

# Annual Development Effectiveness Review 2018

“Made in Africa” – Industrialising the Continent

**Annual review**



## ACKNOWLEDGEMENTS

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Cover photo: The Bank is committed to increase the level of electricity capacity available for industrial development. Photo: AfDB, Nour El Refai

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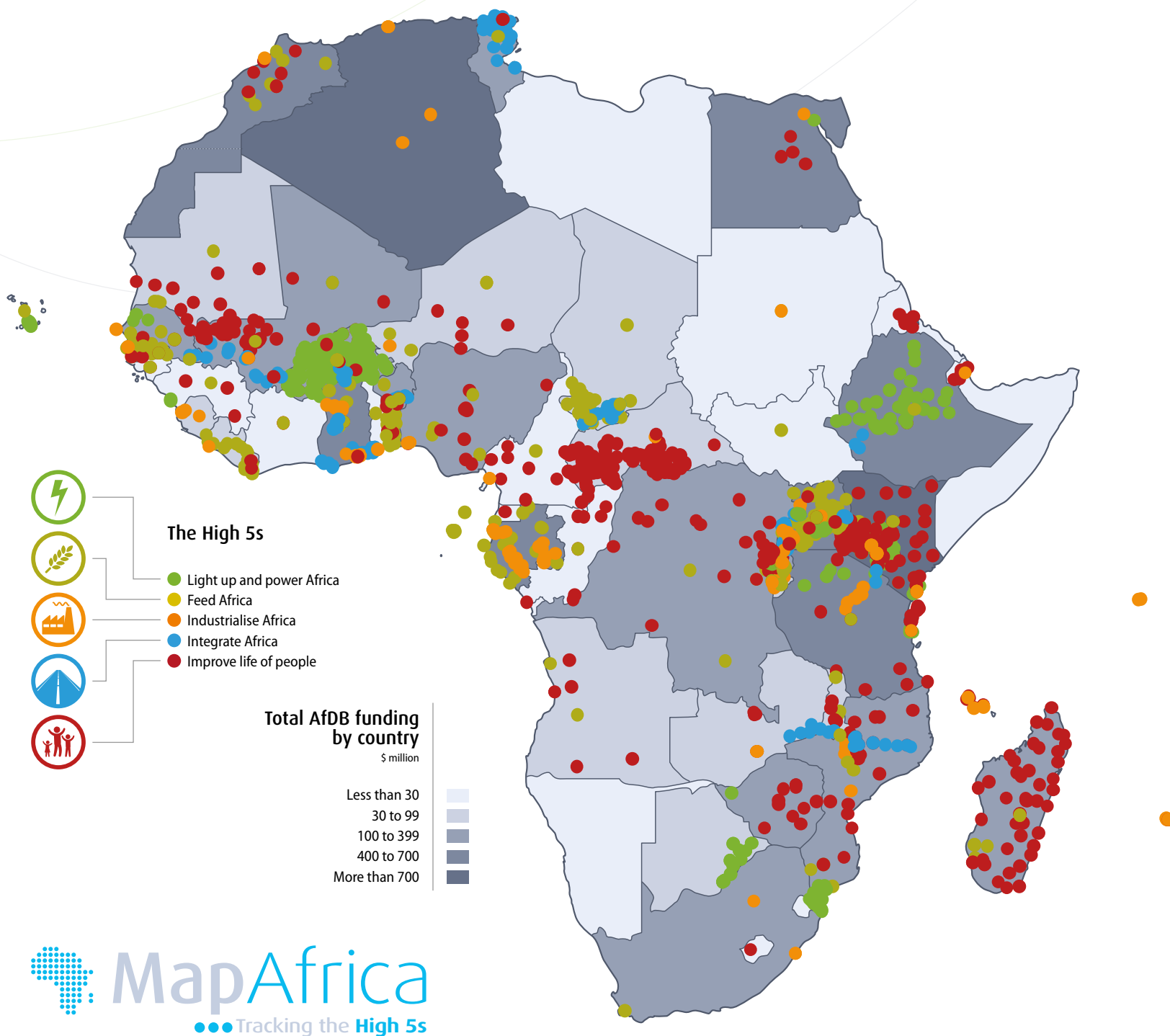
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# Delivering impact in the Bank's five priority areas

This map plots the 1600 geographic locations of the 192 Bank operations that were completed between 2015 and 2017 in each of the High 5s.



The Bank remains committed to increasing the transparency of its operations. MapAfrica, its geocoding tool, has been revamped with a focus on five critical areas of the Ten-Year Strategy: *Light up and power Africa*, *Feed Africa*, *Industrialise Africa*, *Integrate Africa* and *Improve the quality of life for the people of Africa*. Explore our 9000 project locations through the High 5s by visiting [mapafrica.afdb.org](http://mapafrica.afdb.org).





### Scaling up private investment

Africa has a real opportunity to attract investment in the higher-value-added, export-led manufacturing that is essential for the continent's industrialisation and development.

# Foreword

## “Made in Africa” – Industrialising the Continent

**T**he foundation for sustainable development in Africa has to be industrialisation. Africa cannot achieve its goals just by exporting raw materials. It needs to move up global value chains, adding value to all its production to generate jobs and prosperity for Africans.

We have therefore chosen industrialisation as the theme of this year’s Annual Development Effectiveness Review.

There are good reasons to be optimistic that industrialisation is achievable in the coming years. Africa is open for business, with stable economies and supportive business environments. It has a young and growing workforce that is increasingly global in outlook. Urbanisation and the rise of the African middle class are opening up new consumer markets, acting as a magnet for investors.

With these advantages, we can afford to be bold in our ambitions. We need to invest aggressively in industrial development. Countries such as Ethiopia are already showing what is possible with the right policies and investment strategies.

Industrialisation is one of the Bank’s High 5 priority areas. In the coming years, we will scale up our investments and help to crowd in other resources. We will help African countries put in place ambitious industrial policies and develop their capital markets. We will help to fund strategic infrastructure and enterprise development, to link Africa to global value chains.

As this Review shows, our other High 5 priorities also underpin industrial development. We will push ahead with agricultural transformation and developing agribusiness. We will invest in technical and vocational training, to equip young Africans with the skills needed by industry. We will continue to be the leading investor in regional integration, to build the economies of scale needed by industry.

This Review presents the work we are doing in these areas, the results that we have achieved and our plans for the coming period. The learning captured here will help us accelerate our efforts to drive sustained and inclusive growth through industrialisation.



**Akinwumi Ayodeji Adesina**

President, African Development Bank Group

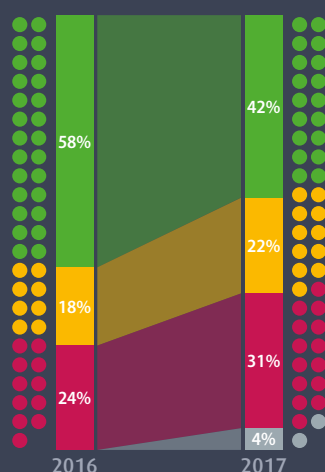


# How much progress are we making towards Africa's development?

## Step by step we are heading in the right direction

This scorecard summarises in a single glance how effective the Bank has been in contributing to Africa's development, providing information on the pace of progress at each of the four levels of the Bank's Results Measurement Framework. For each of these levels, a traffic light system indicates whether the KPIs are on track to achieve their targets. A green dot (●) indicates that the key performance indicators (KPIs) is on track to achieve its annual target; an amber dot (●) indicates that the pace of progress needs to be accelerated for the KPI to achieve its target; and a red dot (●) shows that the KPI is not currently on track to achieve its annual target.

## What development progress is Africa making (Level 1)?

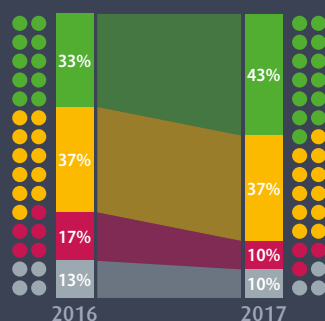


### Africa's development progress slowed in 2017

Africa's progress is experiencing developmental headwinds in three High 5 areas — *Light Up and Power Africa*, *Feed Africa* and *Industrialise Africa*



## What development impact are Bank-supported operations making (Level 2)?

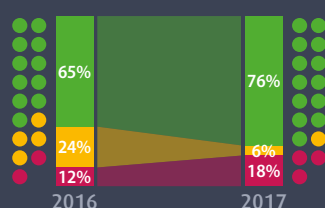


### The development impact of Bank-funded operations increased in 2017

In 2017, the Bank's operations have been more successful at achieving their development objectives and delivering their outputs. However, challenges remain to meet our targets in a few key areas.



## Is the Bank managing its operations effectively (Level 3)?

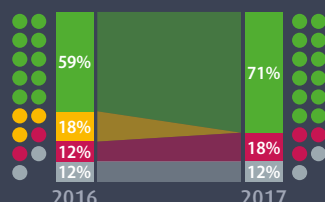


### The quality of the Bank's portfolio is improving

Overall, the performance of the Bank's portfolio of operations has improved. There are, however, a few persistent challenges that require further attention.



## Is the Bank an efficient organisation (Level 4)?



### The Bank is an organisation that is fit for purpose

The Bank has improved its organisational performance but needs to scale up its efforts to mobilise additional resources.





# Executive summary

The **Annual Development Effectiveness Review** is a key element in the results management cycle of the African Development Bank (AfDB, or the Bank). It reviews development trends across Africa in each of the High 5 priority areas and assesses how the Bank's operations have contributed. It is a management tool for the Bank, helping us assess our own performance against the targets and milestones in our Results Measurement Framework. It also presents our strategies and operations in a clear and accessible way, for external stakeholders and partners.

This is an important period for both Africa and the Bank. For Africa, the coming few years are a window of opportunity to accelerate progress towards the Sustainable Development Goals (SDGs). Building on nearly two decades of strong economic growth and rapid urbanisation, Africa needs to achieve industrial development and structural economic change to create jobs at scale and promote prosperity across the continent. For the Bank, our contribution to Africa's economic transformation is through our High 5 strategies, which we began implementing in 2016: *Feed Africa*, *Light up and power Africa*, *Industrialise Africa*, *Integrate Africa* and *Improve the quality of life for the people of Africa*. We have also been implementing an ambitious programme of organisational reforms, to help us maximise our development results and achieve greater value for money.

*Building on economic growth and rapid urbanisation, Africa needs to achieve industrial development and structural economic change*

The theme of this year's ADER is **industrialisation**. African governments and their international partners now recognise that industrial development is a precondition for meeting many of the SDGs. It is, however, a complex objective with many components. Building on the findings of our 2017 report *Industrialise Africa: Strategies, Policies, Institutions and Financing*, we look first at the progress Africa has made in recent years on industrial development, and at how the Bank's operations are contributing to that progress. We then review progress on the other High 5 areas, and on our cross-cutting priorities of governance, fragility, gender and climate change—in each case, exploring how they link to the goal of industrialising Africa. We then present the third and fourth levels of our Results Measurement Framework, assessing our progress on improving the management of our portfolio and strengthening our own capacity as an organisation to deliver results for our clients and shareholders. In the final section, we look forward to what we expect to contribute to Africa's development in the coming years.

## Industrialise Africa

Africa's youthful labour force and rapidly expanding towns and cities are opening up new opportunities for industries that can supply growing consumer markets and participate in global value chains. Foreign direct investment has risen rapidly and is increasingly directed towards manufacturing and services. Some key indicators of industrial development—including industrial output, global competitiveness and economic diversification—are not yet moving forward across Africa as a whole. At the national level, however, there are positive developments: South Africa, Algeria and Mauritius are all industrialising rapidly, and Ethiopia and Morocco are building nationwide networks of industrial parks.

*Africa needs to double its industrial output over the next decade, while enhancing economic diversification*

To take advantage of this window of opportunity, Africa needs to double its industrial output over the next decade, while enhancing economic diversification and improving competitiveness. This will require stable macroeconomic conditions, a better business climate, effective legal frameworks, healthy financial institutions, cheaper and more reliable infrastructure services and supportive trade policies.

*In 2017, we provided 14 million people with access to transport*

Under its *Industrialise Africa* strategy, the Bank is supporting African business in international value chains, helping governments develop industrial policies and strengthen their business environments, and investing in infrastructure with high economic returns. In 2017, we provided 14 million people with access to transport—well above our target—while building or rehabilitating 2500 km of roads. We helped 210 000 small and micro businesses to access finance, benefiting 2.6 million people. Examples of effective programming have included the Africa Capital Works Fund, which provides companies with extra liquidity to scale up their operations, and support for Ethiopia's Derba Medroc Cement Plant, which has led to a 70% reduction in the price of cement.

The Bank is scaling up its efforts to support industrialisation, including through some innovative partnerships. In 2018 we will launch the Africa Investment Forum, which will help to mobilise

resources from institutional investors around the world for priority infrastructure investments. In Ethiopia, Côte d'Ivoire, Tanzania and Madagascar, we have launched new projects to support public-private partnerships for infrastructure development, and we are partnering with the United Nations Industrial Development Organization to help a number of pilot countries establish industrial parks and special economic zones.

## Light up and power Africa

Africa is making progress towards addressing its enormous power deficit and meeting growing energy demand from the private sector. Major investments are under way in power generation and transmission, and Africa is at the forefront in implementing off-grid and clean energy solutions. However, lack of power remains a significant constraint on industrial development, forcing firms to rely on costly back-up generators—estimated to cost Africa 2-4% of GDP each year.



*Africa is at the forefront in implementing off-grid and clean energy solutions*

The share of African households with access to electricity reached 51% in 2017 and rose for the first time faster than demographic growth. However, energy use in sub-Saharan Africa remains the lowest in the world. The share of the population with access to clean cooking solutions has declined, and overreliance on biomass continues to cause serious health problems. There have been steady increases in generation capacity, including through renewable sources, but transmission losses remain high. Major investments are still required, supported by regional power pools that enable countries to trade excess capacity.



*In 2017, we installed 460 MW of new generation capacity, including 151 MW of renewable capacity*

The Bank is committed to scaling up its investment in energy, working with a range of public and private sector partners to raise finance. In 2017, we installed 460 MW of new generation capacity, including 151 MW of renewable capacity. This was short of our target, reflecting the low number of major projects reaching completion, but the number is likely to increase in the coming years as new projects launched under our New Deal on Energy come to fruition. Last year, all of our newly approved operations were in renewable energy. We delivered 510 km of transmission lines and 2730 km of distribution lines, providing nearly 600 000 people with electricity connections. Our investments in off-grid solutions are still at an early stage, but they should begin to generate results in the coming period.

We are working with African countries to improve energy sector policies and reform utility companies. We are helping to finance innovative energy solutions, such as Rwanda's KivuWatt project, which is producing power from methane gas in Lake Kivu. In 2016 we launched the New Deal on Energy to drive reform and investment in the power sector. Under this initiative, in 2017 we approved projects that will deliver 1400 MW in new capacity, including an innovative hydroelectric project in Cameroon and a utility-scale solar power plant in Mali—the first in sub-Saharan Africa.

## Feed Africa

Nearly two-thirds of Africa's workers are in agriculture. Moving them from traditional farming into commercial agriculture and agribusiness is a key step for reducing poverty, creating jobs and enhancing food security. For now, growth in agricultural yields and productivity remains disappointing. Stunting rates are falling across Africa, but not quickly enough, and 224 million people are hungry or malnourished. A major push will be required to meet the SDG target of ending malnutrition by 2030.

With 65% of the world's uncultivated arable land, Africa is a key global resource. With the right policies and investments, agricultural transformation could be a driver of inclusive growth across the continent. The processing of agricultural products is also a route to industrial development; for example, horticulture in Kenya and olive oil in Tunisia are providing a significant boost to national economies. Transforming agriculture can also help to meet the growing demand from urban populations for more and better food, helping to alleviate Africa's trade imbalance.



*In 2017 our agriculture projects benefited 8.5 million people*

Under its Feed Africa strategy, the Bank is playing a leading role in modernising African agriculture. In 2017 our agriculture projects benefited 8.5 million people (including 4.1 million women)—well above our target. We helped to improve water management on 46 400 hectares of land, assisting farmers in managing the impact of climate change. We built nearly 2000 km of feeder roads, to support access to markets, and provided 1700 tonnes of agricultural inputs.

Our approach is to invest in whole supply chains, from farmers through to final customers, creating jobs and business opportunities along the chain. Through our private sector operations, we are improving access to finance for farmers and agribusinesses and are working to ensure that a fair share of value-added goes to producers. Our flagship initiatives include risk-sharing facilities to increase agricultural lending, staple crop processing zones and a new fund to promote the uptake of transformative technologies.

## Integrate Africa

Industrial development depends on economic integration to create economies of scale across Africa's national markets. With Africa's combined population of 1.2 billion and GDP of \$3.4 trillion, the potential gains from integrating the continent are huge. At present, however, intra-African trade is just 14.2% of total goods trade, partly because of the high costs of trading across borders. Africa's regional economic communities continue to promote integration, but more progress is needed in areas such as visa liberalisation.



*A major investor in regional infrastructure, the Bank built or rehabilitated 414 km of cross-border roads in 2017*

The Bank is one of the champions of economic integration. We are a major investor in cross-border infrastructure: in 2017, we built or rehabilitated 414 km of cross-border roads and built one-stop border crossings to facilitate trade. Our major transport corridor projects—for example, between Tanzania and Kenya, and linking Zambia, Malawi and Mozambique—are unlocking regional trade and creating economic opportunities for communities along the route.

Our strategic framework for economic integration focuses on three pillars: infrastructure connections, trade and investment promotion, and financial integration. Besides investing our own resources, we are helping to mobilise private and public finance into strategic projects. In the past year, we approved a \$100 million loan to the Emerging Africa Infrastructure Fund—a public-private partnership that has invested \$1.2 billion in 70 infrastructure projects in 49 countries. We have helped to design complex financial transactions to crowd in commercial finance, using risk guarantee instruments—for example, for the development of air transport in Côte d'Ivoire. We are also investing in regional power projects.

