trade, leading to higher efficiency and growth. It would also improve critical integration into global value chains, and would reduce 'between country' inequality. Regional integration also provides platforms for collective insurance (for example, against food insecurity) and facilitates regional solutions to collective challenges, such as climate change. Regional strategies should initially focus on developing areas of industrial complementarity to raise countries' capacity to trade, supported by building regional infrastructure, to ease the movement of products, services, capital and people.

8.1.7.3 Global policies

As Ndikumana (2014) highlights, policy recommendations have typically focused on what SSA countries themselves, possibly with the support of development partners, must do to embark on a sustainable development path. Less attention has been paid to the role that global governance

73 Ostry et al. (2014) found that the direct and indirect effects of redistribution—including the growth effects of lower inequality—are, on average, pro-growth. Macroeconomic data do not indicate a big trade-off between redistribution and growth. Bagchi and Svejnar (2013) find that wealth inequality reduces growth. More disaggregated analysis reveals that wealth inequality due to political connection reduces growth, while the impact of wealth inequality that is not politically connected does not have significant impacts on growth.

74 Inclusive growth and transition to green growth are the twin objectives of the African Development Bank's Ten Year Strategy 2013 – 2022 (AfDB, 2013).

can, and should, play in addressing these challenges of poverty and inequality. Even if SSA countries were to implement appropriate measures at national and regional levels, their efforts could be undermined if complementary steps are not taken at the global level, by advanced economies and other emerging markets. A global partnership and coordinated effort, however, would enable SSA to tackle high poverty, unemployment and inequality.

How are influential institutions, such as the G20, faring on supporting inclusive and green growth in Africa and in other low-income developing countries? Following the Seoul Consensus on Development in 2010, the G20 placed development and low-income developing countries at the centre of its 2015 agenda. Development is to be a cross-cutting theme with linkages to all working groups and themes. Inclusiveness is now part of the G20 growth agenda, centred on strong, sustainable, balanced and inclusive growth. Furthermore, the Turkish Presidency of the G20 put inclusive business on the agenda for 2015, with a view to maximise the impact of the private sector on low-income countries and people. However, green growth is not among the key priorities of the year, and faded from the agenda by 2014. The G20 group could also create better linkages between their various priorities (e.g. linking agricultural productivity with infrastructure, etc.) rather than treating them as separate issues [75].

In 2015, the G20 and its development working group also prioritised outreach to non-G20 countries, especially to low-income countries. Nevertheless, given current global governance structures, the voices of SSA countries are often not heard on issues that impact them, reflecting their limited representation in key global bodies. Africa needs to be adequately represented, as an equal partner, in key policy- and decision-making global structures, such as the G20 (AfDB et al., 2010). On a positive note, more educated and empowered citizens everywhere, including in SSA, are increasingly holding their governments to account for a global system that would result in a more prosperous, equitable and cleaner global economy (Birdsall and Meyer, 2013).

75 In 2015, the G20 development working group had five priorities, building on the Brisbane Development Update: (i) Infrastructure; (ii) Financial inclusion; (iii) Domestic resource mobilisation; (iv) Food security and nutrition; and, (v) Human resource development.

8.2 Achieving SDGs in Africa

In chapter 7, and in previous sections, we discussed how Africa has implemented the MDGs as well as exploring the remaining challenges it faces. A number of MDG targets have been met, but the continent has not succeeded in achieving several others: The implementation of the MDGs is unfinished business. The new SDGs are built on lessons learnt from the MDGs, taking into consideration MDG shortfalls, especially their failure to address the structural causes of poverty, inequality, and exclusion, as well as environmental sustainability. In other words, the SDGs are a continuation of the MDGs, expanded to be more inclusive and sustainable. Prior to the adoption of the SDGs, Africa provided a common position (the 'Common African Position', or 'CAP'). Africa achieved consensus on common challenges, priorities, and aspirations for the continent, which were set out so as to be reflected in the SDGs. The CAP highlighted the importance of prioritising structural economic transformation in Africa

in order to make economic development more inclusive and people-centred. To reach this goal, Africans agreed on the following priorities: Development of productive capabilities through improvement in infrastructure, agriculture, industry, manufacturing, and services sectors; Innovation, science and technology; Upgrading value chains; Empowerment of youth and women; Sustainable exploitation of natural resources; and, the promotion of peace and security (AU, 2014). Africa's voice was heard: All of these points are now reflected, in one way or another, in the new SDGs.

