



# Chapter 3

Bank's Response to  
Africa's Quest for Inclusion

This chapter examines the Bank's response to the need for inclusive growth in Africa, in the belief that inclusion will not happen without a supportive political and economic policy environment. Accordingly, the Bank has been providing support for public-sector reforms, especially those targeted at the development of institutions that help link disadvantaged areas and groups to markets, public services, and productive off-farm activities. The Bank's Ten-Year Strategy is the most important recent example of its policy thrust in this regard. The Bank has also undertaken analytical work on structural transformation, rural and urban development, supported capacity building, and data generation and management. The Bank's report on development effectiveness provides useful feedback loops that help to determine whether its inclusive-growth objective is being met, as does its report on the independent evaluation function.

### 3.1 Fostering Inclusion in Bank Policies and Strategies

*Sustainable development requires a well-defined policy framework. The Bank's Ten-Year Strategy, 2013-2022, is based on the objectives of inclusive growth and transition to green growth. The former implies growth that ensures equal access to economic opportunities across age, gender, ethnicity and geography. This also requires the provision of social safety nets that mitigate the effects of transitory shocks to livelihoods and prevent the prevalence of extreme poverty. On the other hand, the transition to green growth will ensure that African countries preserve the environment and the natural-resource base on which their economies depend.*

The Bank's *Ten-Year Strategy, 2013-2022 (TYS)*, is its overarching approach to achieve sustainable growth and development in Africa over the next decade. The strategy is anchored on two objectives, namely, inclusive growth and the transitioning of African economies to green growth (Figure 3.1). The Strategy identifies five operational priorities: (i) infrastructure development, (ii) regional economic integration, (iii) private-sector development, (iv) governance and accountability, and (v) skills and technology. The strategy also underlines three areas of special emphasis: states in fragile situations, agriculture and food security, and gender.

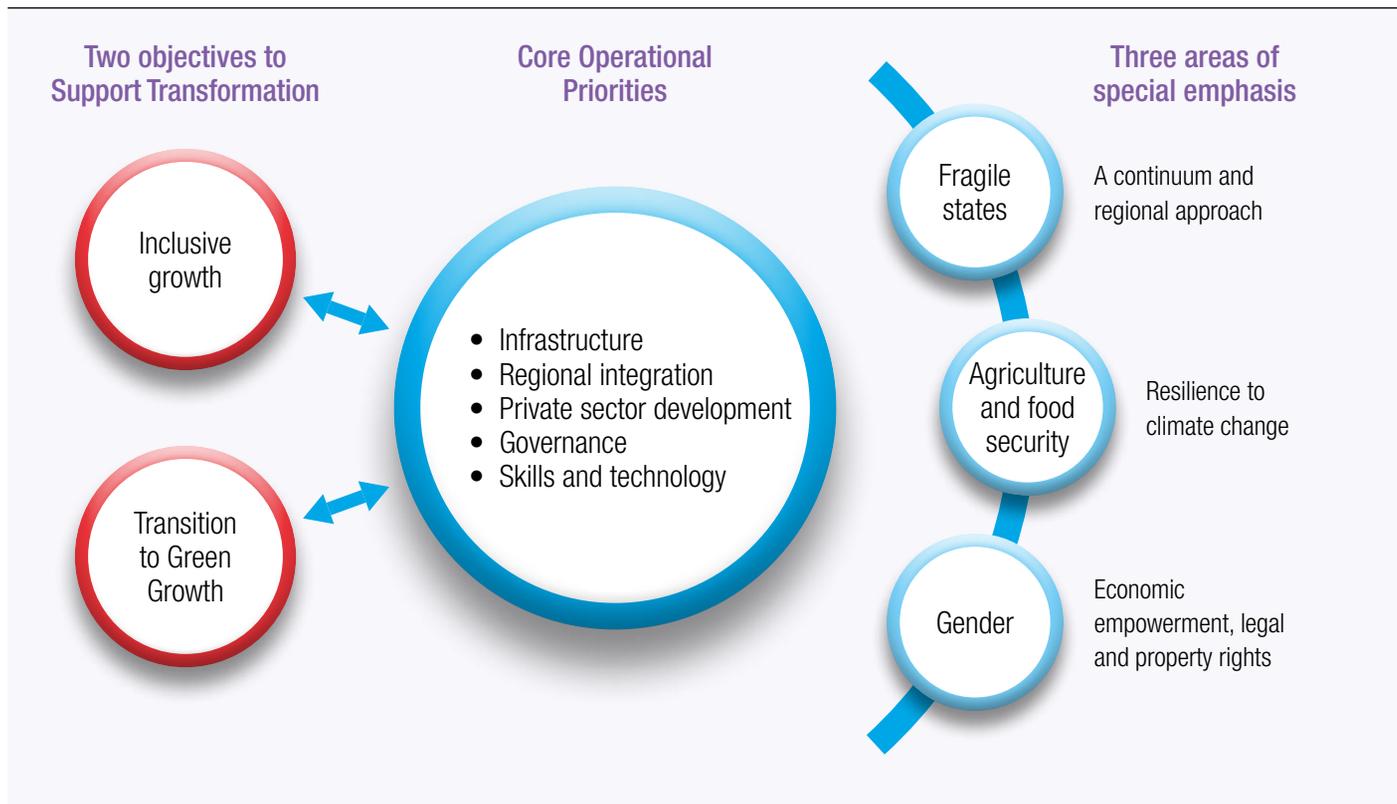
The path to inclusive growth will demand greater investment in infrastructure to help to unlock the potential of Africa's private sector, raise competitiveness and enhance broad community participation, including that of youth and women. Inclusion also requires that vulnerable communities and groups are given the skills they need to remain competitive,