## Improving the quality of life for the people of Africa

Africa's economic growth has outpaced that of the rest of the world for most of the past two decades. Yet this growth has not translated quickly enough into progress on poverty reduction: 41% of Africans still live below the poverty line, and inequality is worsening. "Skilling up" young Africans will be key for industrial development. Enrolment in education has steadily increased, but technical and vocational training opportunities remain limited and youth unemployment is high—especially among young women. Labour migration within Africa is an important driver of growth and poverty reduction—in Côte d'Ivoire, for example, immigrants contribute 19% of economic growth—and facilitating such movement is essential for reducing irregular migration and alleviating the humanitarian crisis on the Mediterranean.

Our projects are creating jobs for Africans. In 2017, we created 1.5 million direct jobs (0.7 million for women), which was well above our target. We are piloting a new method of measuring wider job creation impact. It showed that, in East Africa, 39 AfDB investments had created an additional 383 000 jobs and added \$1.2 billion to national economies.



*41% of Africans still live below the poverty line, and inequality is worsening*

In the social sectors, our projects have given half a million people (a majority of them women) better access to education. Working with national governments to overcome capacity shortages in science and technology, we provided 395 000 people with vocational training. We also provided 8.3 million people with access to water and sanitation.

Looking forward, our Jobs for Youth in Africa strategy lays out ambitious plans to scale up job creation and enterprise support. We are supporting a multidonor trust fund on youth entrepreneurship, including a Youth Innovation Lab. Working with private investors, we are planning to launch 120 Digital Innovation Centres of Excellence across the continent by 2025, to support the next generation of tech-savvy youth.

## Cross-cutting and strategic areas

Africa's economic growth slowed to 2.2% in 2016 because of lower commodity prices, but remained at a solid 4.5% in low-income countries. There has been an increase in public debt since the 2008 global financial crisis, and a number of countries are now participating in IMF programmes. There has been a slight increase in the overall quality of governance, as measured on the Mo Ibrahim Index, with particular improvements in economic governance, but corruption remains a challenge. Africa's fragile states still present the most severe governance challenges, although there has been strong progress in the Central African Republic since the end of the civil war.

Improving domestic resource mobilisation is essential to funding the recurrent and capital spending needs associated with industrial development. In 2017, the Bank helped a number of countries to improve their public financial management and procurement systems and to build transparency and accountability in the public sector. While revenue mobilisation across the continent is generally improving, this trend will need to accelerate in the coming period.

Conflict and fragility remain a major constraint on Africa's development, holding back the prospects of economic transformation in many countries, particularly in the Horn of Africa and the Sahel. One of the consequences has been a major increase in population displacement: in 2017, there were



18.5 million refugees and internally displaced people. The Bank's approach in fragile states is to invest in resilience at the local, national and regional levels, including in deteriorating contexts, and to mobilise resources rapidly to support transitions out of fragility.



*We provided 8.3 million people with access to water and sanitation*

Climate change is already affecting hundreds of millions of Africans, exacerbating poverty and food insecurity. Large areas of the continent are vulnerable to water shocks. The Bank is helping African countries to access global climate finance. Last year, the Bank was accredited to draw down climate finance from the Green Climate Fund, which will enable it to cofinance climate mitigation and adaptation projects.

Women are central to the African economy, performing the majority of agricultural activities, owning a third of firms and, in some countries, accounting for 70% of employees. Yet continued gender equality imposes a significant barrier to women's economic opportunities. The gender equality index showed a slight improvement in 2017, but with a long way to go. Under its Gender Strategy, the Bank is supporting African women with electricity connections and by improving access to clean water, and enhancing agricultural opportunities. We are supporting the Affirmative Finance Action for Women in Africa and other financial inclusion programmes.

### **Delivering development results effectively**

The Bank continually seeks to improve its performance. We undertake new measures to maximise our development impact, mobilise more investment resources and deliver development outcomes as efficiently as possible.



*Climate change is already affecting hundreds of millions of Africans*

**Achieving development impact** – In 2017 we made good progress on improving the quality of our portfolio, including of Country Strategy Papers and new Bank operations. We achieved our targets on integrating gender and environmental safeguards into our operations, but fell short on climate-informed design because we introduced a more rigorous methodological approach to tracking the way we address climate change in our projects. Our improved Safeguard Tracking System should improve our climate focus in the coming period, as we continue to scale up our climate investments.

**Improving portfolio performance** – In 2017 we implemented our new procurement policy, leading to an increase in the proportion of projects using national systems and a reduction in the average time for procurement of goods and works. Under a 2015 Presidential Directive, the Bank has taken robust measures to address a persistent problem with slow disbursement: public sector projects are now required to reach signature within three months, and first disbursement within six months, after Board approval. This has led to a reduction in delays, but we remain short of our targets. We have seen improvements in the proportion of operations at risk, but we still need to do more to achieve our goals.



*In 2017 we made good progress on improving the quality of our portfolio*

**Promoting knowledge** – The Bank aims to be a leading provider of economic and statistical analysis in support of African development. In 2017, we produced 252 new economic and sector work products, far exceeding our target of 141. Examples include assessments of transport needs in Somalia and of small and medium enterprise value chains in Algeria.

### **Re-engineering the Bank for greater efficiency**

In 2017, Bank disbursements reached a record level of \$7.6 billion. As our operations scale up, our Development Business and Delivery Model is driving forward deep internal reforms, designed to enable us to deliver better value for money for our clients and stakeholders.



*Last year, we mobilised \$4.8 billion from the public sector and \$4 billion from the private sector*

**Financial performance and resource mobilisation** – The Bank works closely with other development agencies to leverage funding and make our resources go further. Last year, we mobilised \$4.8 billion from the public sector and \$4 billion from the private sector—both short of our targets, but with good prospects of increasing in the coming period. Total Bank income increased to \$365 million, largely because of higher interest rates, and the successful maintenance of our AAA rating provided the basis for our largest-ever bond issue, at \$2.5 billion. In 2017, we dedicated 28% of our commitments to climate finance, which was higher than our target and amounted to \$2.35 billion.

**Value for money** – Our reform programme is helping to drive improvements in value for money. In a time of record high disbursements our 2017 administrative cost rates were significantly reduced, and our work environment cost per seat declined. We also saw decreases in the costs of preparing lending projects and

supporting project implementation. Decentralisation of staff and functions to country level is bringing us closer to our clients and improving the management of our operations. In 2017, after 121 staff moved from headquarters to the regions and 30 new country managers were appointed, we had 57.5% of operations staff in country offices and regional hubs. This means that 76% of our projects are now managed from country offices, which is ahead of our target.

**Staffing** – To deliver our High 5 priorities, we need to recruit and retain a diverse staff of the highest calibre and ensure they are highly motivated. By the end of 2017, we were taking on average 120 days to fill vacancies, compared to 223 days in 2015. However, with a net vacancy rate of 28%, recruitment remains a high priority. We are working to enhance our performance culture, designing a new Leadership Academy to develop leadership skills. The share of women in our professional and management staff is gradually increasing, and now stands at 28%.

## Conclusion and outlook

This Annual Development Effectiveness Review shows that the Bank is making a contribution to the goal of industrialising

Africa. We have improved access to infrastructure and services, improved the business environment, and strengthened policies and institutions—all key steps in encouraging investment, creating jobs and promoting inclusive growth.



*By the end of 2017, we were taking on average 120 days to fill vacancies, compared to 223 days in 2015*

Our Development and Business Delivery Model is helping to align our organisational structure to our priorities and to streamline business processes. We have boosted both the quality and speed of our operations. We have taken major steps on decentralising staff and project management to country and regional offices. Yet some of our challenges—including slow disbursement and staffing gaps—will require further work. Over the coming period, we will intensify our efforts to mobilise public and private sector resources to support industrial development and help Africa achieve the SDGs. ■



## Upskilling Africa's young workforce

The Bank is committed to building Africans' technical skills so that they can realise their full potential in technical jobs. Every year 800 000 young people enter the labour market in Tanzania, with varying levels of education and skills. In Zanzibar, we support technical and vocational education centres.



# Introduction

Each year, the **Annual Development Effectiveness Review (ADER)** reviews development trends in Africa and considers how the African Development Bank (AfDB, or the Bank) has contributed to these changes. In the ADER we show Africa's progress against key indicators and milestones and set out some of the main opportunities, challenges and risks that lie ahead. We take stock of how well we have delivered against our development targets, and identify where we can do better.

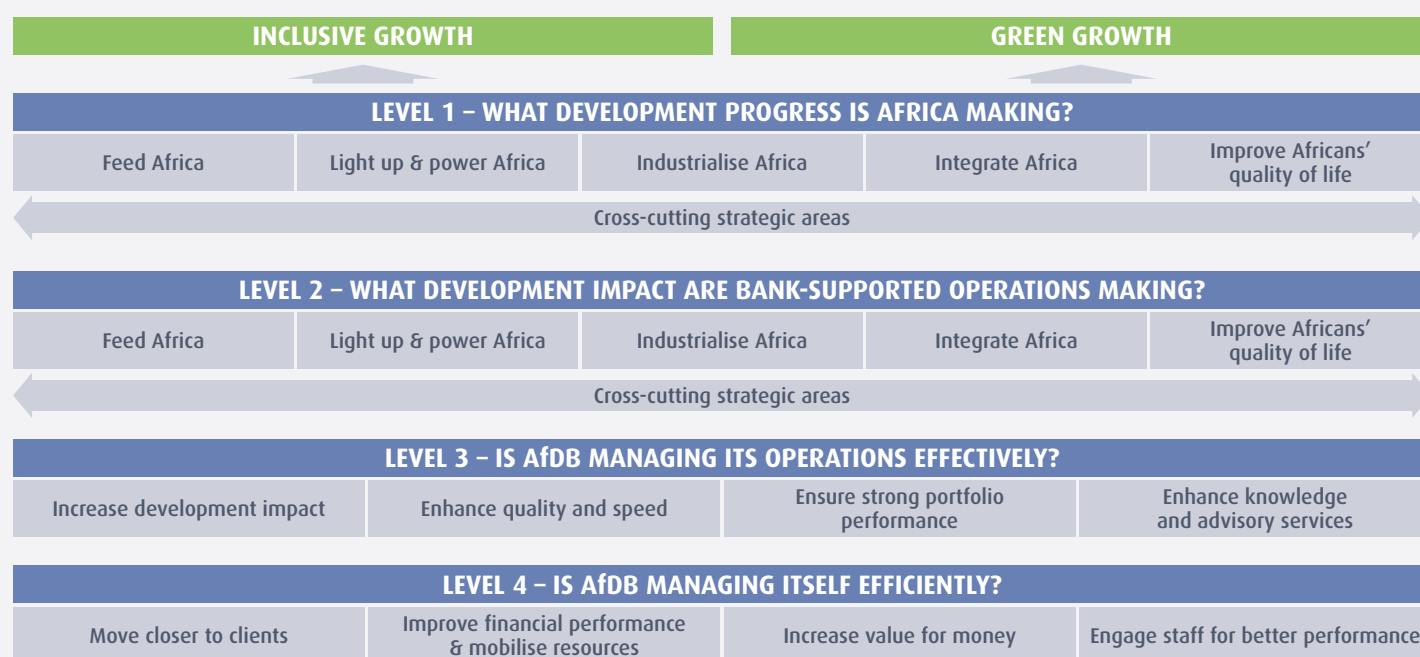
For both Africa and the Bank, 2017 was an important year. Building on strong economic growth, rapid urbanisation and a young and educated workforce, Africa has unprecedented opportunities to make progress towards the Sustainable Development Goals (SDGs). With the right mix of policies and resources, it will be in a position to achieve economic transformation and a self-sustaining path out of poverty.

At the Bank, to help Africa achieve this transformation, we began delivering on our new strategies for our High 5 priorities: *Feed Africa*,

*Light up and power Africa*, *Industrialise Africa*, *Integrate Africa* and *Improve the quality of life for the people of Africa*. By delivering on these priorities we will make strides towards achieving our twin goals of inclusive growth and green growth.<sup>1</sup> And in doing so, we will help Africa reach the SDGs and meet the Paris climate commitments. We have also implemented comprehensive organisational reforms to better support our regional member countries, maximise our development outcomes and deliver greater value for money.

The ADER assesses progress against our Results Measurement Framework (RMF) for 2016–2025, which links Bank actions to the High 5 objectives and to sustainable development across Africa.<sup>2</sup> Each level of the RMF sets out indicators and annual time-bound, quantified targets. For Bank-supported development results, our indicators show a 3-year average from completed operations. For programmes with multiple funders, we attribute results in proportion to our share of finance. We also disaggregate our indicators and targets by gender whenever possible.

**Figure 1 The Bank is increasing its strategic focus on five priority areas of action**



<sup>1</sup> For a more detailed discussion of how the High 5 strategies contribute to the Bank's twin goals of inclusive growth and green growth, see the methodological annex.

<sup>2</sup> The methodological annex explains in greater detail how the ADER tracks progress against the RMF.

Over the past year we introduced novel approaches to enhance our analytics. Chapter 5 of this ADER describes the innovative development impact approach that we are piloting in East Africa, identifying the direct and indirect jobs created by our operations. We are also building on our experience in using household survey data and satellite imagery to assess our results and development trends, this time focusing on a regional road corridor in West Africa.

Besides identifying lessons for the Bank, the ADER is intended to promote transparency and accountability, enabling our partners and stakeholders to check to what extent we are on track to achieve our targets. To this end, the ADER is written in a non-technical manner, to provide a clear and straightforward narrative about progress to a broad audience.

The theme of this year's ADER is **industrialisation**. Because Africa needs to create a wide range of dynamic industries to deliver its goals, we explore progress towards industrialisation and examine how our operations are contributing to this progress. In doing so, we draw from the findings of the Bank's recent economic research report *Industrialize Africa: Strategies, Policies, Institutions and Financing*. The ADER also reviews progress on the other four High 5s and our cross-cutting priorities of governance, fragility, gender and climate change, including their critical contribution to our *Industrialise Africa* objectives.

Chapter 1 of this ADER focuses on *Industrialise Africa*, and Chapters 2–6 consider the other High 5s and the cross-cutting priorities. Each of these chapters is structured around indicators from Levels 1 and 2 of the RMF.

► **Level 1** explores Africa's overall progress towards inclusive and green growth. The annual targets—for example, access to finance and value added to manufacturing—are milestones on the path towards the Bank's 2025 targets for Africa, as set out in the High 5 strategies.

► **Level 2** demonstrates how far the Bank is contributing to these development outcomes, using intermediate targets that link our project results to the 2025 delivery targets and wider development outcomes. For example, we measure aggregate increases to enterprise turnover across our projects, showing how the portfolio contributes to job and wealth creation.

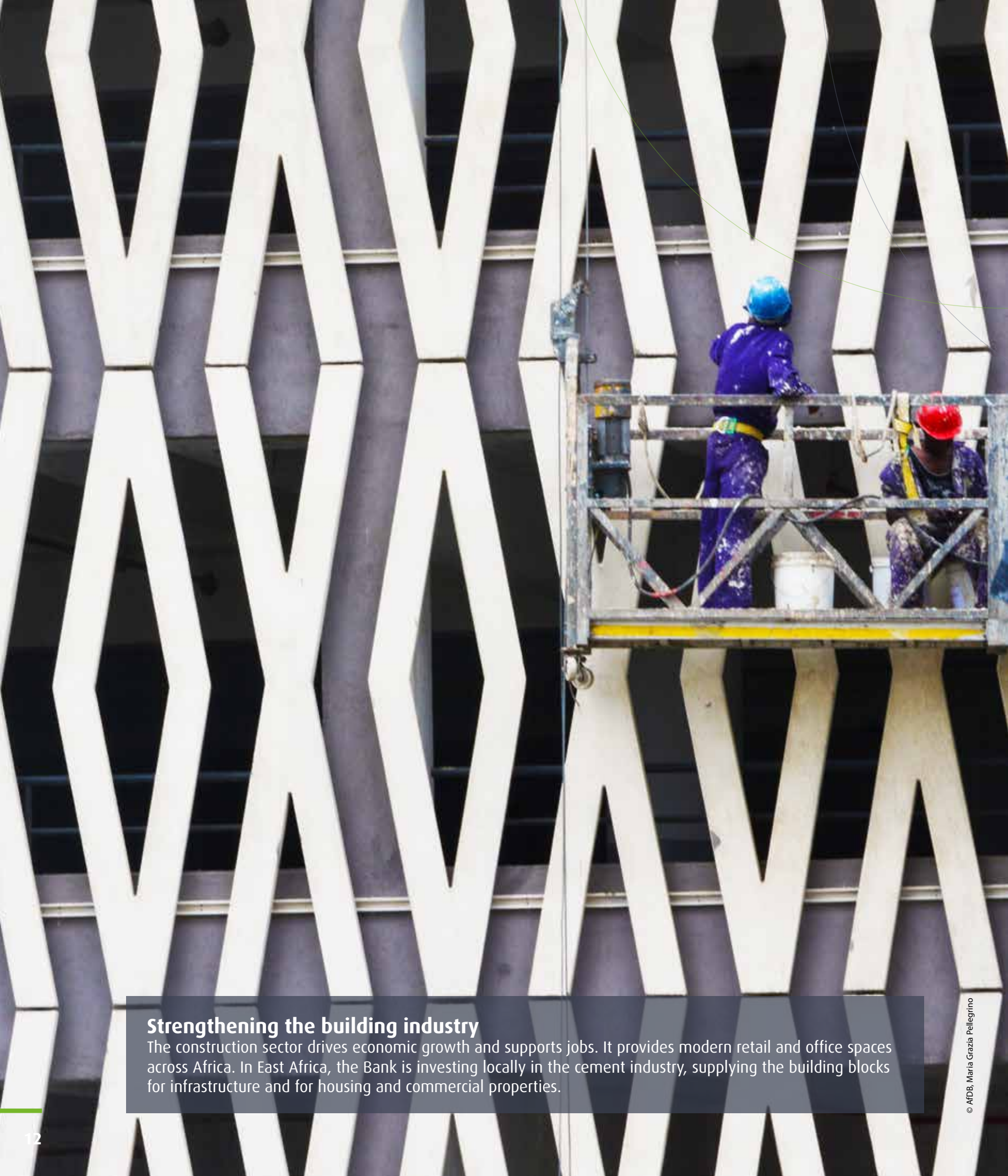
Chapter 7 then turns the spotlight on the Bank itself, using indicators from Levels 3 and 4 of the RMF.