It has been recognised that eradicating poverty, in all its forms, especially extreme poverty and hunger, is the greatest challenge of the world today and an indispensable requirement for sustainable development over the coming years (UN, 2015). The SDGs are composed of 17 goals with 169 associated targets - these are both integrated and indivisible (see Box 8.1). These goals come into effect on 1 January 2016 and will guide development actions over the next fifteen years.

These objectives are largely in agreement with the continent's priorities and aspirations, including the need to effectively address poverty, inequality and to develop productive capabilities through physical, human and social capital as well as knowledge and innovation. The implementation of the SDGs will require huge financial and technical resources. In this regard, the African Development Bank continues to support its RMCs through effective financial and technical assistance.

Box 8.1 The Sustainable Development Goals

SDG 1: End poverty, in all its forms, everywhere (7 targets)

SDG 2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture (8 targets)

SDG 3: Ensure healthy lives and promote well-being for all, at all ages (13 targets)

SDG 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all (10 targets)

SDG 5: Achieve gender equality and empower all women and girls (9 targets)

SDG 6: Ensure availability and sustainable management of water and sanitation for all (8 targets)

SDG 7: Ensure access to affordable, reliable, sustainable, and modern energy for all (5 targets)

SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all (12 targets)

SDG 9: Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation (8 targets)

SDG 10: Reduce inequality within and among countries (10 targets)

SDG 11: Make cities and human settlements inclusive, safe, resilient, and sustainable (10 targets)

SDG 12: Ensure sustainable consumption and production patterns (11 targets)

SDG 13: Take urgent action to combat climate change and its impacts (5 targets)

SDG 14: Conserve and sustainably use the oceans, seas, and marine resources for sustainable development (10 targets)

SDG 15: Protect, restore, and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, halt and reverse land degradation and halt biodiversity loss (12 targets)

SDG 16: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable, and inclusive institutions at all levels (12 targets)

SDG 17: Strengthen the means of implementation and revitalise the Global Partnership for Sustainable Development (19 targets)

Source: UN (2015) at
http://www.un.org/sustainabledevelopment/sustainable-development-goals/

8.3 The African Development Bank Group priorities: Support to Africa's sustainable development agenda

As discussed previously, sustaining growth, making growth more inclusive and addressing poverty, especially extreme poverty, are Africa's greatest challenges over the coming years. The shortfalls to date in making growth inclusive and sustainable has led to calls for new policies that will improve the rate at which the continent's prosperity translates into poverty reduction. Responding to the continent's challenges, the African Development Bank's Ten Year Strategy from 2013 to 2022 (TYS) focuses on improving the quality of Africa's growth through twin objectives of achieving inclusive growth and supporting the transition to green growth.

In the years ahead, the role of the Bank in Regional Member Countries (RMCs) will be more focused on strategies to minimise the risks of growth downturns and those that enhance broader participation of the poor and marginalised groups. It is believed that reducing inequality can be a valuable source of further growth in itself. The Bank in collaboration with governments and other development partners does this through two ways: Through direct participation in financing projects that meet these requirements; and, by providing policy advice to RMCs. It is worthy to note that Africa's investment needs are much larger than the Bank's resource pool. As the continent grows, this will continue to be the case. For this reason, the advisory role will continue to be a vital instrument in guiding policy formulation and implementation, with particular emphasis on providing development solutions that are country and time specific.

The Bank's resource pool has witnessed significant expansion in recent times, thanks to the commitment of member countries, development partners and the increased trust that the Bank attracts in international financial markets. The judicious use of these resources is underpinned by knowledge of the continent's development priorities and how these priorities can be delivered to yield sustainable and inclusive outcomes.

In order to more effectively use the Bank's resources to address Africa's development bottlenecks, the Bank has streamlined its Ten Year Strategy (TYS) by identifying five key priority areas called the "High-Five". Over the next ten years, the Bank will continue to concentrate its finance and policy advisory interventions in these High-Five priorities (Feeding Africa; Powering Africa; Integrating Africa; Industrialising Africa; and Improving the Standard of Living for all Africans).