while the capacity of policymakers for policy formulation is enhanced by, among others, training and policy dialogue. More broadly, the Bank envisages increased support for the development of effective institutions, good governance and robust regulatory environments, with an emphasis on the protection of property rights, ensuring equal access to justice, and participation in decision-making. The Bank envisages the private sector playing a key role in the promotion of inclusive growth and sees the micro-, small-, and medium-size enterprises as engines for important job creation. Fragility is a threat to sustainable growth and inclusion. It will be important, therefore, to adopt flexible approaches in assisting communities and countries in fragile situations to help them become more robust, especially in light of their often-weak institutional environments.

Within the framework of the TYS, the Bank has a number of more specific strategies that cover various aspects of inclusion. The *Policy for Addressing Fragility and Building Resilience in Africa, 2014-2019*, was developed in 2014 to ensure that countries in fragile/transition situations can be assisted to enhance their institutional capacities and their ability to return to sustainable growth paths. On the other hand, the *Gender Strategy 2014-2018* seeks to improve women's social, legal, and economic status, and to strengthen the knowledge management and capacity-building aspects related to gender issues in Regional Member Countries (RMCs), and within the Bank itself.

The Bank's *Human Capital Strategy for Africa 2014-2018* aims to support equitable access to quality basic social services, including those in which there is emphasis on skills and technology development, youth employment, and economic

Figure 3.1 Pillars of the Ten-Year Strategy: Inclusive Growth and Transition to Green Growth



Source: AfDB.

productivity. This strategy also sets out to ensure that gender equality is a mainstream issue. In a continent known for the paucity of its credit and financial markets, the Bank's *Financial Development Policy and Strategy 2014-2019* reflects a seminal effort to expand access to financial services for the under-served, notably in the informal sectors and rural areas. The Bank's new *Regional Integration Policy and Strategy 2014-2023* focuses on support to regional infrastructure, the promotion of intra-African trade and industrial development through the economics of agglomeration.

### 3.2 Promoting Inclusiveness in Bank Operations

*The effectiveness of the Bank's strategies and policies must be reflected in real impacts on the ground. Recent Bank projects and programs have included, in both design and implementation, priorities aimed at maximizing the impact on economic sustainability and inclusion. These projects cover such areas as financial markets, infrastructure development—notably ICT—and the private sector. Specific examples include programs to support recovery in North Africa in the wake of the Arab Spring and, more recently, those targeted at containing the spread and impact of the Ebola virus disease in parts of West Africa.*

Ideally, all Bank operations should be designed and implemented with a view to maximizing their impact on economic sustainability and inclusion. This section examines the extent to which recent projects and programs have been inclusive. It examines projects and programs with the potential of positive impact on growth that benefits all segments of society.

**Overall Infrastructure.** For the Bank, infrastructure comprises operations in transport, ICT, energy, water, and sanitation. A question now frequently posed is whether or not modern infrastructure is inclusive in terms of its promotion of sustainable development and social equity. The Bank believes that improved infrastructure facilities can have a positive impact on inclusive growth by facilitating access to income-generating activities, creating employment opportunities, and enhancing the welfare of the people, especially women, youth, (both boys and girls) and the marginalized.