► **Level 3** reviews the health of our portfolio and examines how effective we are in delivering development results. It analyses progress against indicators that measure the quality and speed of operations, improvements in portfolio performance and the quality of our knowledge services.

► **Level 4** shows how well we manage ourselves as an organisation, to be as efficient as possible and deliver value for money for our clients and shareholders. We look at progress on staff management and recruitment, decentralisation and cost-efficiency. We also assess our efforts to catalyse public and private sector finance to scale up development results and accelerate progress towards the SDGs. ■







## **Strengthening the building industry**

The construction sector drives economic growth and supports jobs. It provides modern retail and office spaces across Africa. In East Africa, the Bank is investing locally in the cement industry, supplying the building blocks for infrastructure and for housing and commercial properties.

# Chapter 1

## Industrialise Africa

Industrial development is instrumental to creating employment, boosting productivity and sustaining growth. Yet poor transport and energy infrastructure, coupled with limited access to technology and skills, have often limited the level of investment across the continent. Given the right policies, infrastructure and services, industrial development will be better positioned to take hold in Africa over the coming years, creating the economic dynamics needed for inclusive and sustained growth.

However, this chapter shows a mixed picture on industrialisation. While direct investment has risen rapidly and is increasingly directed towards manufacturing and services, other key indicators of industrial development—including industrial output, global competitiveness and economic diversification—are not yet improving. Against this backdrop, the Bank is supporting African business in international value chains, helping governments develop industrial policies and strengthen their business environments, and investing in infrastructure with high economic returns.

### Ushering in African manufacturing

With vast natural resources, new technologies and a young population, Africa now has a window of opportunity to catalyse private sector investment, build on its solid economic growth over the last two decades and transform its economies.



*With over 1.2 billion people, Africa is a large, untapped consumer market*

Industrialisation is essential to this transformation, because it will shift labour and capital resources to higher-productivity economic activities. Job creation through industrial development will be the engine that drives large-scale poverty reduction. Industrialisation will accelerate development, enabling Africa to catch up with other regions and end its reliance on aid.

As wide-scale industrialisation takes hold, it will also affect the global economy. With over 1.2 billion people, Africa is a large, untapped consumer market. By 2030, the continent's population will be equal to that of China and India today. Bringing Africa into the global economy will boost aggregate demand and generate employment in other continents.

In Africa today, 10–12 million young people are joining the labour market each year. Africa's huge young labour force presents major opportunities for foreign and domestic investors. With training,

apprenticeships, access to finance and better infrastructure, young people can lead the move away from low-productivity work, such as small-scale traditional farming, into agro-industries and manufacturing.

In Africa's expanding towns and cities, productivity is more than double that in the countryside. Cities are becoming growth poles for investment, since they provide better infrastructure services and are often home to young, forward-looking citizens who are keen to work and quick to adopt new technologies. More than 40% of Africa's population already live in urban centres, which are growing more rapidly than those in any other region of the world.



*In Africa's expanding towns and cities, productivity is more than double that in the countryside*

The development of industries will enable African countries to manage their trade balances by increasing export earnings and substituting for imports, as the Bank's recent flagship economic report, *Industrialize Africa: Strategies, Policies, Institutions and Financing*, explains. In many African countries, import bills are rising as the demand in cities for more and higher-quality products outstrips the available supply. This creates opportunities both for new industries that are able to produce competitively priced, high-quality goods, and for African farmers, enabling growing urban prosperity to be shared with the private sector.

Table 1 Industrialise Africa indicators (Level 1 &amp; Level 2)

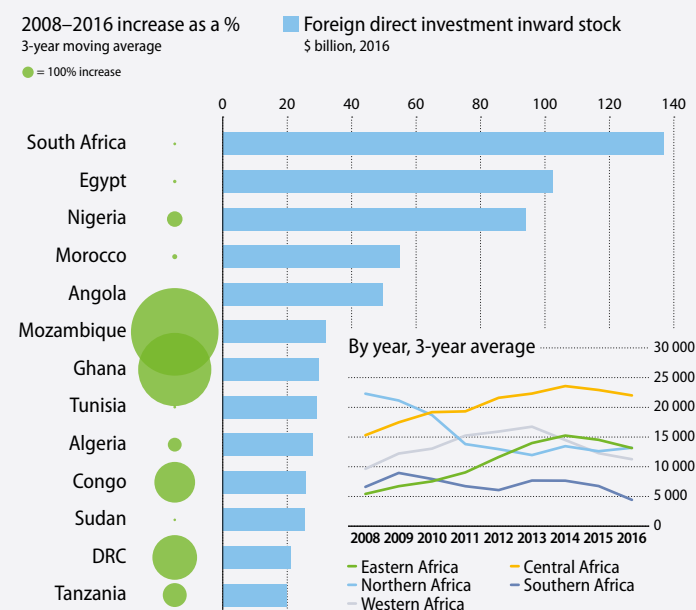
INDICATOR	ALL AFRICAN COUNTRIES				ADF COUNTRIES	
INDUSTRIALISE AFRICA INDICATORS—PROGRESS IN AFRICA (LEVEL 1)	Baseline 2015	Latest 2017	Target		Baseline 2015	Latest 2017
			2017	2025		
● Gross fixed capital formation (constant 2010 \$ billion)	504	503	677	1370	138	136
● Industrial gross domestic product (constant 2010 \$ billion)	619	581	841	1728	113	130
● Value-added of manufacturing (constant 2010 \$ billion)	222	236	268	450	46	45
● Economic Diversification (Index, 1 Low – 0 High)	0.62	0.63	0.62	0.6	0.64	0.65
● Global Competitiveness (Index, 1 Low – 7 High)	3.64	3.62	3.75	4.2	3.48	3.45
● Access to finance (% population)	37	60	41.6	60	24	35
● Logistics performance index (Index, 1 Low – 5 High)	2.5	2.5	2.58	3.0	2.42	2.43
INDUSTRIALISE AFRICA INDICATORS—AfDB CONTRIBUTIONS (LEVEL 2)	Baseline 2015	Delivered 2017	Target		Baseline 2015	Delivered 2017
			2017	2025		
● People benefiting from investee projects (millions)	1.9	2.6	2.1	20.9	0.6	1.2
● — of which women	0.96	1.29	1.05	10.5	0.3	0.6
● Government revenue from investee projects and subprojects (\$ million)	331	118	597	5965	81	28
● MSMEs effect (turnover from investments) (\$ million)	68	208	306	3060	65	103
● Owner-operators and MSMEs provided with financial services (thousands)	57	210	57	570	55	181
● People with improved access to transport (millions)	8.6	14	10	100	8.6	13
● — of which women	4.4	7	5	50	4.4	6.8
● Transport—Roads constructed, rehabilitated or maintained (km)	2100	2500	2900	29 000	2000	2100

● Achieved 95% or more of the 2017 target   ● Achieved less than 95% of the 2017 target but above baseline value   ● Achieved less than the baseline  
 ● Data are not available to measure progress

Currently, Africa reveals a mixed picture on industrialisation. Foreign direct investment (FDI) in Africa has risen from \$10 billion in 2000 to over \$60 billion in 2016. In 2015 and 2016, one-third of FDI went into the manufacturing and extractive industries, and in 2016 just 13 African

countries, of mostly middle-income status, received three quarters of Africa's total FDI (see Figure 2). Overall, the data suggest slow progress over 2015–2017, with ● **gross fixed capital formation (constant 2010 prices)** staying constant at around \$503 billion for Africa. Put simply, this indicator tells us how much is invested rather than consumed. In other words, it suggests that in recent years there has been a relative decline in business confidence in Africa's economic growth.

Figure 2 The largest recipients of FDI are middle-income and resource-rich countries



Source: UNCTAD

*Foreign direct investment in Africa has risen from \$10 billion in 2000 to over \$60 billion in 2016*

The ● **industrial gross domestic product (constant 2010 prices)** provides important insights into industry's contribution to the overall economy. Between 2015 and 2017 it fell for Africa as a whole from \$619 to \$581 billion, reflecting that the sector remains under pressure, with limited domestic and global demand for locally manufactured goods.

However, the ● **value-added of manufacturing (constant 2010 prices)** increased in Africa by 2.5% per year from \$222 billion in 2015 to \$236 billion in 2017. This is in line with the world average, but significantly behind Asia's 7.4% per year. Africa's index of ● **economic diversification** — measured on a range from 0 (high) to 1 (low) — decreased by just 0.01 since 2015, reflecting the continent's persistent dependence on too few primary export commodities. Such dependence makes many countries vulnerable to fluctuations in



commodity prices and demand and to extreme weather events such as droughts and floods.

Within these aggregate figures, there was significant variation in industrial development among countries. Some are struggling to make progress on one or more of these industrialisation measures. For example, Equatorial Guinea suffered a significant decline in fixed capital formation and value-added from manufacturing. The indicators show that the countries that are industrialising the most rapidly are South Africa, Algeria and Mauritius.

There are encouraging signs that countries such as the Central African Republic and Somalia (which started from a low base), Guinea, South Sudan and Tanzania are beginning to invest in new industries. Ethiopia is already building industrial parks across the country and has succeeded in attracting investment from some major international textile and shoe companies (see Box 1). As wages in manufacturing countries in Asia and elsewhere increase, Africa is becoming more attractive to investors.

### Attracting investment in industry

Unleashing the potential for large- and small-scale industrial development requires measures to reduce risk and attract investors. African governments need to create the conditions that will encourage private investment: provide a stable macroeconomic environment, improve the business climate, establish a strong and effective legal framework, create healthy financial institutions, promote cheaper and more reliable infrastructural services, ensure that trade policy is aligned to the needs of industry and address corruption. Across the continent, African governments are rising to these challenges. But much more needs to be done to unleash the potential of Africa's private sector.



*As the Bank's 2018 African Economic Outlook found, bridging Africa's infrastructure gap will require investments of \$130–\$170 billion per year*

Expanding power and transport infrastructure is essential to the development of industrial production and trade, both cross-border trade within Africa and trade in global markets. Regional infrastructure is critical to knit together many small economies and create economies of scale for local producers. However, Africa's infrastructure deficit remains massive, and, as the Bank's 2018 African Economic Outlook found, bridging the gap will require investments of \$130–\$170 billion per year.

Multilateral banks have succeeded in attracting private finance to help deliver infrastructure, but new financing instruments are needed. To help finance Africa's infrastructure, mechanisms must be developed to draw on such global savings as sovereign wealth funds, pension funds, international bond markets and infrastructure funds.

### Box 1 Ethiopia's leading industrial edge

Ethiopia is implementing a multi-pronged strategy for promoting industrialisation. Since 2004, manufacturing value-added has increased by more than 10% a year, making Ethiopia one of Africa's fastest growing economies, with significant levels of investment from international companies such as H&M, DBL Group and Hujian International. Ethiopia is now becoming a competitive global exporter of labour-intensive manufactures such as textiles and shoes.

The country derives its competitive advantage from its good relationships with China and its labour cost, which is lower than that in many Asian countries. This progress is being achieved through major infrastructure investments—in roads, an electrified railway, the Djibouti port and power generation. In addition, Ethiopia is developing eco-industrial parks across the country, waiving customs duty for capital imports and improving the business environment through one-stop shops to handle commercial registration, business licenses and other administrative tasks. The country has also invested significantly in the education and skills of its young people.

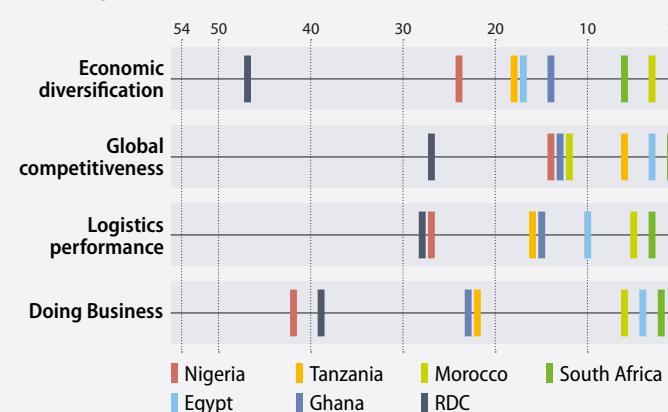
To attract private sector finance into priority infrastructure, governments and regional organisations must put in place effective institutional arrangements for planning, designing and implementing infrastructure projects. Soft infrastructure, including business-friendly policies and legal and regulatory environments, is also essential to promote industrial development.

Africa's **global competitiveness** has deteriorated slightly since 2015, as measured by the Global Competitiveness Index, providing insight into economies' drivers of productivity and prosperity. The reasons for Africa's lackluster competitiveness are well documented in *Industrialize Africa: Strategies, Policies, Institutions and Financing*: large infrastructure deficits, significant skill mismatches, slow adoption of new technologies, and weak institutions. These factors,

Figure 3 The competitiveness of African countries

2017, rank by indexes out of 54 countries

1 = best among African countries



Sources: WEF, World Bank



in addition to weak financial sector development and low levels of regional trade and integration, are the main bottlenecks that prevent African economies from offering an environment that facilitates better employment and entrepreneurship opportunities. Africa's ● **logistics performance index** has remained constant at 2.5 (on a range of 1–5) since 2015, with a slight improvement from 2.42 to 2.45 for low-income countries. Figure 3 provides a ranking of African countries on four different indexes, looking at the performance of seven countries across the continent.



*Investors in fragile countries often face risks related to macroeconomic policy and political stability*

There has been a welcome increase in ● **access to finance**, from 37% to 60% of Africa's overall population (due in part to an update from the data source). Still, a lack of access to investment finance remains a critical constraint for micro, small and medium-sized businesses wishing to grow, and women entrepreneurs face particular barriers.

Investors in fragile countries often face risks related to macroeconomic policy and political stability. The governments of such countries may lack the capacity and revenue base to perform basic functions, leading to a weak business and investment environment. African-owned companies may be more willing to work within these risks and more adaptable to the context than foreign investors. As one example, the manufacturing conglomerate Dangote, headquartered in Nigeria, has established cement factories in 15 African countries and distribution terminals in Sierra Leone and Liberia.



*Initiatives such as the Buy-Africa campaign in South Africa and the Buy Made-in-Nigeria campaign can help shape consumer preferences*

African governments are taking initiatives to promote domestic industries: for example, many are creating industrial zones or parks with tax incentives and special terms, although such projects must be carefully instituted to optimise long-term benefits to the host countries. Initiatives such as the Buy-Africa campaign in South Africa and the Buy Made-in-Nigeria campaign can also help, by influencing consumer preferences. The Nigerian government promoted local manufactures by mandating that its agencies spend more of their budgets on locally produced goods and services.

Governments need to be alert to the future impact of artificial intelligence and automation on industrial development, including how they may affect employment opportunities for unskilled workers. It is possible that automation will slow the globalisation of

production chains, leading to the “reshoring” of production back to advanced economies. For this reason, industrialisation in Africa must also be targeted at meeting the needs of African markets.

## The Bank's contribution to industrial development

In accelerating industrialisation across the continent, Africa will need to double its industrial GDP over the next 10 years, enhance economic diversification and improve its competitiveness. To facilitate a private-sector-led investment in industrial transformation, African countries will need to provide a conducive business climate; improve access to capital to facilitate the expansion of industries and the emergence of new firms; and increase investment in infrastructure, including transportation logistics, in support of business development.

The Bank is committed to supporting African countries in their efforts to fast-track industrialisation. Indeed, *Industrialise Africa* is one of the Bank's High 5 priorities, explained and fleshed out in the Bank Group's Industrialise Africa Strategy (2016–2025). Under the strategy, the Bank (working with its development partners) is addressing the challenges of industrialisation through operations that promote the development of enterprises of all sizes and productivity along the international value chains. It is helping governments develop industrial policies that foster private sector engagement with a conducive business environment and the right infrastructure, and assisting countries to mobilise resources from multiple—especially domestic—revenue sources. The Bank also continues to deliver on key infrastructure projects that catalyse private sector investments, and it provides support for businesses.

## Roads, infrastructure and construction

The Bank's main contributions to industrial development have been to help address Africa's huge infrastructure deficit and to help African economies become more competitive. We have supported national and regional infrastructure development both through our own funding and by crowding in private sector resources.



*In 2017 we provided 14 million people with improved access to transport*

In 2017 we provided 14 million ● **people with improved access to transport**, considerably above our target of 10 million. The majority of beneficiaries were in low-income countries. We ● **constructed, rehabilitated or maintained** 2500 km of road, of which 2100 km were in low-income countries.

Our investments in transport are transforming lives. Our work in northern Ghana, one of the most impoverished and isolated regions of the country, has increased employment, livelihoods and access to social services from the city of Fufulso to Sawla. Our investment



### Box 2 Nairobi-Thika highway: impact on small businesses

Bank investments in upgrading and rehabilitating the highway between Nairobi and Thika in Kenya have reduced congestion and travelling times along the highway, promoting wider economic benefits for the country and region. Commuters are now able to travel from Thika to Nairobi in 30–45 minutes instead of 2–3 hours. Since the completion of the road, many new small and large businesses have been established along the route.

Norah Gesare, who runs a drugstore with her husband in Kasarani, reports a range of benefits to her family life thanks to the road. “I have been able to expand my business to include mobile cash transfer services, selling airtime besides running the drugstore. This is because of a considerable increase in traffic. I am also able to close the business late and reach home in good time to help my kids with their homework,” said Gesare. The mother of four says that when she is out of stock, it only takes her 20–30 minutes to restock her pharmacy because of the ease of movement to and from Nairobi along the highway. “The road has changed my life,” she added with a smile.

in the Nairobi-Thika highway is contributing to socioeconomic development in Kenya and also to regional integration in the East and Horn of Africa (see Box 2).