8.3.1 Prioritising agriculture –feeding Africa

Increased focus on agriculture is on the basis that the pay-off, in terms of poverty reduction is highest when growth takes place in the agricultural sector rather than when it takes place in other sectors of the economy. The agricultural sector employs 2/3 of the continent's workforce and is directly linked to any strategy that seeks to address extreme poverty. Concentrating investment in this sector, therefore, has great potential for sustaining growth while at the same time contributing to lowering poverty and inequality. But, as discussed in previous chapters, this requires a more transformative approach where agricultural products are processed within the continent and where the sector's productivity increases. This is contrary to the large traditional agricultural systems characterised by low capital investment and productivity.

Investment in agriculture is arguably the most important starting point in addressing hunger and extreme poverty, and in lowering income inequality between rich and poor, between rural and urban, and between men and women. Evidence shows that Africa's inequality is mainly drawn along these lines and that, in each case, the majority of the disadvantaged are either directly or indirectly engaged in agriculture as a livelihood.

The Feeding-Africa priority goes beyond food security for the poor, to ensuring more meaningful agro-based industrialisation that will boost Africa's growth and lay the foundation for sustainable development. In addition, this approach gives many African countries the opportunity to diversify away from their dependency on natural resources, thus shielding economies against prevalent, and often unpredictable, commodity price shocks, especially for oil.

Apart from being consistent with the SDGs, prioritising agriculture is in line with the 2014 Malabo declaration on the transformation of African agriculture for shared prosperity. This declaration saw the African Union, governments and Heads of State committing to achieve specific goals by 2025: Ending hunger; Tripling intra-African trade in agricultural goods and services; Enhancing the resilience of livelihoods and production systems; and, ensuring that agriculture contributes significantly to poverty reduction. To succeed in such a transformation, major challenges must be addressed. These include: (i) Mechanisation and improving the use of modern agro inputs such as fertilizers and agro-chemicals through improved science and technology; (ii) Upgrading agricultural and agro-industrial value chains; (iii) Access to financing; (iv) Access to markets; and, (v) Gender inclusion.