**Transport.** The Bank's portfolio for the transport sector includes large-scale projects for the development of highways, railways, and regional corridors that have the potential to promote spatial inclusion. These projects are critical to the opening up of trade routes, including one-stop border posts that ease business transactions for border communities and other businesses, especially small entrepreneurs and farmers. Transport infrastructure



also links landlocked economies, which are often more vulnerable than their coastal neighbors, to regional economic hubs.

A good example is the Bank-funded Kankan-Kourémalé-Bamako transnational interurban network, completed in 2013. This is an extension of Mali's road network and links Mali to the corridor that connects it with Guinea. The project has spurred important transformation through positive health, security, and economic impacts. The road has reduced travel time and lowered accident rates. It has also reduced transport costs and the prices of goods. First-hand accounts from beneficiaries confirm that vehicle maintenance and repair costs have dropped by approximately 60 percent. Its importance to inclusive growth is also reflected in its provision of easier access to health, educational, and administrative facilities; improved school enrolment rates, in particular those of girls; easier access to water supplies; access to increased economic activity and jobs, and the establishment of new businesses.

#### *The Information and Communication Technology (ICT) Revolution.*

The Internet and related communication facilities have produced economic benefits for a number of African countries, including raising productivity in a range of sectors, such as the informal economy. The Bank's support for ICT development on the continent in recent years has included the financing of cable systems, satellites, broadband services and backbone systems.

An assessment of the Bank-funded East African Submarine Cable System (EASSy), for example, shows that it greatly improved the affordability of ICT services in the region, reducing wholesale bandwidth prices by 60 percent and

up to 90 percent in Tanzania and Kenya, respectively. The utilization of international bandwidth in the two countries doubled within six months. Uptake in previously marginalized rural areas and other under-served areas rose, often from a zero or a minimal service base. Some rural schools were also able to introduce computers in their classrooms. Mobile phones and associated technologies became a common staple, boosting commerce in the informal sector and allowing farmers to obtain real-time information on market prices in their neighborhoods or farther afield.

*Energy.* Electricity and other forms of energy are an essential prerequisite for much economic activity. The Bank's support of the sector in Africa has had a positive impact on inclusive growth. Approved in 2014, the Southern Tunisia Gas Pipeline Project, for example, will create 1,000 employment

opportunities during construction and 102 jobs during the operation phase. In another example, the Mozambique Energy Reform and Access Program will contribute towards improving productivity, and the quality of life of peri-urban and rural communities by providing them with electricity that will help them establish or expand income generation activities, including irrigated agriculture, agro-industries and small businesses.

*Water and Sanitation.* The Bank's water and sanitation projects have helped bring critical services to populations across Africa. They have improved food security as well as sanitary conditions in underprivileged and densely populated neighborhoods of Africa's rapidly expanding cities, and those in under-served rural areas. Where wells and other sources of water were far, women's security has been enhanced by bringing water closer to their homes. Better access to water has helped free up time for women and girls, normally responsible for fetching water, and enables girls to attend school more regularly.

*Agriculture and Agro-Business.* The Bank sees agriculture in Africa as an area of special emphasis, with broad potential for inclusiveness. The Bank is committed to supporting initiatives aimed at promoting integrated agricultural value chains, improving market linkages and agribusiness, supporting youth entrepreneurship in agriculture, and encouraging a paradigm shift that sees agriculture as a business. Accordingly, the Bank has financed a number of innovative initiatives to support the growth of agriculture in Africa. These include support for the establishment of modern markets (Uganda), food and nutrition enhancement (Mali), initiatives to kick-start industrialization

through agro-processing (Côte d'Ivoire), and supporting the establishment of modern irrigation to create employment opportunities for youth in the countryside (Malawi).

**Financial Sector Development and Support to Small- and Medium-size Enterprises (SMEs) and Under-served Groups.** The Bank has developed a number of products to support the lower levels of the business sector in Africa. These include direct investments into smaller enterprises for demonstration effects and lending to dedicated funds active in microfinance. An example is the Bank's USD 12 million line of credit to Nigeria's LAPO Microfinance Bank in 2014. LAPO Microfinance has 1.1 million clients and 327 branches. LAPO bank has a unique group-lending model based on a community-insurance approach. It specializes in support for women, who comprise over 90 percent of its total client base.