### Supporting enterprise development

The Bank is investing in improving access to finance, to enable firms to start up and expand. Our projects have ensured that 210 000 **owner-operators and micro, small and medium-sized enterprises (MSMEs) accessed finance services**, far exceeding our target of 57 000. We enabled **MSME turnover** of \$208 million, an increase compared to last year, but still below our target of \$306 million. **Government revenue from investee projects and subprojects** declined from \$331 million in 2015 to \$118 million, and from \$81 million to \$28 million in low-income countries—largely because in 2017 the number of private sector projects covering companies with high income, and thus taxes, that were completed was lower than expected. Overall, 2.6 million **people benefited from investee projects**, which is above our target.

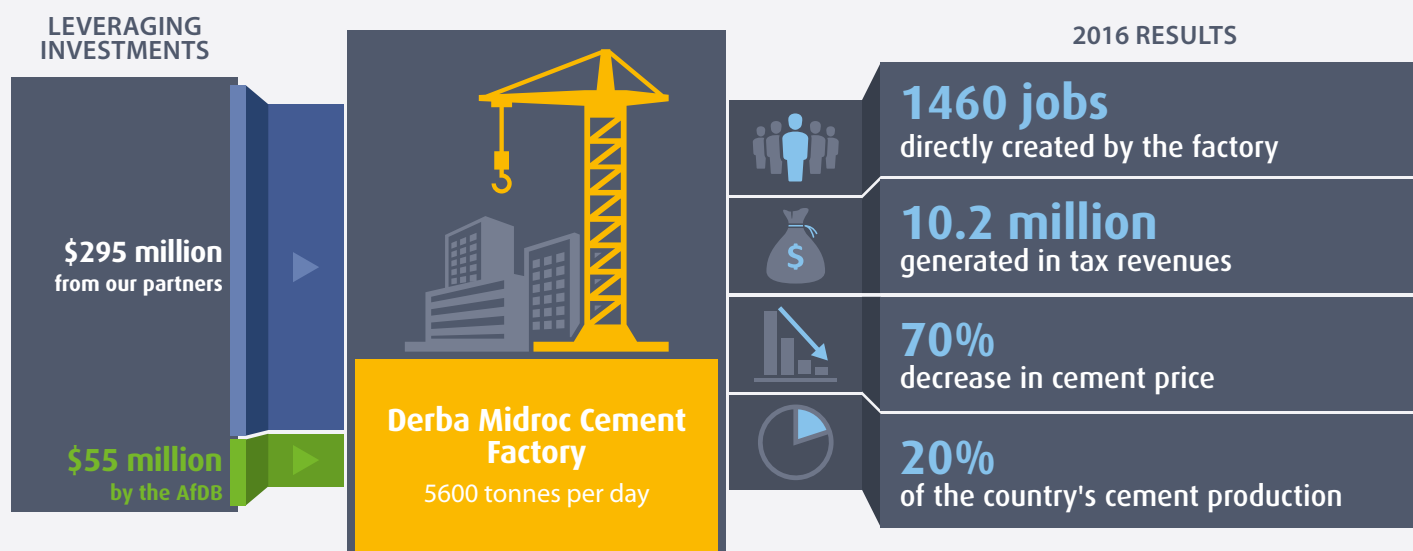
One example of our work was our support to a private equity fund, Africa Capital Works Fund, to provide investee companies across the continent with additional liquidity to help them through the credit crunch and enable them to scale up their work. The initiative targeted companies in the financial sector, consumer staples and energy.



*Our projects have ensured that 210 000 MSMEs accessed finance services*

We also supported Ethiopia’s Derba Midroc Cement Plant, which provides low-cost inputs for all types of construction across the country, contributing to the construction boom. The resulting increases in domestic supply and market competition led to a 70% reduction in the price of cement, as well as decreasing the need for imports (see Figure 4).

Figure 4 Our investments are helping the construction boom in Ethiopia





What has worked well

**Demonstrating the success of using equity investment crowds in other investors**

Delivering equity investment as a financial instrument can encourage other institutional investors to follow suit. The Bank used a share-purchasing model to provide equity through the Trade and Development Bank, which operates across southern and eastern Africa. Other institutional investors were motivated to invest and to replicate the Bank's agreement and investment structure.

**Sharing risk when supporting the private sector in low-income countries**

The Bank's Private Sector Credit Enhancement Facility allows ADF concessional resources to be used to take on some of the credit risk associated with lending in challenging environments. This means the Bank can support riskier projects with potentially strong development outcomes, such as lines of credit to small and medium-sized enterprises in Sierra Leone, Burkina Faso and Nigeria.



What has not worked so well

**Agreeing on reporting mechanisms and clear monitoring targets**

To enable effective monitoring, private sector operations need to define their results targets and development outcomes at the outset and establish a clear mechanism for reporting. For our support to the West African Development Bank, this was not done. The Bank plans to strengthen its target-setting in each project and ensure that development outcomes are specified in Loan Agreements.

**Estimating future traffic flows more accurately**

Feasibility studies for road investments need to take into account the increases in traffic resulting from land-use development. Accurate projections of traffic flows are important to ensure the most appropriate and sustainable project design. Traffic flows on the Thika road in Kenya are up to twice the estimates in the feasibility study.

The Bank has recognised that low-income countries need support to promote entrepreneurship, create jobs and drive investments. Our private sector support is programmed in close coordination with our sovereign lending to maximise impact.

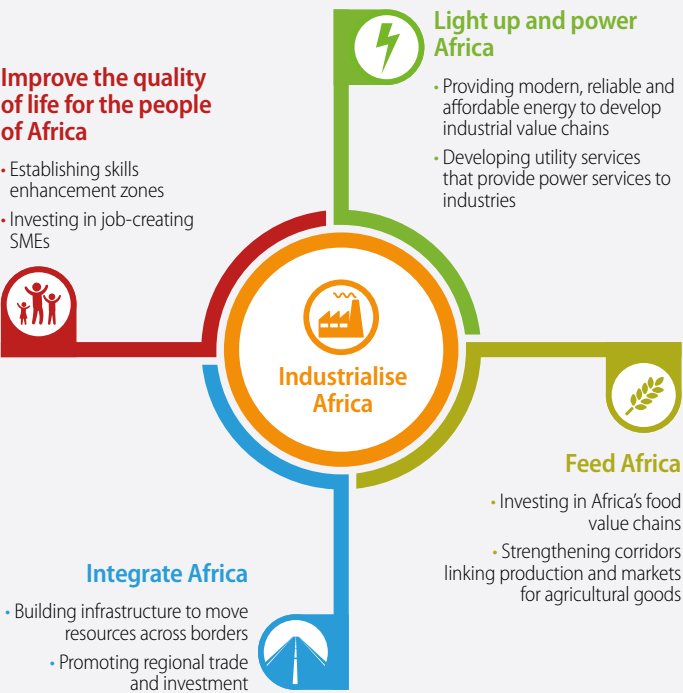
In fragile situations, we provide risk capital and equity investments to support entrepreneurship and trade. In high-risk contexts, our contributions seek to demonstrate that commercial investment is viable, thereby catalysing both foreign and domestic resources. Boosting local production and employment is an important part

of restoring stability. In the Democratic Republic of Congo, we are constructing the first new cement factory in 40 years with the Nyumba Ya Akiba joint venture near Mbanza-Ngungu, to provide a stable and reliable source of cement and stimulate construction and economic activity.

**New programmes to catalyse private investment and structural transformation**

To *Industrialise Africa*, the Bank is supporting African countries by undertaking flagship programmes—fostering successful industrial policies, catalysing funding for infrastructure and industry projects, growing liquid and effective capital markets, and developing efficient energy clusters.

Figure 5 All High 5 priorities are vital to industrialising Africa



*All of the Bank's High 5 priorities play a vital role in contributing to industrialisation*

All of the Bank's High 5 priorities play a vital role in contributing to industrialisation, as Figure 5 shows. The next four chapters will also bring out the close links of each High 5 to delivering industrial development.

We have already strengthened our partnerships and are rapidly scaling up our support to promote industrialisation. Clusters, a proven solution to foster industrial development, help group together the infrastructure, financing and talent to sustain industries. The Bank is designing support to drive industrial cluster development and bring cofinancing to ensure that clusters have the level of ICT, transport and power they need.

**New initiatives and partnerships**

Building on the Bank's track record in promoting industrialisation throughout Africa, we are scaling up our attention to this area. The following are examples of some of our most promising new efforts.

Toward the end of 2018 we will launch the Africa Investment Forum, which will lead to partnership and investment in support of the High 5 priorities. The event, described in Box 4, will bring together leaders from the private sector to collaborate more closely on investing to address economic and social constraints to Africa's development.

In 2017 we invested in private sector companies to support the Mauritania Industrial and Mining Company, and to strengthen the cement industry in Morocco. A flagship project in Guinea is boosting bauxite mining and developing domestic processing of bauxite into alumina, capturing more of the value-added in the global value chain from raw bauxite to aluminium. The project covers a wide range of interventions and illustrates how investments in mining, the private sector, infrastructure, logistical services, skills and community development can position Africa to take its place in global value chains.

Over the last three years we approved projects in Ethiopia, Côte d'Ivoire, Tanzania and Madagascar, establishing frameworks for the implementation of public-private partnerships for infrastructure investment. In Madagascar alone, our support involves the adoption of a public-private partnership strategy and the establishment of special economic zones to boost public and private investments.



### *Investing in SMEs and financial technology is vital for industrial development*

With the United Nations Industrial Development Organization (UNIDO), the Bank supports African countries in developing sound industrial policies and identifying cofinancing opportunities. The Bank is building on the industrialisation agenda in Ethiopia, Senegal and Morocco as pilot countries by helping to establish industrial parks and special economic zones. In Uganda, we plan on developing value chains to enable cluster development and business linkages that will increase competitiveness and market access.

Investing in small and medium-sized enterprises (SMEs) and financial technology is vital for industrial development. The Bank is providing equity through seed investment in the African Domestic Bond Fund, and we are working with the Chinese Development Bank to provide financial support to SMEs. Under our Africa SME Programme, Sierra Leone's Union Trust Bank received a loan to support SMEs, with a special focus on women. Finally, last year we supported Maubank to help Mauritius deliver on its 10-year SME

#### **Box 4 The Africa Investment Forum**

African businesses are rapidly growing in number and sophistication, presenting excellent investment opportunities with relatively high returns, but the challenge of positioning themselves for investment consideration in front of institutional investors and global corporates remains.

To address this challenge, the Bank is championing the Africa Investment Forum, to be held annually as a multi-stakeholder, multi-disciplinary platform for collaborative leadership for the economic and social development of the continent. The first edition of the AIF will be launched in Johannesburg on 8–9 November 2018.

The platform will actively engage the private sector and tackle transactions/projects that have the capacity to transform the continent. It will mobilise resources from global pension funds, sovereign wealth funds and institutional investors to help achieve the High 5s and meet Africa's needs for infrastructure investments.

plan, covering a range of sectors with a view to supporting gender equality and youth.

To promote trade in fragile situations, the Bank is providing loans and grants to enable countries to join the African Trade Insurance Agency (ATI). This innovative initiative provides instruments covering private investment against risks triggered by political events. Membership in the ATI enables South Sudan to leverage its limited ADF resources to mobilise significant finance for importing essential goods, rehabilitating basic infrastructure and strengthening the productive sector. It is expected that the South Sudan will benefit from up to \$300 million in private sector investment.

As cities grow, improved urban transport is important for developing business and industries. We now invest in low-income countries using ADB as well as ADF funds; for example, we have agreed to cofinance a 36 km railway line to connect central Dakar with the growing city of Diamniadio and to the new airport. This will dramatically improve business and economic opportunities in Dakar and its region.

In working to *Industrialise Africa*, we are refocusing our assistance by fostering successful industrial policies and establishing special economic zones that will strengthen industries. We will continue working with our partners to support infrastructure to catalyse more private sector investments and help transform African economies. ■





### **Delivering power to industries**

Power supply is irregular and expensive for businesses on the continent. In Morocco, we expanded the national energy capacity by building the NOOR Ouarzazate solar energy complex, which now provides reliable electricity to companies, services and households.

## Chapter 2

# Light up and power Africa

**A**ccess to energy is critical for industrialisation to take hold in Africa, creating jobs and unlocking economic potential. It is also key to improving people's health, education and quality of life. Yet access to energy remains unacceptably low across the continent. Reliable, affordable power is urgently needed to transform Africa's economy and achieve the Sustainable Development Goals.

In this chapter we show that Africa is making progress towards addressing its enormous power deficit and meeting the private sector's growing demand for energy. In 2017, for example, the rate of access to energy outpaced population growth in Africa for the first time. Major investments are under way in power generation and transmission, and Africa is at the forefront in implementing off-grid and clean energy solutions. However, lack of power remains a significant constraint on industrial development, forcing firms to rely on costly back-up generators—estimated to cost Africa 2–4% of GDP each year. The Bank is committed to scaling up its investment in energy, working with a range of public and private sector partners to raise finance.

### Powering businesses and households

There are enormous power deficits across Africa. Yet change is happening. Africa's strong economic growth since 2000 has resulted in a marked increase in demand for energy from the private sector, and major investments are taking place in power generation and transmission. A considerable push toward cleaner, lower-carbon energy is promoting investment in Africa's huge renewable resources (solar and hydropower), drawing on significant technological advances. Africa—and especially East Africa—has been at the forefront of the revolution in decentralized energy access solutions. African countries have also been implementing the institutional reforms in the energy sector that are necessary to deliver sustainable energy services.

### Electricity for industrialisation

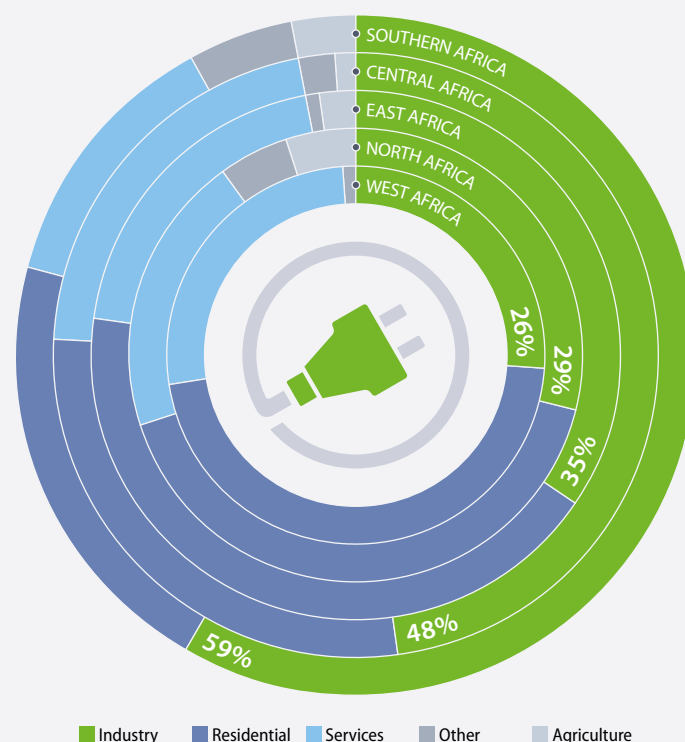
The growth of private sector investment and industrial development across the continent depends heavily on the availability of energy supplies. The lack of power undermines investment, employment creation and economic growth, costing Africa 2–4% of its GDP each year. In Tanzania and Ghana, companies lose 15% of sales value to power outages, according to McKinsey company. In South Africa, severe limitations in generation capacity and frequent “load shedding” have hobbled economic growth.

*The lack of power undermines investment, employment creation and economic growth, costing Africa 2–4% of its GDP each year*

In practice, the lack of reliable power forces firms to rely on back-up generators running on diesel or gasoline—at costs that are four

times the price of grid power. Over 40% of businesses in Tanzania and Ethiopia, and 57% of those in Kenya, own generators. Since power is a precondition for developing and adopting many innovative technologies,

**Figure 6 Industry is a major consumer of energy in Africa**



Source: IEA



Table 2 Light up and power Africa indicators (Level 1 &amp; Level 2)

INDICATOR	ALL AFRICAN COUNTRIES				ADF COUNTRIES	
LIGHT UP AND POWER AFRICA INDICATORS — PROGRESS IN AFRICA (LEVEL 1)	Baseline 2015	Latest 2017	Target		Baseline 2015	Latest 2017
			2017	2025		
● Share of population with access to electricity (% population)	42	51	53	97	24	34
● Share of population with access to clean cooking solutions (% population)	32	31	45	97	10	10
● Total installed electricity capacity (GW)	168	175	200	330	31	33
● Installed renewable capacity (GW)	33	35	45	92	20	21
● Electricity losses through transmission, distribution and collection (%)	15	17.1	14.0	<10	16.8	17
LIGHT UP AND POWER AFRICA INDICATORS — AfDB CONTRIBUTIONS (LEVEL 2)	Baseline 2015	Delivered 2017	Target		Baseline 2015	Delivered 2017
			2017	2025		
● New total power capacity installed (MW)	490	460	880	8800	80	50
● New renewable power capacity installed (MW)	24	151	560	5600	20	1
● People with new electricity connections <sup>1</sup> (thousands)	72.5	597	2400	24 000	72.5	597
● — of which women	36	272	1200	12 000	36.3	272
● People connected through off-grid systems (thousands)	..	..	1200	12 000	0	..
● — of which women	..	..	600	6000	0	..
● People provided with clean cooking access (thousands)	..	..	3200	32 000	0	..
● — of which women	..	..	1600	16 000	0	..
● New or improved power distribution lines (km)	875	2730	3520	35 200	875	2730
● New or improved power transmission lines (km)	69	510	576	5760	69	500
● Emissions reduction in energy (thousand tons CO <sub>2</sub> )	17.3	157	1800	18 000	10.2	157

● Achieved 95% or more of the 2017 target ● Achieved less than 95% of the 2017 target but above baseline value ● Achieved less than the baseline  
 ● Data are not available to measure progress

1 There are different definitions for assessing the number of people with new electricity connections. The one used here is consistent with the definition provided in the Bank Group's Results Measurement Framework and the New Deal on Energy: it measures the number of people connected to electricity by distribution lines only.

small and medium-sized enterprises are often unable to boost their competitiveness and grow their business.