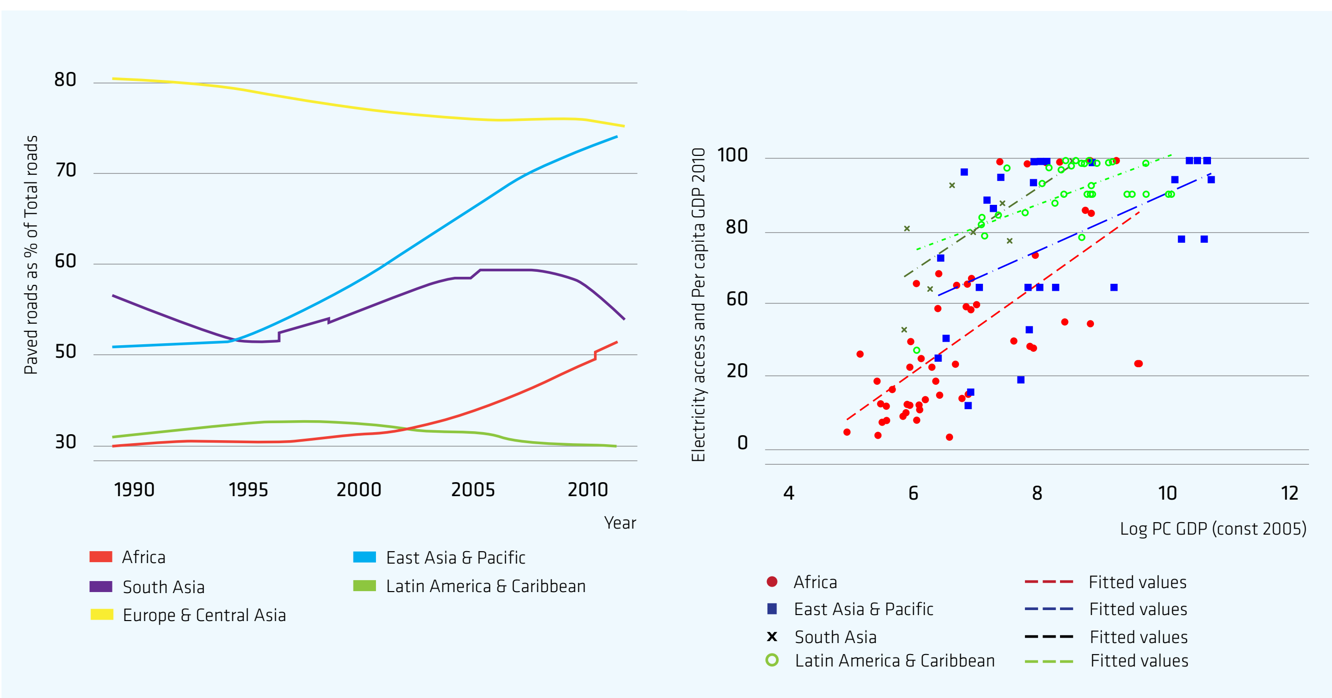
Increased concentration on agriculture is not without downside risks. Extreme weather patterns are now frequent and more severe than they have ever been. Examples from recent memory include prolonged drought in parts of East Africa and the horn (Ethiopia, Kenya, and Tanzania) in 2011, and the Sahel drought of 2012. In the absence of effective adaptation measures, African agriculture will likely face severe challenges. Climate change is already having far-reaching effects on poor and marginalised groups across the continent, many of whom (about 97 percent) depend on rain-fed agriculture for their livelihoods. Two important risk factors that characterise agricultural production are price and climate risks. While the common convention is that the former is much easier to manipulate, recent developments at the United Nations conference on climate change (Conference of Parties - COP21) provide hope that agricultural downside risks associated with climate change can be reduced through global initiatives. The commitments from developed countries and leading emitters to curtail emissions and provide support to countries hardest hit by climate change is a step in this direction. The AfDB spearheaded two important initiatives at the Paris conference: the Africa Renewable Energy Initiative and the Africa Adaptation Initiative. Both of these initiatives received strong support from development partners. Notwithstanding these commitments at the global level, Africa will continue to pursue its own initiatives to mitigate climate risks inherent in the agricultural sector.

8.3.2 Prioritising infrastructure development through Africa's energy sector: Powering and lighting Africa

Infrastructure development has long been identified as a key determinant of growth, and of its sustainability. The new SDGs also underscore the importance of infrastructure for the sustainability of growth. Most African countries are limited in their ability to fund major infrastructure projects, especially in the face of competing social investment needs. Private sector participation in infrastructure financing has been limited due to its long payback period and, in some cases, due to investors' perceived risks of political instability. As a result, investment in basic infrastructure sectors such as energy, transportation, telecommunications and water and sanitation has been undesirably low across the continent. Africa has lagged behind all other regions of the world in many of these four sub-sectors. Africa has the lowest level of infrastructure development relative to many other developing regions. However, the continent has been making progress in infrastructure expansion, relative to other regions, since the turn of the new millennium.

In 2010, a joint initiative by key institutions including; the African Union Commission (AUC), the New Partnership for Africa's Development (NEPAD) and the African Development Bank, formulated the Program for Infrastructure Development in Africa (PIDA). PIDA aimed to identify and prioritise Africa's key infrastructure needs to support development and poverty reduction goals. PIDA addresses Africa's priority infrastructure investments against 4 sub-sectoral classifications: Energy, Transportation, Water and sanitation, and, information and communications technology. These four areas also guide the Bank's operations, as discussed in the following sub-sections. In 2012, African Heads of State, in their declaration on PIDA, called for innovative solutions in order to address the financial needs of PIDA as well as to ensure its delivery. In response to this call, the African Development Bank recommended the establishment of a new infrastructure delivery vehicle, called Africa50. Africa50 is an infrastructure investment

Figure 8.1 Infrastructure development in Africa and in other regions of the world



Source: Authors' computation using World Development Indicators, 2015 platform designed to significantly narrow the infrastructure finance gap across the continent, by tapping into the Bank's recent successes in the area (see Box 8.2).