**Operations Targeted at Transition Economies.** Conflicts, epidemics, and natural disasters have prevented many countries in Africa from reaching their full socio-economic potential. Conflicts in the Horn of Africa, the Great Lakes Region, the Sahel, and the Mano River area, have retarded growth. In response, the AfDB has initiated a number of programs to address the challenges of fragility and the socio-economic impacts of the conflicts and natural disasters in these areas (Box 4.3). In the Mano River region, the recent Ebola epidemic has slowed down the return to sustained growth. In the latter part of 2014, for example, the Bank embarked on projects to help countries in the area deal with the effects of Ebola and help launch a reconstruction process.

**Human Development Projects.** The AfDB's projects for human capital development in Africa range from enhancing the quality of skills, science, technology and innovation, to the promotion of new education models that ensure that young school graduates have skills that match the needs of the labor market. At the tertiary level, the Bank supports the African Virtual University and the Pan-African University. Both exist to provide opportunities for higher education to as many people in Africa as possible, at a reasonable cost. Another notable project supported by the AfDB is the Social Inclusion and Cohesion Enhancement Support Program in Côte d'Ivoire. This project aims at integrating ex-combatants into the job market by addressing the social and psychological damage caused by the past civil conflict. The project also aims at nipping all conflicts in the bud in order to guarantee greater political stability and more equitable economic growth.

**Governance and Strengthening of Public Institutions.** Governance and inclusive growth are intertwined. In the absence of effective public institutions, African countries cannot make much progress on the inclusive growth agenda. To support governance through effective institutions, the Bank has in recent years provided a number of policy-based loans aimed at enhancing the performance of Africa's public sector. Across the continent, streamlined government functions have helped reduce the cost of doing business, which in turn boosts private-sector participation in the economy and growth. The Mozambique Economic Governance and Inclusive Growth Program, and the Sierra Leone Inclusive Economic Management Program, both approved in 2014,



are examples of governance-related programs showing a positive impact on inclusive growth. In all, the Bank in 2014, provided support for public-sector reforms and governance to close to 50 percent of its RMCs.

### **Strengthening the Bank as a Gender-Responsive Institution.**

The Bank's Gender Strategy is a response to the reality that gender equality is critical to Africa's economic and social development. The strategy recognizes the need to strengthen the legal and property rights of African women, promote their economic empowerment, and enhance gender-related knowledge management and capacity building in the Bank's operations. In line with its TYS and Gender Strategy, the mainstreaming of gender in the Bank's corporate policies, practices and operations has improved considerably. Gender indicators, for example, are now included in the Bank's Corporate Key Performance Indicators (KPIs) and are monitored monthly through the Executive Dashboard. Initiatives in the pipeline designed for a high impact in promoting women's empowerment include: (i) The Busara Micro-, Small-, and Medium-size Enterprises (MSME) Facility to invest in African Women led/managed SMEs with high growth and impact potential; (ii) The Ebola Social Investment Fund that aims to address the socio-economic impact of the Ebola epidemic on women in the Mano River Union, and (iii) the establishment of African Digital Marketplace for women that provides access to information, markets and finance, and provides them with a safe place to make transactions.

### **Bank Operations Approved in 2014 that have Potential Positive Impact on Inclusive Growth**

A few examples of the Bank's interventions in various sectors that show how inclusive growth is being fostered in Bank Group operations are presented below.

- *The Malawi Sustainable Rural Water and Sanitation Infrastructure for Improved Health and Livelihoods Project* was approved in April 2014. The project will contribute to inclusive growth by improving access to clean water and sanitation and improving watershed management in the project locations. The improvement in access to water will free up the time spent by women and girls in fetching water and free up their time for more productive activities such as agriculture and off-farm activities. By eradicating water-borne diseases, the project will enable the population to become more productive and take advantage of various economic opportunities.
- *The Mozambique Economic Governance and Inclusive Growth Program*, approved in September 2014, aims to promote inclusive and sustainable growth by consolidating transparent and accountable public financial management and improving the enabling environment for private-sector development in the country. Expected outcomes include: (i) improved efficiency

and transparency in the management of natural resources; and (ii) expanded opportunities for business creation, growth, and employment which will ultimately be reflected in new jobs.