The industrial sector is responsible for more than two-thirds of sub-Saharan Africa's total energy use, although it employs far fewer people than agriculture and generates less value-added to the economy than services. Extractive industries are particularly energy-intensive, and many countries have significant mining sectors: copper in Zambia, copper and cobalt in the Democratic Republic of the Congo, gold in Ghana, diamonds in Botswana, uranium in Namibia and Guinea and iron ore in Liberia and Sierra Leone. Other key energy-intensive industries include cement production, petrochemicals, aluminium smelting and South Africa's automotive and iron and steel sectors.

### Access to energy by households

Overall, the ● share of the population with access to electricity in Africa has risen—from 42% in 2015 to 51% today, and for low-income countries from 24% in 2015 to 34%. In fact, the growing electrification rate outpaced for the first time Africa's high population growth; indeed, in some countries the number of people without access to electricity may have however increased. Figure 7 illustrates the level of access to electricity in Africa by country, colour-coded by region. North Africa—except for Mauritania—is the region closest to reaching universal access to electricity.

The use of energy in sub-Saharan Africa is the lowest in the world. Excluding South Africa, annual energy consumption is about 175 kilowatt-hours (kWh) per capita, compared to a global average of 2855 kWh per capita.



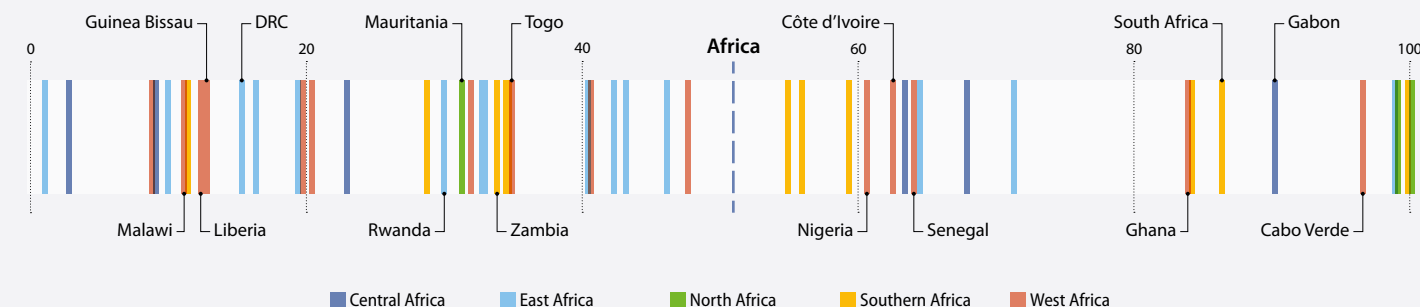
*The share of population with access to electricity in Africa has risen from 42% in 2015 to 51% today*

The ● share of population with access to clean cooking solutions is 31% across Africa, and just 10% in low-income countries. In sub-Saharan Africa 80% of households use solid biomass, mainly fuelwood and charcoal, for cooking and warmth. But burning biomass brings serious health hazards that have major impacts, particularly on women and children; 600 000 Africans die each year from the effects of household air pollution, of whom half are under five years old; and lung and eye diseases are widespread. In addition, foraging for fuel takes time, especially for women and children, who may therefore miss out on opportunities to undertake more productive activities, such as schooling and livelihood activities. In some places, climate change and deforestation are compounding the problem of finding suitable biomass for fuel.

Figure 7 Half of Africa's population lives without access to electricity

## Share of population with access to electricity

Africa, 2016 (%)



## Increasing power capacity

The continent is endowed with abundant natural resources that could power industrialisation and lift many people out of poverty. Huge investments in infrastructure are urgently needed to develop these resources and expand Africa's power generation capacity for current and future generations in an environmentally sustainable way. Therefore, Africa needs to be innovative in raising finance and using new technologies.



*The use of solar and wind energy solutions in off-grid systems and mini-grids is increasing rapidly, as new technologies are developed and costs continue to come down*

Planning and implementing regional energy infrastructure is critical. Regional power pools enable countries to develop their energy systems more collaboratively and undertake cross-border energy trade. Avoiding the inefficiencies of small national markets lowers costs and increases access to energy.

Investment in power generation and energy systems is expanding, but the pace needs to accelerate further. In 2017, Africa reached 175 GW **total installed electricity capacity**, of which 35 GW was **installed renewable capacity**.

Electricity loss is a key component in measuring the efficiency and financial sustainability of the power sector. Lower electricity losses are associated with greater financial sustainability of utilities, as additional revenues increase cost recovery, enhance the capitalisation of the power sector, and improve the sector's capacity to invest. **Electricity losses through transmission, distribution and collection** averaged 17.1% of energy production, much higher than Africa's target of 14%, reflecting weaknesses in utility companies across the continent.

In the coming years, major investments will be made in renewable energy capacity—for example, in hydroelectric energy in Ethiopia;

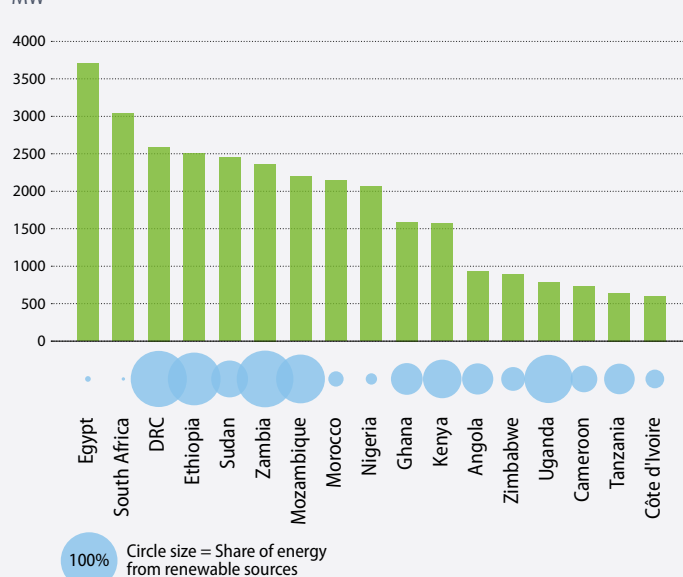
solar energy in South Africa, Nigeria and Namibia; and wind energy in such countries as South Africa and Ethiopia. Ten countries already rely on renewables for more than half of their energy mix and are spearheading Africa's contribution to lower emissions (see Figure 8).

The use of solar and wind energy solutions in off-grid systems and mini-grids is increasing rapidly, as new technologies are developed and costs continue to come down. The cost is also decreasing for solar parks (see Figure 9). For example, for solar photovoltaic projects, costs have fallen considerably, from \$3.4–\$6.9 per Watt in 2012 to \$1.3–\$4.1 per Watt in 2015–16.

Large-scale investments in solar capacity are being developed with the Bank's support, mainly in North and Southern Africa. In Morocco, the world's largest concentrated solar plant is now

Figure 8 African countries rely to a large extent on renewable energy

MW





providing electricity to more than half a million Moroccans, producing 520 GW per hour at costs comparable to those of less clean energy sources. In South Africa, the Xina Solar One power plant is now in commercial activity with an installed capacity of 100 MW.

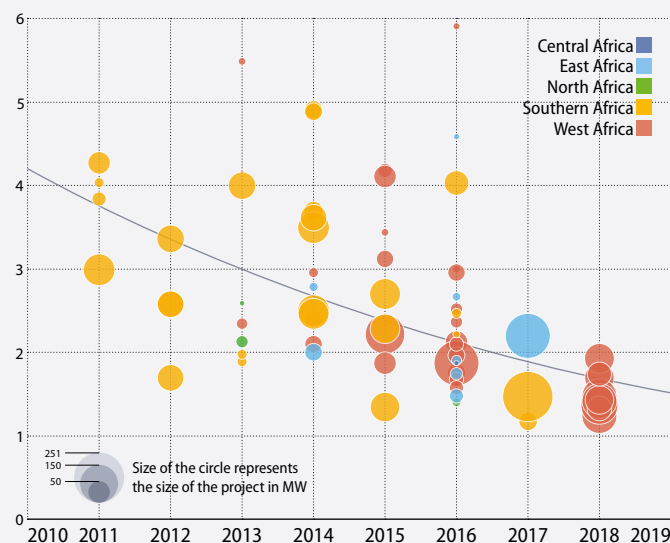
### The Bank's impact in increasing access to energy

The Bank's Ten-Year Strategy (2013–22) recognises that meeting Africa's energy needs is critical to economic development and poverty reduction. Therefore, to expand Africa's power generation and increase access to energy, the Bank has invested in a wide range of energy projects across the continent, working closely with public and private sector partners to raise finance for these projects.

**Figure 9 The cost of renewables is declining across Africa**

**Cost of installed operating and proposed utility-scale solar PV project in Africa, 2011–2018**

\$ per Watt, 2015



Source: IRENA

In 2016, we launched the New Deal on Energy for Africa to drive reform and investment in the sector, challenging the public and private sectors to take urgent and major action to address Africa's need for energy. Intensifying and scaling up our work in the energy sector is a key High 5 priority for the Bank.

*We delivered 2730 km of new or improved power distribution lines, compared to 875 km in 2015*

The Bank has installed new power generating capacity in various countries, increasingly drawing on the continent's vast renewable

resources. In 2017, we installed 460 MW of **new total power capacity**, compared to 490 MW in 2015; of this, 151 MW was **new renewable power capacity**. This is not enough to achieve the targets set in Africa's New Deal on Energy. To build up a pipeline of power projects, governments must provide leadership, transparency, stable institutions, and a positive business and regulatory environment, and must build capacity to structure and negotiate agreements. At the same time, developers, like the Bank, must be technically and financially strong, leverage qualified local partners, offer competitive project terms, and work with other development finance institutions to deploy the right financial instruments.

Our investments reduced **CO<sub>2</sub> emissions** by 157 000 tonnes, well above the 17 300 tonnes in 2015, but below our target. We delivered 2730 km of **new or improved power distribution lines**, compared to 875 km in 2015, and delivered 510 km of **new or improved power transmission lines** compared to just 69 km in 2015. Overall, 597 000 **people received new electricity connections**, of which 272 000 were women.

We have yet to complete operations that connect **people through off-grid systems** or provide **people with clean-cooking solutions**. We are, however, working in these areas. We recently used our convening power to launch the Off-grid Revolution Initiative to explore innovative financing arrangements and new business models for decentralised renewable technologies. We are also supporting countries such as Togo with technical assistance in this area and will finance energy service companies starting in 2018. In the area of clean cooking—which is a relatively new area for the Bank—the AfDB is working closely with entities such as the Global Alliance on Clean Cookstoves to put in place technical assistance and investment operations that will facilitate a transition towards the use of improved cookstoves and modern fuels.

*Providing increased access to energy in fragile situations has significant social and economic benefits*

We funded rural electrification projects, so that remote communities benefited from accessing energy. In Burkina Faso, we provided equipment and materials to 159 rural areas, connecting 16 035 new customers and local cotton industries to the national network. Our rural project in Senegal delivered on-grid and off-grid electricity, connecting nearly 6000 users in 218 localities to the national grid and providing solar home systems to 398 households in 128 locations. This project was structured as a public-private partnership under a subsidy arrangement with the Government.

To ensure sustainable energy provision, many countries need to reform their energy sectors. Our projects help improve sector policies and transform utility companies. In Angola, we supported reforms to legislation, regulation, procurement and financing to ensure a better climate for private sector participation in the sector. This resulted



### What has worked well

#### **Boosting investor confidence by improving the energy supply**

Power sector projects are expected to provide reliable, affordable energy. In Rwanda, the Bank's loan to the KivuWatt methane gas project delivered secure, cheaper energy and boosted investment. This demonstrated the benefits that result from the Bank's ability to manage complex power investments.

#### **Managing risks for effective and timely project delivery**

Experienced project management is essential to assess and manage risks in complex projects. In Egypt, skilled project managers ensured that the Ain El-Sokhna project was completed in a timely way despite facing unanticipated external risks due to political unrest. This showed that Bank should ensure that skilled project managers are in place and give them autonomy and backing.

in improved power distribution and dramatically increased revenue collection for the sector through the use of meters.

Providing increased access to energy in fragile situations has significant social and economic benefits. As part of a multidonor trust fund, we rehabilitated Zimbabwe's power network, restoring electricity to medical facilities, schools, water pumps, urban water treatment centres and businesses.

We also renewed a power transmission system in Ethiopia to provide sustainable energy from the national system to the Gambela region of the country. In Kenya, our project reduced energy losses and increased the efficiency and reliability of the power system.

Using new technologies has benefited energy supplies in both Egypt and Rwanda. In Egypt, we helped finance the innovative Ain El-Sokhna large-scale thermal power plant, which resulted in reduced rates of fuel consumption and lower emissions. The plant provides reliable and affordable energy to the expanding industrial zone and tourist industry, contributing to economic and social development. In Rwanda, with



### What has not worked so well

#### **Arranging timely delivery of project components when cofinancing**

Cofinanciers may fund different, although interdependent, components of energy projects. In Botswana, the Bank constructed 215 km of transmission lines and a substation, but the generation component was delayed. The Bank must coordinate closely with cofinanciers to minimise the risk that project benefits may be delayed.

#### **Employing women in power construction projects**

Kenya introduced a target to recruit women for at least 20% of unskilled jobs. In a power transmission project, only half of the target was reached, a low result that was attributed to cultural attitudes and a shortage of available staff. Affirmative action measures need to be taken to achieve this gender target; and the Bank's gender marker system will help track this, making more operations sensitive to gender.

the KivuWatt project, we mobilised the country's largest private sector investment ever to increase Rwandans' access to energy whilst also safely removing harmful gases from Lake Kivu (see Box 6).

### **Milestones in implementing the New Deal on Energy for Africa**

The Bank's New Deal on Energy in Africa establishes a transformative partnership to achieve universal access to energy in Africa by 2025, mobilising domestic and international capital for substantial innovative financing in the sector. The New Deal also supports African governments in strengthening energy policy, regulation and sector governance and commits to increasing the Bank's own investments in energy and climate financing.

Under the New Deal, we are accelerating our investments to make rapid progress in increasing access to energy. In partnership with African governments, international donor agencies and the private sector, we are raising finance to invest in critical strategic and innovative power infrastructure, with a strong focus on clean

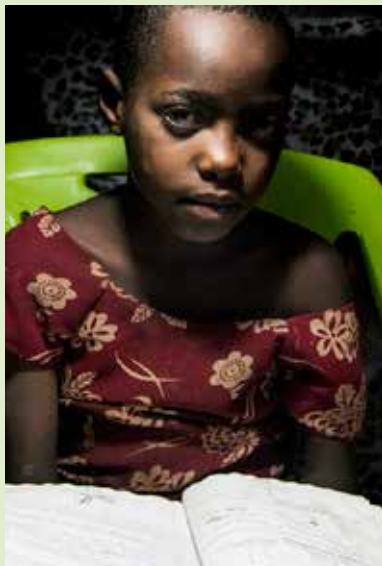
### **Box 6 Turning a threat into prosperity in Rwanda's Lake Kivu**

The Bank invested in an innovative methane gas-fired power plant in Rwanda, addressing a substantial energy shortfall whilst also reducing the risk of methane explosions. The potentially explosive methane trapped in Lake Kivu was putting 2 million people at risk, but is now generating electricity.

The KivuWatt project at Lake Kivu includes a gas extraction facility on a barge that is 12.5 km offshore, a submerged pipeline carrying compressed gas to the shore and a 25 MW power plant. The Bank provided a loan of \$25 million, just under one-fifth of the overall budget. The project was cofinanced with public and private financiers as a public-private partnership and is operated by an independent power producer.

The investment increased Rwanda's power generation capacity by 16% to 186 MW and provides cheaper energy than the country's other sources of power. This methane gas plant, together with Rwanda's increasing use of solar energy, has led to an energy mix that is less reliant on diesel fuel. Phase II of the project will increase the capacity of the power plant by a further 75 MW.

The project's success shows that costly and complex projects can be delivered in Rwanda and has enhanced Rwanda's reputation as a destination for private sector investment.



### Box 7 Powering rural homes in Tanzania with solar power

In Tanzania, many of the poorest and most vulnerable people live in rural areas where their lack of access to energy limits their educational and economic opportunities and affects their day-to-day quality of life.

On the outskirts of Babati in the Manyara region, 11-year-old Asha Juma explained how access to light is helping her to study: “Since my parents have a solar panel, I can now use a lamp to do my homework after going to the Kiongozi school.” Asha’s family no longer needs to use kerosene lamps or candles, which generate fumes and cause health problems. This change came about when Asha’s family acquired an 80-watt battery from Mobisol. The battery provides enough power for lights, a fan and a television. The family pays for the lamp and its services using their mobile phone, transferring money in affordable monthly instalments through a pay-as-you-go system. After three years, the product will be theirs and no more payments will be made.

The Bank is committed to work with its partners to connect 30 million African people to electricity through off-grid systems by 2025. These efforts will serve homes, schools, businesses and health centres, including in many counties in Tanzania. To reach beneficiaries, the Bank will leverage the work of such private sector players as Mobisol, M-Kopa Solar, Tigo and Off-Grid Electric.

and renewable energy solutions. Specifically, we have developed plans to benefit an additional 3.8 million Africans through regional power infrastructure that exploits economies of scale, creates efficiencies and provides affordable access to energy.



*Under the New Deal, we are accelerating our investments to make rapid progress in increasing access to energy*

The Bank remains committed to renewable power investments. In 2017, 100% of our investment in power generation supported renewable energy projects that will generate 1.4 GW of additional capacity while reducing greenhouse gas emissions by over 2.3 million tonnes annually.

### Highlights and innovative programmes

Over the last year, under the New Deal on Energy in Africa, we approved projects to deliver access to energy for citizens, businesses and industry. Some of our investments were targeted to the “bottom of the pyramid”—that is, to the poorest and most vulnerable groups, including girls and women (see Box 7).