Out of PIDA's estimated US$360 billion projects and programmes to bridge Africa's infrastructure deficit by the year 2040, as much as 60 percent is accounted for by shortfalls in energy investment. Access to electricity was limited to just 43 percent of the population, in 2010. Compared with other regions, Africa is the only region of the world with less than 50 percent electricity access among its population. East Asia & Pacific and Latin America & Caribbean both have access rates of 95 percent, while access in the developed world is estimated to be 100 percent. Limited access to electricity, combined with its irregular supply in most countries, has cost Africa dearly. It is not just a question of the constraint on economic growth in agriculture and other vital sectors of the economies, but also the opportunity cost of forgoing investment projects that could have generated employment for the continent's youth. In sum, the lack of energy has put the brakes on industrialisation.

Addressing power issues, especially through the provision of renewable energy supplies, can facilitate economic growth with minimal damage to the environment. Providing the large numbers of people reliant on biomass as a source of energy, with alternative renewable sources can significantly safeguard their health, the vegetation and the environment. African cities and villages are known for their darkness. A sustainable development agenda requires Africa to achieve the goal of universal access to energy (SDG 7). In this regard, lighting-up and powering Africa will be a priority for the Bank over the next decade.

In recent years, the Bank's interventions in the energy sector have been characterised by: Investment in the provision of alternative sources of electricity, especially renewable energy sources; Rehabilitation and expansion of existing power generation capacities; and, a number power sector reform programmes. The energy reform and access programme has brought immense benefits to peri-urban and rural dwellers. It enhanced the productivity of small and large businesses in urban centres. An impact assessment of the Bank's energy interventions in Egypt, for instance, shows that the economic losses avoided because of AfDB loans enabling major power stations to continue to deliver their output, are sufficient to cover the total investment costs of those stations in one to three years [76]. In Tunisia, a Gas Pipeline project, approved by the Bank in 2014, is expected to employ over 1000 people during construction and to provide permanent employment for an additional 102 people during its operation (AfDB, 2015).

In September 2015, the Bank launched a '*New Deal for Energy in Africa*' to solve Africa's huge energy gap and to fast-track universal access to energy, by 2025. This New Deal will be the Bank's main tool to light-up and power

76 http://www.afdb.org/fileadmin/uploads/afdb/Documents/Evaluation-Reports-_Shared-With-OPEV_/00157897-EN-ENERGY-IMPACT-STUDY-IN-EGYPT-MOROCCO-AND-TUNISIA.PDF

Box 8.2 The Africa50 Infrastructure Fund

Africa50 is an investment platform to support the Programme for Infrastructure Development in Africa. It focuses on high-impact, national and regional projects in energy, transport, water, and the ICT sectors. It was designed to significantly narrow the infrastructure financing gap in Africa. The vehicle aims to shorten the time between project idea and financial close - from a current average of 7 years, to under 3 years, thereby delivering a critical mass of infrastructure in Africa over the short- to medium-term.

The initial capitalization target for Africa50 was US$500 million, to be scaled up to at least US$1 billion. Capital is to be held by African sovereigns and the African Development Bank. The second capital increase will target an additional US$1 billion, geared towards attracting institutional investors, both within Africa and from outside the continent. As a commercially oriented financial institution, Africa50 will seek to preserve and grow its capital base and will provide a return to shareholders.

Africa50 is an autonomous entity comprising two legal entities (the Project Finance Company and the Project Development Company). Each entity has its own capitalization, organs, and decision-making bodies. Both work in tandem, but observe a strict Chinese wall between financing and advice. Africa50 is owned by 20 African countries and the African Development Bank. The top five owners include: DRC (26.6%), Morocco (15.8%), Egypt (15.8%), AfDB (15.8%), and Cameroon (7.9%). The headquarters are based in Casablanca, Morocco.

Source: http://www.africa50.com/

Africa over the next decade. It is the very first priority for the newly elected President of the Bank, Dr. Akinwumi A. Adesina. The New Deal also charts the way for a transformative partnership on energy between the Bank, other development partners, African governments, and the private sector. As underscored by the President, *"…a lot of financing will be needed and together we must close the US$55 billion financing gap for energy in SSA (…)"*.