- *The Horn of Africa Drought Resilience and Sustainable Livelihoods Program (DRSLP), Phase II.* This multinational program aims to address the impacts of severe droughts and chronic food insecurity in the region. Phase II of the program (USD 153 million), approved in 2014, will cover Ethiopia, Eritrea, Somalia and Sudan. A large proportion of the 20 million agro-pastoralists in the region are food insecure, exposed to drought and institutional weaknesses that lead to debilitating cyclical poverty. This innovative, multi-phase program enhances inclusiveness through infrastructure programs for water mobilization and management, livestock health and production, and marketing. Communities will have direct access to these services. Women will benefit from specialized training. Overall, the project will enhance the resilience of rural households and communities against the impacts of climate change.
- *The Multinational Program to Build Resilience to Food and Nutrition Insecurity in the Sahel (P2RS).* This program was approved in October 2014 for the benefit of Mauritania and other Sahel Countries in West Africa (Burkina Faso, Chad, The Gambia, Mali, Niger, and Senegal). The program's overall objective is to contribute to inclusive growth by reducing poverty and improving food and nutrition security in the Sahel. Its specific objective is to increase, on a sustainable basis, agro-pastoral and fishery productivity. The program will improve the living conditions of over three million people, 51 percent of whom are women.

## **3.3 The Bank's Knowledge Management, Capacity Building and Advocacy**

*In keeping with its knowledge generation and management mandate, the Bank produced a number of flagship publications in 2014. These include the African Development Bank Group Annual Report 2013, the African Economic Outlook Report 2014 on the theme of global value chains, and the African Development Report 2014 on Regional Integration and Inclusive Growth.*

The *African Development Report 2014* focused on how economic integration could contribute to inclusive growth, a relatively new notion in development. The publication identified competitiveness, regional value chains, broadening market access, and allowing the mobility of populations as key aspects of regional integration that could improve inclusiveness. The four editions of the *African Development Review* produced in 2014 and 20 Working Papers also addressed the issue of inclusiveness.

The theme of the African Economic Conference for 2014, held in Addis Ababa, Ethiopia, was *Knowledge and Innovation for Africa's Transformation*, while *Inclusive Economies* was the theme of the forum co-sponsored by the Bank, the Rockefeller Foundation, and the United Nations Economic Commission for Africa, in Nairobi, Kenya. These knowledge products and events provided opportunities for African and other stakeholders to benefit from the Bank's leadership of the discourse on promoting inclusive growth in Africa.

The core research in the Bank has also gravitated towards sustainable and inclusive growth. The Bank's research on affordable housing in Africa is one such example. This research indicates that the bulk of the interventions in Africa's housing markets by international finance institutions and the private sector, by default, target the upper middle classes who are seen as creditworthy. The Bank's research on trade finance shows that small businesses are seriously rationed and require a mechanism to sustain them, as current lending rates on the parallel markets are prohibitively high.

Further, the Bank partnered with the Korean Development Institute in undertaking a study on inclusive growth in Africa. It also carried out a joint study with the World Bank and Cornell University on "Agriculture in Africa: Myths and Realities and Inclusive Growth".

In view of the importance of training and capacity development for the attainment of inclusive growth, the Bank developed the eInstitute Knowledge Portal (<http://einstitute.afdb.org>) in 2013. The platform now contains over 40 training and knowledge products that cover inclusive growth, green growth, and value for money in the social sector. The eInstitute aims to become the lead platform for distance learning and eLearning for generating and sharing knowledge for capacity development in Africa. In pursuit of improved access to knowledge and new ideas, the Bank has facilitated networking opportunities among African think tanks to enhance their engagement in its policy dialogue for inclusive growth and economic transformation.

Inclusive growth requires high quality and reliable statistics and tools for analysis. It is broadly acknowledged that good data are vital to policymaking and policy implementation, monitoring, evaluation, and review. In this regard, the Bank has undertaken measures to strengthen its Statistics Department and ensure it provides statistical leadership in the inclusive growth debate. In particular, the statistics function has focused on strengthening the development effectiveness of the Bank's operations and statistical capacity building in RMCs. A result has been a significant improvement in data coverage, quality, reliability and harmonization in RMCs. The re-launching in 2014 of the Bank's *Africa Information Highway (AIH) Initiative* has

made it possible for virtually anyone with Internet access to obtain detailed official data on African economies. The Bank's data-gathering platforms include those for agricultural and rural statistics, labor force surveys, and regionally comparable consumer price indices. Publications based on the Bank's statistical work have included those on gender, poverty, environmental indicators, the Africa Tourism Monitor, and a volume on Africa's middle class.