Among our recently approved projects was a \$150 million investment for an innovative hydroelectric project—constructing a power plant on the river at Nachtigal in the south of Cameroon. This \$1.1 billion project will increase national installed generation capacity by one-third, transforming Cameroon’s energy security, and will avoid the equivalent of 1.35 million tonnes of greenhouse gas emissions per year.

In Mali, we committed \$25 million to cofinance—with Climate Investment Funds and the International Finance Corporation—a

utility-scale solar PV power plant, one of the first in sub-Saharan Africa. The plant will increase the country’s generation capacity by one-tenth, providing sustainable energy services to citizens. The project demonstrates a business model for private investment in solar PV markets that could be replicated across West Africa.

The Sustainable Energy Fund for Africa, a multidonor trust fund administered by the Bank, approved seven project preparation grants for private sector innovations in renewable energy, as well as five grants focusing on off-grid and mini-grid projects. In Mauritius, a private sector company aims to develop an innovative low-carbon technology to provide air conditioning in the city business area using seawater. If successful, this could save significant electrical power at peak times and reduce emissions, and could be widely replicated. In Ethiopia, a technology company is preparing a project to design, develop and produce smart grid solutions to generate and distribute energy.

We are supporting the second phase of a private equity fund, the Evolution II Fund, which supports low-cost small- and medium-scale clean energy generation across Africa. The first phase generated wind and solar energy and avoided 1.19 million tonnes of CO<sub>2</sub> emissions each year. We have also established implementation arrangements for the Facility for Energy Inclusion (FEI) through two funds—the \$100 million FEI Off-Grid and the \$400 million FEI On-Grid—for which the Bank approved a \$100 million anchor investment to close funding gaps in the small-scale energy infrastructure sector and catalyze growth in last-mile energy access solutions.

With the Sustainable Energy Fund for Africa and the Infrastructure Consortium for Africa, the Bank worked with UN Environment to produce the Atlas of Africa Energy Resources. The atlas brings together regional and national data to provide a comprehensive picture of Africa’s energy resources, its production and consumption trends, and the potential for expanding energy supplies in a sustainable way.

The Bank is strengthening the implementation of its operations to meet the challenge of *Light up and power Africa*. We delivered projects to increase the generation of energy—particularly renewable energy—at regional and national levels. We provided distribution and transmission systems across borders and within countries. To meet our

targets, we will accelerate our efforts, using more Bank resources and crowding in finance from the public and private sectors in line with the New Deal. Our focus is to scale up our joint efforts and deliver modern, affordable, and sustainable energy to Africa’s people, wherever they live, promoting industrialisation and creating jobs. ■





### **Providing finance to climb up the agriculture value chain**

Under its Feed Africa strategy, the Bank supports operations to establish a competitive and inclusive agribusiness sector. We support rural banks that help entrepreneurs move from farm to retail with increases in productivity and efficiency.



# Chapter 3

## Feed Africa

**A**frica's agriculture sector provides 60% of jobs across the continent; thus, modernising the sector is key to Africa's development. With a more modern agriculture sector, millions of African farmers will be able to become more productive, earning higher incomes and lifting themselves out of poverty. By linking farmers to markets, supply chains and agro-industries, the agriculture sector will help create the jobs and incomes that Africa needs to develop its economy and feed its citizens.

This chapter shows a mixed picture on progress. For now, growth in agricultural yields and productivity remains disappointing. Stunting rates are falling across Africa, but not quickly enough, and 224 million people are hungry or malnourished. A major push will be required to meet the SDG target of ending malnutrition by 2030. Under its Feed Africa strategy, the Bank is playing a leading role in modernising African agriculture: in 2017 our agriculture projects benefited 8.5 million people.

### Moving up the value chain with agribusinesses

Agriculture is a major source of income for Africa, yet it provides low returns to millions of farmers. Smallholder farming—a way of life for nearly two-thirds of Africa's workers—often traps farmers and their families in poverty and malnutrition. The right mix of interventions, investments and policies can unleash the potential of African agriculture, creating higher incomes for farmers and agribusiness and increasing agricultural production.



*Commercial agro-industries raise the value-added of crops and integrate smallholders into the supply chains*

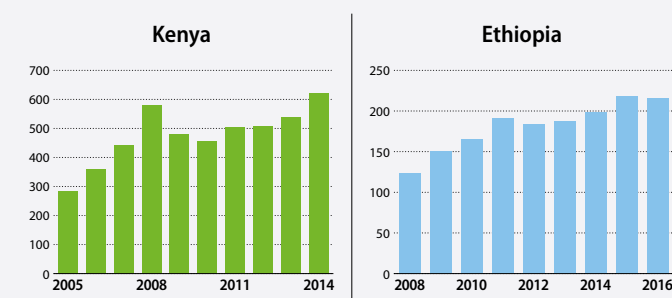
Already we see that as smallholder farmers expand into agribusiness, they sell processed products in local and regional markets. This increases the value-added of their products and provides resources to invest in their farms and businesses. Agribusinesses enhance the food supply and support job creation.

Industrialising agriculture—that is, developing more small- and large-scale agribusinesses—is key to transforming the sector. Increasingly, commercial agro-industries are raising the value-added of specific agricultural products and integrating smallholders into the supply chains, giving assured markets and prices and encouraging farmers to invest in inputs and technologies to increase their productivity. In these new industries, farmers must receive a fair share of the value-added, to increase their yields and production and achieve sustainable benefits.

Africa's agricultural yields are generally low relative to those in East Asian and Latin American countries. Africa's average ● **cereal yields** are just 1.5 tonnes per hectare, and ● **agricultural productivity** (constant 2010 \$) is \$1603 per worker across Africa. The slow adoption of agricultural technical tools, limited irrigation and low use of fertilisers share the blame for Africa's low food productivity. In addition, distortions in market access, regulations and governance have negatively affected food production.

**Figure 10 Kenya and Ethiopia doubled their horticulture exports in less than a decade**

\$ million



Source: ITC

Because many Africans depend on their local agriculture for food, hunger and poor nutrition remain widespread. Across the continent, 224 million ● **people are hungry/malnourished**, 193 million of them in low-income countries. Nearly one-quarter of Africa's ● **children under 5 are stunted**, and for ● **girls**, the prevalence of stunting remains at nearly one in three. However, some progress

Table 3 Feed Africa indicators (Level 1 &amp; Level 2)

INDICATOR	ALL AFRICAN COUNTRIES				ADF COUNTRIES	
FEED AFRICA INDICATORS—PROGRESS IN AFRICA (LEVEL 1)	Baseline 2015	Latest 2017	Target		Baseline 2015	Latest 2017
			2017	2025		
● Number of people hungry/malnourished (millions)	240	224	192	Towards 0	172.8	193
● Agricultural productivity (constant 2010 US\$ per worker)	1544	1603	1861	3130	689	691
● Cereal yield (ton/hectare)	1.6	1.5	1.9	2.8	1.3	1.5
● Prevalence of stunting among children under 5 (%)	25.2	24.3	23.7	17.5	25.8	25.0
● — of which girls	32.4	32.5	30.4	22.5	35.3	35.4
● Africa's net agricultural trade balance (\$ billion/year)	-38.9	-38.9	-31	Towards 0	-0.7	0.7
● Africa's share of market value for key processed commodities (%)	10.3	10	16	38	9.3	9
● Fertiliser consumption (kilograms per hectare of arable land)	25	25	28	40	14	13
FEED AFRICA INDICATORS—AfDB CONTRIBUTIONS (LEVEL 2)	Baseline 2015	Delivered 2017	Target		Baseline 2015	Delivered 2017
			2017	2025		
● People benefiting from improvements in agriculture (millions)	6	8.5	6.3	63	5.3	7.8
● — of which women	2.9	4.1	3.1	31	2.6	3.7
● Land with improved water management (thousand ha)	45.5	46.4	47.8	478	20.3	21.2
● Rural population using improved farming technology (millions)	0.6	0.3	0.63	6.3	0.6	0.3
● — of which women	0.3	0.16	0.31	3.1	0.3	0.16
● Agricultural inputs provided: fertiliser, seeds, etc. (thousand tons)	0.6	1.7	1.7	17.4	0.6	1.7
● Feeder roads built or rehabilitated (km)	800	1945	1500	15 000	800	1872

● Achieved 95% or more of the 2017 target   ● Achieved less than 95% of the 2017 target but above baseline value   ● Achieved less than the baseline  
 ● Data are not available to measure progress

is being made (see Figure 11). The trends indicate that Africa is unlikely to meet the Sustainable Development Goal target of ending malnutrition by 2030 unless major new initiatives take place to address chronic undernutrition, particularly at the critical development periods early in a child's life.

The transformation of Africa's agriculture is urgently needed if Africa is to feed its people. Agricultural policies, policy reforms, increases in

productivity and the commercialisation of agriculture must support the wider goal of increasing the food available to African citizens. A key route to achieving this is helping farmers and agribusinesses move up the value chain of their produce, so they invest to produce more.

### From primary to processed commodities

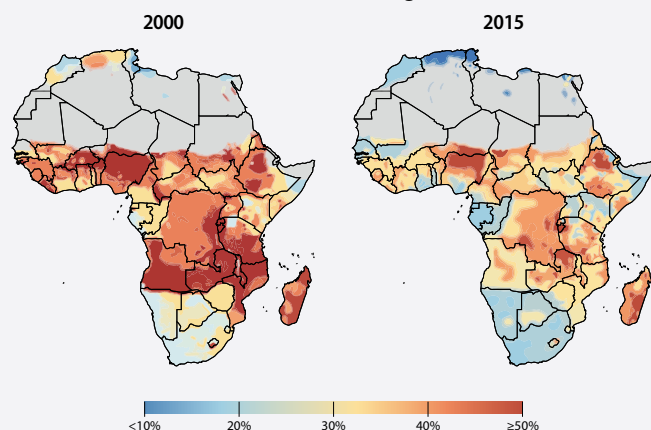
Africa has vast agricultural potential, and most of the technologies required to boost yields are already at hand. With the right policies and investments, African agriculture could be an engine for inclusive growth across the continent. And with 65% of the world's remaining uncultivated arable land, Africa is also a potential resource for the world as populations increase.

A key challenge is addressing the barriers to improving crop yields and incomes that African farmers face—for example, through measures to help farmers adopt proven technologies, reduce post-harvest losses, access inputs such as fertiliser and reach assured markets for their produce. Access to infrastructure services—feeder roads, electricity and water—is critical. Mobile phones increasingly provide information and communications that facilitate trade. Engaging in small and medium agribusiness enables farmers to increase the value-added from their products and encourages greater production.

In several countries, we are already seeing marked results. Nigeria is increasing its fertiliser use through its e-wallet system, and Senegal has transformed its rice production.

Figure 11 Stunting decreased overall in Africa, but pockets of vulnerability persist

#### Prevalence of moderate and severe stunting



Source: Graetz et al., Nature, vol. 555, Nb. 7694, 2018

For many countries, industrialisation using agricultural products is a promising route to creating jobs and livelihoods. Processing agricultural products to sell to domestic, regional and international markets creates assured and high prices to farmers, who in turn must provide reliable products to support a vibrant and competitive agro-industry sector.

**“Another major challenge for Africa is to grow agriculture sustainably”**

Some countries, such as Ethiopia, have been explicit in developing agro-based industrialisation strategies to encourage the policy coherence needed to promote this form of industrialisation. In many countries, successful agro-industries are transforming the sector and developing their economies—for example, horticulture in Kenya and in Ethiopia (see Figure 10), and olive oil in Tunisia.

Investment in the agriculture sector is needed to address ● **Africa’s net agricultural trade balance**, which is negative at \$38.9 billion a year. A surge in food imports is taking place as Africa’s towns and cities expand and Africa’s middle class grows. Although Africa is self-sufficient in cassava and sorghum, it imports about a third of the rice it consumes (see Figure 12).

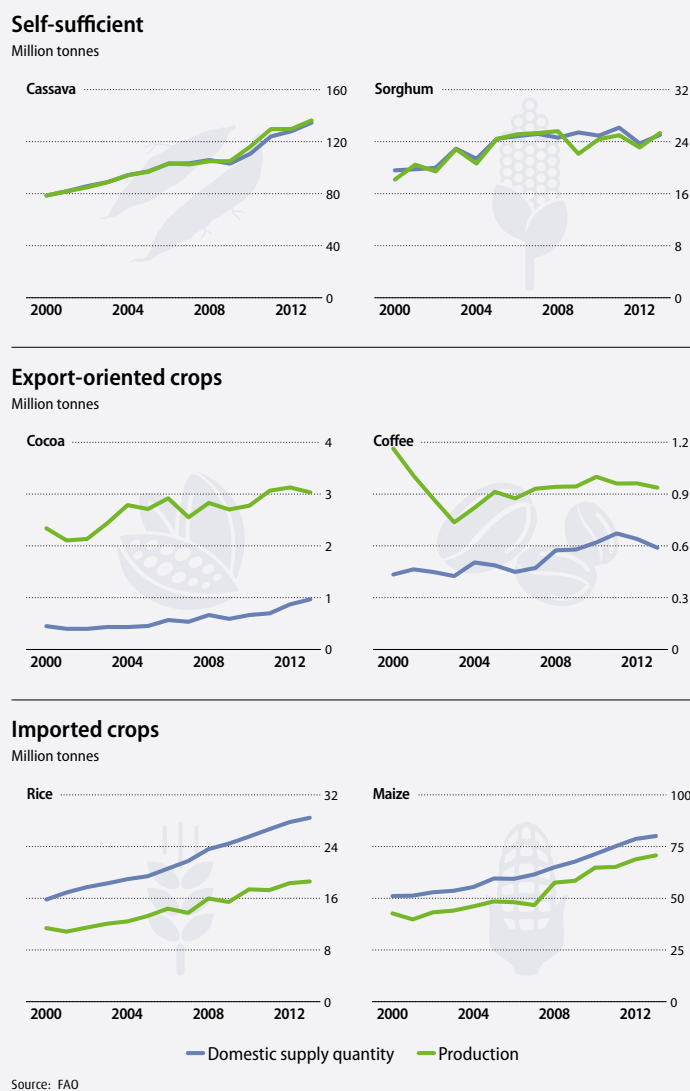
Another major challenge for Africa is to grow agriculture sustainably, particularly given the effects of climate change on agriculture. Under the Sustainable Development Goals, Africa is committed to protecting ecosystems, halting deforestation, combating desertification and restoring degraded land and soil. For example, in Côte d’Ivoire, Ghana, Nigeria and Cameroon the rising global demand for chocolate, the decreasing capacity of old cocoa trees, poor agricultural practices and the impact of climate change on suitable land means that 2.3 million hectares of forest were destroyed between 1998 and 2007. Companies have taken some steps to address the deforestation, using certification schemes to promote responsible practices and community programmes to support climate-smart practices by smallholders. These efforts help improve their social and environmental footprint.

### The Bank’s support for a food-secure Africa

Transforming Africa’s agriculture sector requires a range of policies, technologies, infrastructure investments, and links to markets and supply chains. Working with international development partners, the Bank plays a leading role in the effort to accelerate the modernisation of Africa’s agriculture sector and achieve greater impact on poverty and malnutrition. Under the *Feed Africa* High 5 priority, the Bank provides a range of interventions to enable smallholders to raise their yields, outputs and incomes and lift themselves out of vulnerability and poverty.

In 2017, 8.5 million ● **people benefited from improvements in agriculture** because of our projects—well above the 6 million who

**Figure 12 Consumption and production patterns of crops on the continent**



benefited in 2015, and even above our target of 6.3 million. Our projects in the agriculture sector benefited 4.1 million ● **women**. In Tanzania, we provided financial support to rural development and the livestock industry (see Box 8).

A key concern of our agriculture portfolio is to improve water management. Rain-fed farming is increasingly affected by climate change. Our projects delivered 46 400 hectares of ● **land with improved water management**. In some projects, better water management is part of a mix of interventions to help smallholder farming and small-scale agribusiness become more sustainable and reduce poverty. In northern Ghana, we provided better water management for 4664 hectares, and in Burundi, we delivered irrigation systems that intensified the production of livestock and crop yields. We also delivered better water management for a Kenya horticulture project, linking irrigated horticultural crops to market opportunities.





### Box 8 Growing agribusinesses with rural finance

The Bank supports small and medium-sized agribusinesses in Tanzania by increasing their access to finance. Commercial banks normally charge high interest rates for these clients, but the Bank provided support for agribusinesses through the CRDB commercial bank.

Schorastica Mabula has a cattle-farming business, and during the severe droughts in 2016, 500 of her 5000 cows died. She needed finance to sustain her business, but high interest rates were a strong disincentive to borrow. Through the CRDB bank, the Bank supported Mabula by providing three loans in increasing size from \$46 000 to \$180 000, which allowed her to buy feed during the drought, and to buy young calves. Today her cows weigh around 500 kg and are heavier and healthier than the average cows. In 2016, Mabula's farm won the national Nanenane prize as the best cow producer in the country.

As Mabula says, "As a farmer, I can plan for the future and become the leading breeder in Tanzania. I also want communities to grow their businesses and will provide mentoring. Feeding is key in quality cow farming. Proper feed gets results."

Our projects constructed local roads, power systems, storage and market facilities and other local infrastructure, improving yields and access to markets: 1945 km of ● **feeder roads were built or rehabilitated**, compared to 800 km in 2015; and we provided 1700 tonnes of ● **agricultural inputs including fertiliser, seeds etc.**, compared to 600 tonnes in 2015.

“ *In 2017, 8.5 million people benefited from improvements in agriculture* ”

Creating transport and power infrastructure at the local, national and regional levels enables farmers and those with agribusinesses to reach markets, giving incentives for greater production, higher yields and agro-processing. In Uganda, we rehabilitated over 4260 km of feeder and access roads. Our support to communities included delivering 72 grain and maize mills to promote agro-processing.

This allowed farmers to access markets more easily and increased the farmgate prices of staple food crops—maize by 14.5% and rice by 38%. Our impact includes the establishment of schools, health centres, roads and marketing facilities (see Figure 13).