8.3.3 Prioritising economic integration - Integrate Africa

Africa's industrialisation does not only depend on its capacity to produce efficiently and in large volumes but also on its trade linkages within the region and with other regions of the world. Future growth and its sustainability, have to be premised on well-interlinked economies that enable the flow of goods and services from producer to consumer markets. Evidence has shown that intra-regional trade flows are very low in Africa. To improve linkages, while national level development planning is appropriate, coordinating development plans at regional, or even at the level of the continent, yields great synergy in outcomes. At country level, evidence shows that a large share of Africa' within-country inequalities are drawn along rural-urban dimensions. This is exacerbated by poor linkages between rural and urban economies in many countries, often due to poor transport networks. Africa can benefit from synergetic outcomes by investing in integration at national and international levels.

The Bank will continue to champion the identification, diagnosis and implementation of investment projects with this synergetic effect. The Bank has taken several initiatives that highlight the important role of regional integration in Africa's development. With a dedicated department since 2006, the Bank detailed its approach to regional integration most recently in the Bank Group Regional Integration Policy and Strategy 2014-2023 (RIPoS, AfDB, 2014b). This policy is anchored on two strategic pillars: Supporting regional infrastructure development; and, Enhancing industrialisation and trade. The first strategic pillar emphasises that bridging Africa's hard and soft infrastructure gaps, such as transportation, energy, ICT and water and sanitation, is a prerequisite for more meaningful economic integration. The second pillar focuses on enhancing trade within Africa and between Africa and other regions of the world, through increased diversification and industrialisation in areas of Africa's comparative advantage. In accordance with the TYS, the Bank's integration-priority seeks to create a larger African market that will enhance both intra-Africa trade and trade between Africa and the rest of the world.

8.3.4 Prioritising Africa's industrialisation – Industrialise Africa

As discussed in previous chapters, Africa's industrialisation requires a major shift both in strategy and investment in order to sustain current growth rates and generate quality jobs and prosperity for the population. To do so, investment in infrastructure is crucial to improve agricultural productivity and to lead the way for development of a vibrant manufacturing sector. Dependence on primary commodity exports while investing significant amounts of savings on secondary commodity imports, including food imports with minimal value added, will not help the continent's industrialisation agenda. Instead, Africa must spend on adding value to many of its primary sector outputs. Developing industrial capacity, especially in the agricultural sector, could form the basis of high-volume trade between African countries, reinforcing industrial capacity due to the existence of demand and providing meaningful jobs for the population.

The investment demands for effective industrialisation are not small. Africa needs a strong private sector that will help drive economic activities. Growth that is driven by the state, in partnership with a vibrant private sector, is more likely to be robust and sustained. The role of the Bank in achieving a balance between state and private sector involvement takes into consideration the urgent need to address investment shortfalls, but also to ensure that this is achieved within sustainable means. In this regard, the Bank continues to be active in facilitating private investment by delivering finance, providing advice and technical assistance. With a focus on African entrepreneurship development, the Bank has worked to address a number of investment bottlenecks that limit the full participation of private investors. In 2006, it established the Fund for African Private Sector Assistance (FAPA), which has grown over the past few years into one of the key instruments for implementing the Bank's private sector development strategy. FAPA continues to support private sector initiatives in micro-, small- and medium-scale enterprises, financial system strengthening, trade promotion, infrastructure development and initiatives that enable environmental sustainability.

8.3.5 Prioritising improvement in the quality of life of Africans

We showed in previous chapters that poverty remains (and will remain) a major challenge in SSA. Specifically, findings in chapter 2 show that Africa still has high incidence of poverty, and the projections from chapter 7 suggest that, if current trends continue, SSA may not eradicate extreme poverty by 2030. Chapters 3, 4, 5 and 6 outlined various inequality dimensions that continue to limit poverty reduction efforts. Notwithstanding these challenges, Africa could make a meaningful turnaround by investing in sectors that are more closely linked to the livelihoods of the poor and by ensuring sound policies with effective delivery mechanisms. Therefore, eradicating extreme poverty is a challenge that the Bank will overcome through all of the High-Five priority areas that feed into one, which is: "Improving the quality of life of Africans". The Bank believes that eradicating extreme poverty is feasible. It recognises that improving the quality of life is the ultimate outcome of a chain of life-improving achievements in development, including absence of extreme poverty, quality education, good healthcare and productive employment opportunities for the population. The focus of this priority intervention therefore, ensures better opportunities for all groups of society without discriminating on wealth, gender, geography, or other social attributes.