### 3.4 Looking Ahead

*The inclusive-growth agenda calls for vigorous action. While policy options are well known, effective implementation has sometimes fallen short of expectations. Political will, accompanied by effective bureaucracies, will be needed to ensure progress in the future.*

Although the Bank has made progress in incorporating elements of inclusiveness in its operational work and knowledge products, there are undoubtedly some challenges still to overcome. The development process is complex and dynamic and involves many components. As such, there is certainly no silver bullet to tackling these challenges. As experience has shown, Bank lending alone, even when accompanied by capacity-building efforts, might not be sufficient to push countries on to a sustainable and inclusive growth path. Rather, fostering inclusion calls for dedicated policymaking and strong leadership and participation of all citizens, if desired results are to be attained.

One important area on which the Bank needs to focus in the coming years is the strengthening of its capacity to learn from its past operations through impact evaluation (IE). As noted earlier, IE is important in determining whether or not an intervention works and under what contexts it works and will therefore help in scale-ups and redesign of similar new projects. First, IE needs to be institutionalized in the Bank so that it is conducted under a clear framework, with clear incentives for projects that have an IE component. Incentives could include having a score for IE in the project preparation process (readiness review, for instance). Second, more resources, including human and financial, need to be dedicated to IE to ensure quality analyses of the impact of Bank interventions and to ensure that the Bank gets value for money from the projects implemented.

Knowledge generation, skills, and technology—key ingredients for achieving inclusive growth and poverty reduction—will continue to be a major area of focus for the Bank. Through dedicated research and the provision of advisory services, the Bank will help countries boost their capacity-building initiatives and support their provision of quality education, especially vocational training and skills development.

Private-sector development activities promote inclusive growth across all economic sectors and firms, ranging from micro-enterprises to large corporations, generating growth, jobs and economic opportunities for all, especially the poor. In Africa, the private-sector accounts for over 80 percent of total production, two-thirds of total investment, three-quarters of total credit to the African economy, and 90 percent of the labor force. Given its important role in the economy, the current levels of the Bank's support to the private sector must be sustained.

Further, the Bank should broaden the coverage of both its sovereign and non-sovereign investments and operations. This will give it greater headroom to support financial sector activities in Low-Income Countries (LICs), as well as states in fragile situations. The Bank should prudently deploy its diverse range of financial products—guarantees, risk capital/equity investments, and grants—to respond to market needs and context while also balancing the associated risks. The most appropriate way to proceed will be to pilot solutions in each region. Successes should be replicated and scaled up in other countries that share similar economic and/or regulatory constraints.

Access to markets is central to inclusive growth and ensuring the broad creation of economic opportunities. More competitive/flexible agricultural commodity markets should be promoted to create opportunities that enable poor farmers to access domestic and export markets. This should be complemented by adequate regulatory frameworks. Further, it is imperative that access to agricultural markets is promoted by providing production-side investments that improve productivity and product quality, while responding to the challenges of poorly functioning domestic and regional markets and costly transport systems that significantly increase farmers' costs and crowd them and African traders out of domestic and regional markets.

By global standards, African women are both economically active and highly entrepreneurial. They form the bulk of the agricultural labor force and also own and operate the majority of businesses in the informal sector. However, they are concentrated in low-productivity occupations. Closing the productivity gap for African women could make a huge contribution to inclusive growth.

Addressing the challenges of multinational programs on issues of fragility and socio-economic problems (see Box 4.3 in Chapter 4) requires significant resources, and a concerted effort from development partners and national entities. It calls for effective and well-coordinated partnerships and capacity building. The relevant program-coordinating institutions, in particular regional organizations such as the Intergovernmental Authority on Development (IGAD), the Economic Community of West African States (ECOWAS), and the Permanent Interstate

Committee for Drought Control in the Sahel (CILSS), can be strengthened to coordinate regional programs, in close collaboration with national agencies. For example, the Common Programs developed by countries in the Horn of Africa to build resilience against drought and promote sustainable livelihoods, can provide a good common framework for interventions that also coincide with national priorities. Such programs can be replicated elsewhere on the continent.

The next three chapters outline how the challenges noted above were addressed by the Bank through its delivery of projects and advisory services in 2014.

### Further Reading

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