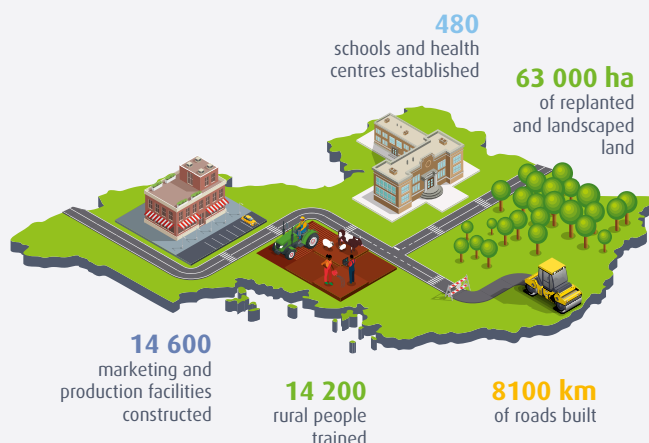
In two projects in Malawi, our focus on climate adaptation with the Global Environment Facility and the African Development Fund led to improving rural livelihoods by irrigating 1337 hectares of land and constructing solar-operated irrigation schemes. Farmers are now providing initial maintenance of the equipment to ensure its sustainability. In São Tomé, we rehabilitated markets and a fishing landing point to increase food security.

“ *Our projects delivered 46 400 hectares of land with improved water management* ”

In 2017, working with the Food and Agriculture Organization, UN Economic Commission for Africa, the International Trade Centre, and Alliance for a Green Revolution in Africa, we published an assessment on commodity exchanges and warehouse receipt systems. The assessment confirmed that access to markets is needed throughout agricultural value chains, and that it is essential to have both price information and financial liquidity. The report looked at value chains in 15 countries and noted that to expand benefits throughout the value chain, it is important to address the key risks that hinder private sector agribusinesses and financiers from trading with and financing smallholders.

Recognising that Africa has abundant natural resources and labour for coffee production, we also published an assessment of Africa's coffee sector. The report identified the importance of innovation and technology to raise yields and ensure that Africa remains globally competitive. It also highlighted the importance of crop diversification for coffee farmers so that they remain resilient in the face of unpredictable international coffee prices.

**Figure 13 The impact of Bank operations completed in 2013–2017 in Uganda**



**What has worked well****Putting key staff in the driver's seat**

Operational staff can contribute significantly at the project design and construction stages. In Mozambique, project implementation staff were seconded to the construction phase of a dam and then were involved in implementing the rehabilitation of the agricultural land. This worked well and promoted institutional continuity, enhancing the capacity of counterparts.

**Involving academia**

Academics can give credibility and provide expertise to certain projects. In the Democratic Republic of Congo, they made a major contribution by backing the methodology and techniques in the Reducing Emissions from Deforestation and Forest Degradation project. This level of methodological rigour was later replicated through provision of training and tools to improve forestry initiatives.

**What has not worked so well****Planning results achievement**

Unrealistic planning and the need to coordinate with a large number of smallholders can slow the implementation of agriculture projects. Sometimes this issue is exacerbated by an inadequate tracking mechanism. The Bank should carry out proper monitoring to ensure that the right interventions are provided in a timely way to manage results.

**Preparing projects**

Project designs can omit key details needed for implementation. In Liberia, the Bank's appraisal and preparation missions did not collect sufficient detail during the feasibility study, so implementing consultants had to undertake a months-long study to overcome the knowledge gap. The Bank should ensure that design details are clear for project implementers.

**Sowing the seeds of agricultural transformation**

Under our Feed Africa strategy, we support projects and initiatives that will transform agriculture supply chains. By promoting agro-industry and food processing, we will work with international development partners and the private sector to strengthen supply chains from farmers to final customers. We will improve the lives and livelihoods of millions of Africans, helping women to access land, finance and technology and helping young people to get secure jobs in agriculture-related industries.



*Under our Feed Africa strategy, we support projects and initiatives that will transform agriculture supply chains*

In parts of Africa conflict and governance failures are causing famine, which is exacerbated by climate change. Besides responding to emergencies, our investments in African agriculture will reinforce the resilience of fragile states and help agriculture adapt to the changing climate.

By focusing on specific supply chains and increasing the production of foodstuffs, we will also replace food imports with domestic products. This will help African countries address their trade imbalances and promote economic stability.

In 2017—a year of scaling up our initiatives and projects in the agriculture sector—the President of the Bank was recognized as the 2017 World Food Prize Laureate. His work on Nigerian agriculture spearheaded agricultural initiatives across the continent: increasing rice production by introducing the NERICA seed variety, and expanding value chains of rice, cassava, sorghum, maize and cotton. In recent years his work in introducing new technologies—such as using farmers' mobile phones to deliver vouchers for direct purchase of fertiliser and

other inputs—has reduced corruption and provided particular opportunities for women farmers.

**Focus on developing private sector operations in agriculture and rural finance**

To deliver progress on selected value chains, we are scaling up our public and private sector lending. We are improving access to finance for farmers and agribusinesses and identifying private sector companies to help countries achieve self-sufficiency in such key staples as rice, and we will invest in cassava, soy, maize, beef and dairy to meet African consumers' demand and nutritional needs. For commodity exports, we are lending where we can ensure a fair share of value-added to producers—for example, in the cashew industry now, and in the coffee, cocoa and cotton industries in the future. By identifying companies that wish to expand in Africa, we are using our range of financial instruments to reduce risk and promote a conducive business environment for investment.

We are taking forward value chain investment opportunities—using a public-private partnership platform to invest in the cocoa supply chain, investing in agricultural commodity exchanges, mainstreaming the Africa Disaster Risk Financing Initiative to help countries manage disaster and climate risks, and scaling up agricultural social enterprises.

Three flagship initiatives will expand private sector investment in agribusiness: (i) risk-sharing facilities to increase agricultural lending, drawing on the successful programme in Nigeria; (ii) staple crop processing zones to enable all actors, from producers and agro-processors to distributors, to operate in the same vicinity and share services, enhancing productivity and competitiveness; and (iii) setting up the new Fund for Agriculture Finance in Africa to provide agricultural finance for small- and medium-sized agribusinesses.

Adopting improved seed varieties over the last decade has had mixed results, and the Bank has developed a framework to address the constraints facing the uptake of new technologies and accelerate

### Box 10 Making technologies available for transforming African agriculture

The Technologies for African Agricultural Transformation (TAAT) framework will promote adoption of yield-enhancing technologies in a range of agriculture subsectors. The framework will initially cover nine commodities, chosen because of expected early impact and cross-commodity linkages. They include rice production, cassava intensification and revitalising tree planting.

There will be challenges to address in encouraging farmers to adopt new technologies. Improved crop varieties are hybrids, so it is necessary to buy seeds each season rather than using saved seeds. Also, improved varieties need more fertiliser, which adds to costs. Improved varieties also may need different farming and storage practices and may have a different taste. All these factors will need to be carefully addressed under the TAAT framework.

Funding will be made available to develop capacity at country level, support realignment of policies, and demonstrate effective technologies to encourage uptake by farmers. The financing goal for the Bank, under a well-resourced TAAT, is to provide a total of \$360 million, with additional support from partners. Overall the framework is expected to assist 32.8 million households over 10 years and lead to 735 million tonnes of additional raw food production per year by the end of the period.

their adoption to increase productivity in key agriculture subsectors. Technologies for African Agricultural Transformation (TAAT) will initially work in 10 countries, drawing on best practice and contributing to the Feed Africa strategy (Box 10).

#### New programmes

In scaling up our work in agriculture in line with our Feed Africa strategy, we approved a range of projects last year. Our strong focus is on raising the productivity and incomes of farmers and all those working in agriculture, with a strong emphasis on accessing assured markets and moving farming up the value chain.

Through a soft commodity finance facility, we are providing working capital to Meridian, a company that sources commodities for export from over 10 000 small-scale farmers in Malawi, Mozambique and Zimbabwe, and that is expanding its work. The commodities include maize, groundnuts, pigeon peas, soya, sesame and beans.

The company has 120 retail shops in rural areas, providing farmers with access to inputs that increase their yields. It integrates farmers into supply chains through 100 rural commodity depots and promotes inter-regional trade across the South African Development Community region.

In Uganda, we are supporting agricultural value chain development to improve yields and incomes from rice, maize and dairy/beef farming. The project will deliver enhanced technologies, infrastructure and market development, and will facilitate trade. A key priority will be to develop more effective regulatory reforms within the supply chain. The activity is expected to benefit 1.8 million people, and will particularly focus on women and young people.

In Cabinda province in Angola, the Bank focuses on selected crops, fisheries and livestock. This project will provide road, power and water infrastructure as well as education and health facilities, increasing yields and incomes for 25 000 smallholders.

In Namibia, we are focusing on improving the value chains for staple cereals and grains, and are promoting mechanisation and certified seed systems to increase production and reduce the level of imports. The project will benefit 294 500 crop farmers and 10 000 livestock farmers.

Through our support to the Africa climate-smart agriculture initiative, we expect to help 10 million farmers in using tools, such as drip irrigation, that will contribute effectively to better food security in a changing climate. Our aim is to cover 500 000 ha of agro-pastoral land with resilient infrastructure and restore 5 million ha of degraded forest.

In our projects, we have increased the use of fertiliser and improved seed varieties, delivered improved irrigation and water management, increased local infrastructure, developed farmer groups, increased the use of improved farming techniques and technologies and supported agribusiness. We have tailored a number of interventions to overcome specific barriers faced by women farmers.

Going forward, we are accelerating and focusing our efforts in line with our High 5 priority *Feed Africa*, with its focus on modernising the agriculture sector and increasing the value gained from our products. To eliminate hunger and nutrition and to feed Africa, farming must increasingly become a business, with smallholders and agribusinesses gaining greater returns. ■







### **Facilitating the free movement of goods**

The trade of goods needs to flow faster and more cost-effectively for the benefit of businesses and consumers. At the Namanga one-stop border post, truck drivers and travelers now need to conduct immigration procedures on only one side of the Kenya-Tanzania border, thus reducing time and cost.

# Chapter 4

## Integrate Africa

Industrialisation in Africa depends on a better integrated continent. Greater integration of African economies provides small-, medium- and large-scale producers and manufacturers access to larger markets and encourages trade and investment. The growth of integrated supply chains across borders adds value to primary commodities, creating more jobs and increasing economic activity.

This chapter shows that at present, however, intra-African trade is just 14.2% of total goods trade, partly because of the high costs of trading across borders. Africa's regional economic communities continue to promote integration, but more progress is needed in areas such as visa liberalisation. This is why the Bank is one of the champions of economic integration. We are a major investor in cross-border infrastructure: in 2017, we built or rehabilitated 414 km of cross-border roads and built one-stop border crossings to facilitate trade.

### Connecting markets and industries through economic integration

Regional economic integration has been a goal of African leaders for many years. Agenda 2063 of the African Union Heads of States and Governments has a vision of integrated African economies. The March 2018 African Union Summit culminated with the establishment of the Continental Free Trade Area, potentially bringing down barriers to trade for 44 African countries. This is paving the way for a single market for goods and services in Africa, with free movement of workers and investments.

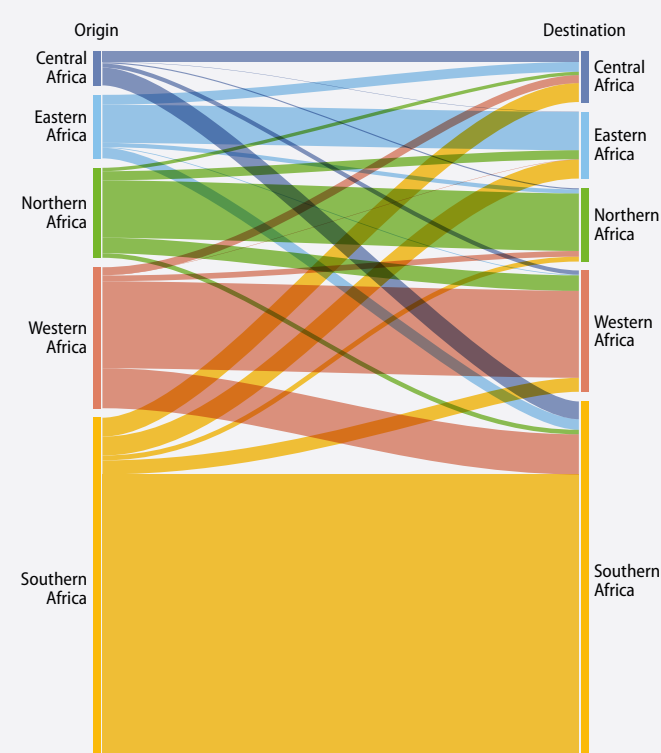
*With a population of 1.2 billion and a GDP of \$3.4 trillion, Africa can gain substantially from economic integration*

With an overall population of 1.2 billion and a combined GDP of \$3.4 trillion, Africa can gain substantially from economic integration, as companies develop new and larger markets, create jobs and contribute to economic growth. Integration is particularly important for addressing widespread poverty in remote areas and small, landlocked countries, which have fewer options but can benefit from the greater economic dynamism created by integrated markets.

At present, **intra-African trade** is just 14.2% of total trade in goods—partly because many African economies continue to depend on exporting one or more unprocessed, low-value commodities to higher-income countries and importing goods from them. With more comprehensive and reliable data, the level of intra-Africa would likely be higher. By comparison, intra-Asia trade accounts for around 50% of

total trade in Asia. In addition, the high **cost of trading across borders** in Africa deters investment and cross-border trade. Despite these challenges, promising examples exist. The auto industry in South Africa sources leather from Zimbabwe and Botswana for car seats, rubber for tires from DRC and upholstery from Lesotho.

Figure 14 Mapping intra-Africa trade flows



Source: WTO

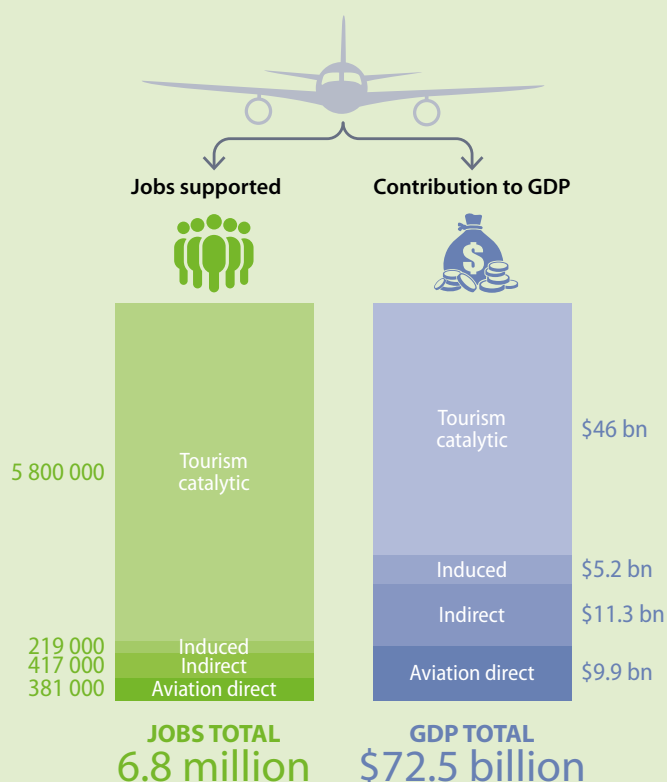
Table 4 Integrate Africa indicators (Level 1 &amp; Level 2)

INDICATOR	ALL AFRICAN COUNTRIES				ADF COUNTRIES	
INTEGRATE AFRICA INDICATORS—PROGRESS IN AFRICA (LEVEL 1)	Baseline 2015	Latest 2017	Target		Baseline 2015	Latest 2017
			2017	2025		
● Intra-African trade as a proportion of total goods trade (%)	14.6	14.2	16	23	22.6	15.3
● Cost of trading across borders (\$)	2384	2340	2297	1950	2675	2603
● Regional economic communities' average score (scale, 0 Low-1 High)	0.47	..	0.50	0.6	..	..
● Deeply and broadly integrated countries (number)	19	..	20	22	15	..
● Countries with liberal visa policies (number)	13	10	21	54	11	9
INTEGRATE AFRICA INDICATORS—AfDB CONTRIBUTIONS (LEVEL 2)	Baseline 2015	Delivered 2017	Target		Baseline 2015	Delivered 2017
			2017	2025		
● Transport–Cross-border roads constructed or rehabilitated (km)	380	414	983	9,830	380	413
● Energy–Cross-border transmission lines constructed or rehabilitated (km)	..	4	360	3,600	..	4

● Achieved 95% or more of the 2017 target   ● Achieved less than 95% of the 2017 target but above baseline value   ● Achieved less than the baseline  
 ● Data are not available to measure progress

### Box 11 The African aviation market generates jobs and economic growth

In early 2018, over 20 African countries, including South Africa, Nigeria and Kenya, launched a single aviation market. The industry has been hampered by protectionism, high taxes and tight regulation. The single aviation market will liberalise fares and encourage a relaxation of some of the stringent regulations on the frequency and capacity of flights. Reduced prices and better services will substantially benefit economic growth and jobs, particularly through enhanced trade and tourism.



Source: ATAG, 2014

Regional trade will become more competitive through better regional infrastructure services in energy, transport and ICT; lower tariff and non-tariff barriers at borders; and greater harmonisation of monetary policies. Access to larger African markets is key to achieving industrialisation: companies will diversify, invest and expand into manufacturing and processed products, creating greater value-added across supply chains as well as decent jobs and higher incomes.

Figure 14 highlights current patterns of intra-Africa trade. It shows that countries that trade within the continent do so mainly with neighbouring countries. In particular, 83% of Southern Africa's exports to African countries are to countries in that region, reflecting the structure of South Africa's economy, its role as the biggest intra-Africa exporter and the high levels of regional infrastructure in Southern Africa. Landlocked Swaziland currently has the highest proportion of intra-African trade relative to its total trade in goods.