Over the years, Africa's human capital has increased in value. The workforce has become healthier and better trained, thanks to the concerted efforts of governments and the development community, especially during the past 15 years of MDG interventions. However, the combination of slowly declining fertility rates and improved medical conditions have kept labour numbers increasing. There is no guarantee that Africa will be able to capture its potential 'demographic dividend' in order to transform it into a 'real economic dividend'. Unemployment and underemployment across Africa remain high, especially among women and the youth. It will be crucial to create quality jobs for these young people. To ensure their productivity will require, in turn, investment in human capital such as health and education (AfDB, 2014d).

The Bank aims to increase the supply of skilled workers through technical and vocational training that is linked to specific needs of the labour market. Through the links between education, nutrition and health on the one side, and economic growth and poverty reduction on the other,

the Bank's investment in skills and technology is a powerful tool for spurring growth and poverty reduction.

The Bank has recently approved and implemented several projects targeted to enhance skills capacity including: Support for the Pan African University (PAU); Support to improve access and relevance in Kenya's Technical Vocational Education and Training (TVET); Enhancing capacity in Tanzania's TVET and Teacher Education Project; and, The Senegal Virtual University Support Project (UVS). All of these projects are designed with special emphasis on gender, youth employment and poverty reduction.

8.3.5.1 A special focus on gender issues

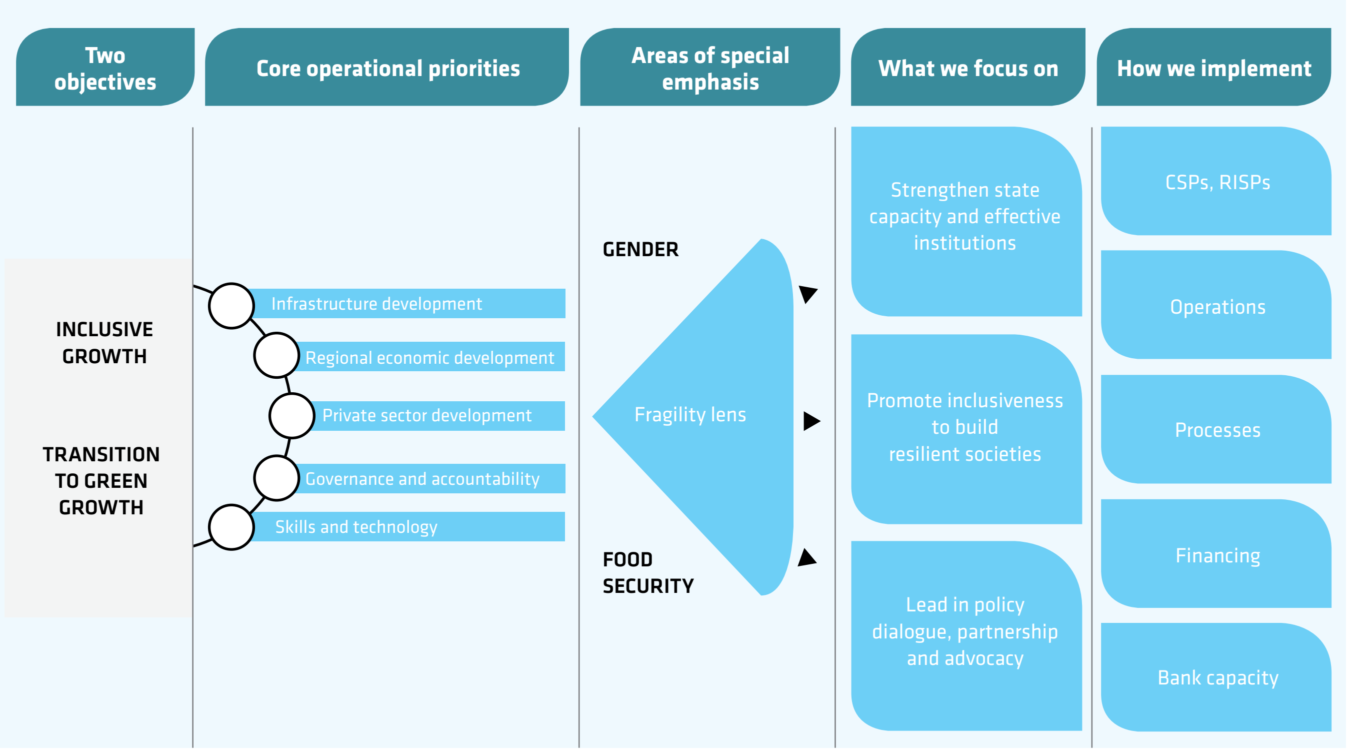
As stated in the TYS, "*…women and girls bear significantly more than half of the continent's burdens, but they also carry disproportionately high potential as generators of income…*" evidence from this Report suggests that Africa suffers large penalties in terms of growth and poverty reduction due to gender inequality. In addition, gender inequality has manifested itself through the high incidence of violence against women. The implications of such practices cost women, children and society as a whole. With poverty concentrated among women and continued limited access to employment and productive inputs, the continent's progress in reducing poverty is constrained both by women's low level participation in growth and because women's outcomes are much harder to influence.

The Bank will therefore continue to mainstream gender in all projects within the Bank's own operations. In 2014, the Bank approved a gender strategy with a focus on improving gender outcomes internally (within the Bank) through staffing and work environment, and also externally (in RMCs) through three key pillars: Legal status and property rights; Economic empowerment; and, Knowledge management and capacity building. The Bank believes that lifting the barriers that limit a potential 50% of the continent's population can immensely contribute to growth while, at the same time, furthering progress in poverty reduction. Achieving inclusive growth requires mainstreaming gender in core operational strategies of the Bank such as infrastructure development, regional integration, private sector development, governance and skills development. The Bank continues to dedicate resources towards empowering African women by removing the restrictions that limit their access to education, healthcare, finance, and employment opportunities.

8.3.5.2 A special focus on addressing fragility and building resilience in Africa

As discussed in chapter 7, evidence suggests that extreme poverty will be increasingly concentrated in states affected by fragility. This finding calls for policy interventions that are not 'business as usual', to ensure that these countries are not left behind. The Bank has long recognised the particularities and specific needs of countries affected by fragility. With the recent establishment of a Transition Support Department (ORTS) and the creation of a dedicated Transition Support Facility (TSF - formerly the Fragile State Facility), the Bank has become more flexible and responsive to engaging in fragile situations. Under its new Strategy for Addressing Fragility and Building Resilience in Africa, 2014-2019, the Bank moves away from a concept of fragile "states" to a more nuanced approach of fragile "situations". This is based on an understanding that fragility is not limited to a certain set of countries: It often has regional implications and spill-overs. With this strategy (Figure 8.2), the Bank applies a fragility-lens to its engagement in all countries, with a focus on building effective institutions, promoting inclusiveness to build resilient societies and assuming leadership around fragility in Africa (AfDB, 2014a).

Figure 8.2 Addressing fragility and building resilience within the Bank's TYS



Source: AfDB (2014a).

8.4 Conclusion

Overall, the problems highlighted in this Report call for interventions that are consistent with the development priorities of the Bank and those of the SDGs. A focus on ensuring the sustainability of growth, and a more pragmatic approach to addressing exclusion and marginalisation remain core guiding principles for the Bank's operations. Future growth in Africa will, for most part, depend on successes in diversifying towards highly productive manufacturing and improving the productive capabilities of African economies through science and technology, especially in agriculture and agro-industrialisation. Achieving these ends calls for increasing investment in key growth determinants such as physical and human capital, and improvement in the institutions that optimise the combination of these resources. To this extent, investment in energy for people and for firms, in agricultural technology, and in other infrastructure and human capital needs will remain priority areas for the Bank.

Making growth more inclusive requires enhancing the capacity of segments of society with limited opportunity to participate and benefit from the continent's growth. The Bank's prioritised intervention areas are selected with this in mind. An industrial process that is underpinned by improved agricultural productivity, accessible and reliable sources of energy and well-integrated markets will generally contribute to poverty reduction by raising productivity and improving the level of participation among the poor and other marginalised groups.

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