Africa's ● **regional economic communities** continue to promote regional integration to achieve social and economic development (we have not updated the related indicator, as no new issue of the Africa Regional Integration Index was released in 2018). The Economic Community of West African States has made progress, particularly on financial and macroeconomic integration. The East African Community has succeeded in increasing cross-border trade and introducing free movement of people—which remains quite challenging in Africa, where just 10 ● **countries have liberal visa policies**. Since the beginning of 2018 Rwanda is allowing visa-free or visa-on-arrival entry to citizens from all African countries, joining countries like Kenya and Uganda. These ambitious regional efforts are paving the way for greater Africa-wide integration (see Box 12). Currently 19 of Africa's 54 countries are categorised as ● **deeply and broadly integrated countries**.

Greater integration and closer cooperation also enable African countries to agree on coherent approaches to common challenges. Regional integration is a political as well as an economic issue.



In 2014–15, African citizens were invited to express their views on economic integration, using the Afrobarometer survey. The results indicated widespread belief in the importance of the regional economic communities and of the African Union.

## The Bank's catalytic role in integrating the continent

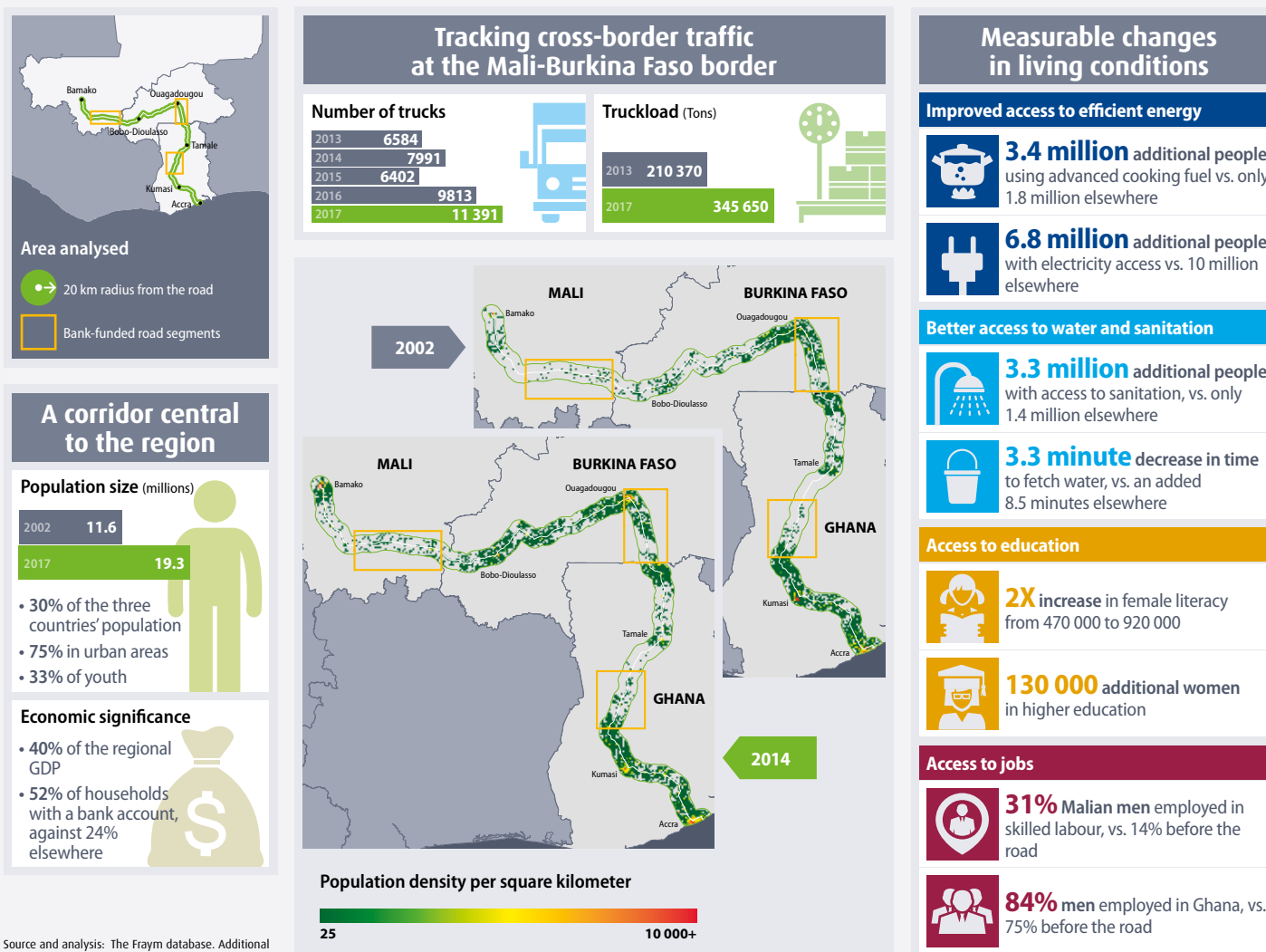
We remain fully committed to supporting the African Union's vision of regional economic integration. We believe that connecting countries, markets and people is essential for facilitating trade and enabling Africa's economic transformation.

Working closely with development partners, we catalyse private sector investment to address Africa's huge regional infrastructure needs. We use a range of financial instruments to share investment risks in large capital projects with private investors.

In 2017, we constructed or rehabilitated 414 km of **cross-border roads**, which compares to 380 km in 2015, but was below our target of 983 km because only few large operations were completed in 2017. We have also invested in one-stop border posts to provide a single window for crossing borders. The combination of new roads and efficient one-stop shops can dramatically improve journeys, saving time and reducing costs. Our investment in West Africa

Figure 15 High-resolution impact mapping of a West Africa regional corridor

The Bank is using high-resolution impact mapping to assess the impact of a 1900 km regional road corridor it supported linking Bamako, Ouagadougou and Accra. Focusing on an unprecedented geographic scale, the map provides details on the road's economic footprint, improvements in human development and increases in cross-border traffic. By comparing data from household surveys and applying geotagged datasets and satellite imagery, the methodology assesses with a high degree of reliability the changes in people's living conditions — for example, additional people with access to energy. Changes in living conditions are drawn from household surveys undertaken in 2003 and 2014, before and after the road was made available and focusing on an area 20 km wide on both sides of the road. It should be noted that not all of these changes are directly attributable to the project, but they reflect broader improvements in living conditions.



Source and analysis: The Fraym database. Additional data provided by the Customs Authority of Mali.





### Box 12 Opening access to a visa in Rwanda provides opportunities for youth

Stanley Okoye, a Nigerian, had always wanted to study business and information technology. Hearing that Rwanda had made significant strides in these areas made him curious about that country. When he checked online and learned that he could receive a visa on arriving, he decided to use part of his savings to visit Rwanda. A year later, he enrolled at the University of Kigali and is now well on his way to achieving the diploma he had longed for. Of his experience, he says, “An open border will create improvements in the life of students who have dreams and goals, to achieve the way they want and where they want.”

covering the Bamako-Burkina Faso-Ghana road corridor continues to deliver impact a few years after its completion (Figure 15).

In East Africa, we delivered a transport corridor between Tanzania and Kenya, which complements our national road project in Tanzania. We established a one-stop border post at the Namanga border. The investment enhances connectivity, shortening waiting times for individuals and traders at the border. It also supports socioeconomic development for local communities, facilitating trade and tourism and serving a new export processing zone and new horticultural farms.



*In 2017, we constructed or rehabilitated 414 km of cross-border roads*

We are providing major infrastructure investment in the multinational Nacala Road Corridor that will link Zambia, Malawi and the Mozambique region to the Nacala port. We completed Phase 2 of the programme in Zambia, which includes 147 km of roads and related construction. Phases 3 and 4, comprising road and railway transport services, are under construction.

In Central Africa, we constructed the Enugu-Bamenda Highway, which is part of the Trans-African Highway from Lagos to Mombasa. Our investment will help unlock regional trade and integration in Central Africa.

Ensuring that these major transport investments will be maintained is important to maximise project benefits in the longer term. In East Africa, we helped establish ring-fenced funds for road maintenance; the revenues to these funds have increased each year because of the higher level of economic activity that resulted from the improved roads.

Investment in regional power pools and energy trade is particularly important for countries that have limited energy resources. Low-cost energy supplies attract private sector investment and promote industrialisation. In 2017, we completed operations that constructed or rehabilitated only 4 km of ● cross-border transmission lines. We have plans to substantially scale up this work.

### A strategic framework to raise regional competitiveness

In February 2018, the Bank approved its strategy framework for achieving the High 5 priority *Integrate Africa*. The Regional Integration Strategic Framework (2018–25) supports the African Union Vision 2063 and the Continental Free Trade Area. We will continue to support initiatives to increase prospects for trading higher-value products across borders, provide access to regional and global markets for landlocked countries, and strengthen regional corridors to promote economic and social development.

Our Strategic Framework focuses on three pillars to increase regional integration and maximise economic and social development. Infrastructural connectivity is the first pillar. We will address areas identified by the regional economic communities, supporting “hard” regional infrastructure in power, transport and ICT and investing in environmental infrastructure to provide resilience against climate impacts. We will give increasing support to “soft” infrastructure: capacity development, policy and regulatory reforms and trade facilitation.



*In February 2018, the Bank approved its strategy framework for achieving the High 5 priority Integrate Africa*

Promoting trade and investment is our second pillar, with increased focus on improving the investment climate to enhance private sector investment. We will support measures to encourage more cost-efficient intra-African trade and promote private sector development. Private sector companies value regional markets that are less fragmented, and they benefit from the economies of scale of integrated regional markets. Smaller companies, including those producing niche products or in the supply chains of larger companies, also benefit—and many of them are owned by women.

Our third pillar is financial integration to strengthen markets and stock exchanges, and encourage remittances, in a bid to channel more capital for development. We will strengthen financial markets so that capital flows better across countries. Integrated financial



### What has worked well

#### Raising funds to make roads last longer

Separate road funds were established to ensure that road maintenance is undertaken in a timely way. In Kenya and Tanzania, the road funds have been well managed and revenues have risen each year. The Bank should continue to promote discrete funds for road maintenance to ensure that roads are well maintained and provide lasting benefits.

#### Increasing the role of the private sector

Regional projects have often focused on the public sector, but increasingly the Bank encourages the public and private sectors to engage with each other to create the conditions for private sector investment. Public sector policy to address barriers to trade and regional investment is critical. The Bank should boost public sector capacity to deliver the reforms needed to attract private sector investment, in conjunction with consulting communities around the border area.



### What has not worked so well

#### Working with stakeholders for a “bottom-up” approach to project design

Regional economic programmes have sometimes been prepared in a “top-down” manner to ensure strategic coherence, especially when local capacity is limited. In future, the Bank must work more closely with the range of stakeholders to ensure that they help set priorities and prepare projects, and that they are directly involved in the development of related policy.

#### Ensuring that trucks carry the right load

Road users should not drive overloaded vehicles on newly constructed roads. In Zambia, 34% of vehicles on a new section of the Nacala transport corridor were overloaded. The Bank needs to provide support so that weighbridges are in place and axle loads are controlled. If there are delays in constructing weighbridges, temporary axle load controls should be put in place.

markets are needed for regional value chains to be competitive and expand, increasing jobs and economic growth.

In addition to using the Bank’s own finance, we will increase our efforts to mobilise private and public sector funds to support regional integration. We are exploring opportunities to support the issuing of bonds, addressing reforms that will maximise investor participation in regional project finance.

We recognise that regional investments involving more than one country are often complex and risky, yet facilitating even modest regional trade and investment adds significantly to economic and social development. We will continue to observe best practice, engaging closely with regional and national institutions and drawing on all available knowledge and evidence.

### Highlights and new programmes

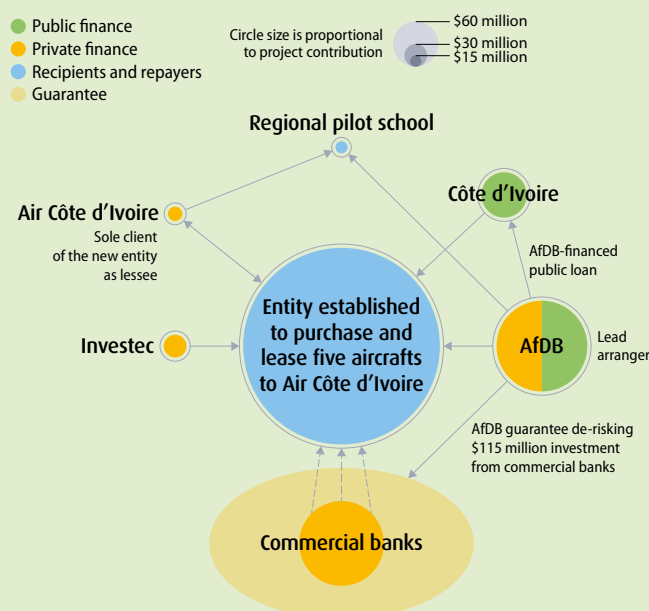
Last year, we approved a \$100 million loan to the Emerging Africa Infrastructure Fund to finance regional infrastructure. The Fund is a public-private partnership that has invested around \$1.2 billion in 70 infrastructure projects in the 49 eligible countries, including fragile states. We have worked with the Fund since its inception, and we support its model of providing green and sustainable infrastructure.

We also design complex financial transactions to crowd in private sector finance using our ADF partial risk guarantee instrument, lowering the costs for clients and reducing the risks faced by private investors. Côte d’Ivoire is accessing blended finance for its air industry and, as the lead arranger of the major investment, we will help deliver greater connectivity across West and Central Africa (Box 14).

### Box 14 Purchasing aircraft for Air Côte d’Ivoire with blended finance

This investment addresses poor connectivity in the West and Central Africa regions by supporting Air Côte d’Ivoire’s fleet extension. The project will procure five new aircraft and support a technical training programme. Countries will benefit significantly because new routes will be opened, and tickets will be cheaper because of lower operating and maintenance costs, including more efficient fuel consumption.

The Bank is supporting the \$296 million investment through its public and private financing windows, using an ADF partial risk guarantee to reduce the risk profile and crowd in finance from commercial lenders. The Bank is also providing an ADF loan for the training programme. The investment’s loan mechanism is a special-purpose vehicle that will buy the aircraft and lease them to Air Côte d’Ivoire. The Bank leveraged its AAA rating to make this innovative financial arrangement possible.



We approved a multinational electricity project to cofinance energy transmission and distribution in Guinea and Mali, providing electrification to all the localities crossed by the 714 km transmission line. We approved funding for power interconnection between Cameroon and Chad, as the two countries seek to integrate their power generation, transmission and distribution infrastructure. One of Central Africa's priority integration investments, this project will deliver 1024 km of transmission lines and provide electricity to 478 locations, benefiting close to 9 million people.

We approved our contribution to the North Backbone project, an interconnection investment enabling power exchange among Nigeria, Niger, Benin and Burkina Faso, and neighbouring countries to which they are connected. The Bank supports the energy sector

of each of the four countries and financed the feasibility studies of this investment. We also mobilised the other four financiers of the project.

Our Regional Integration Strategic Framework (2018–25) sets out how we will scale up our work to *Integrate Africa*. We have invested in regional economic integration and will draw on best practice and knowledge as we expand our work in this area. We will work closely with regional economic communities, national governments, international donor agencies and the private sector to deliver priority regional infrastructure, promote regional trade and investment and increase financial integration. This will deliver jobs and economic growth and will contribute to achieving the Continental Free Trade Area. ■







### **Conducting research for a food-secure Africa**

Climate-smart agriculture and improvements in seeds can increase productivity, reducing Africa's reliance on imports. In the small island state of São Tomé and Príncipe, the Bank strengthened the local expertise on irrigation and laboratory analysis to improve the marketing and processing of food crops.

## Chapter 5

# Improve the quality of life for the people of Africa

**T**he Bank's High 5 priority *Improve the quality of life for African people* is at the core of our work. The Bank believes that people across the continent should have opportunities to work and earn an income. They should be able to develop the skills they need for employment and enterprise. They should also be able to access quality social services, from health and education to water and sanitation, and to live in safe and sustainable environments.

This chapter shows that Africa's economic growth has not yet translated into progress on poverty reduction: 41% of Africans still live below the poverty line, and inequality is worsening. "Skilling up" young Africans will be key for industrial development. Enrolment in education has steadily increased, but vocational training opportunities remain limited and youth unemployment is high. Therefore, the Bank is investing to create more jobs, especially for young people and women. The Bank is also working with national governments to overcome capacity shortages in science and technology; in 2017 we provided 395 000 people with vocational training.

### Equipping Africa's youth with the right skills

Africa's economic growth rates between 2000 and 2012 outperformed those of the rest of the world and have remained robust at 3.3% over the last 5 years, despite weak commodity prices. Yet millions of Africans remain in dire poverty: 41% of Africa's **population lives below the poverty line**, suffering from hunger and malnutrition and facing barriers that prevent them from participating fully in economic, social and political life. **Income inequality** also remains high, with the Gini coefficient at 42 (on a scale of 0 to 100). The reasons for Africa's income inequality are complex; according to the United Nations Development Programme's *Income Inequality Trends in Sub-Saharan Africa*, they stem from a highly dualistic economic structure, in which high-income earners (the minority) work in multinational companies and the extractive sector, while the majority of workers get low-paid jobs in the informal or subsistence sector. Other factors that contribute to persistent income inequality are a high concentration of physical capital, human capital, and land, especially in Eastern and Southern Africa, and the limited distributive capacity of the State.

**41% of Africa's population lives below the poverty line**

As Africa's population grows, the **youth unemployment rate** is 13%—almost twice that of the general population. In addition, many young people are underemployed or in insecure or casual work.

The **unemployment rate for young women** is 15%, and they often face even greater barriers to accessing work opportunities. Among the 13 African countries where young people are closest to fully employed, progress over the past decade has been mixed (see Figure 16). While

**Figure 16 Improving youth employment in the countries closest to full employment: a mixed picture**

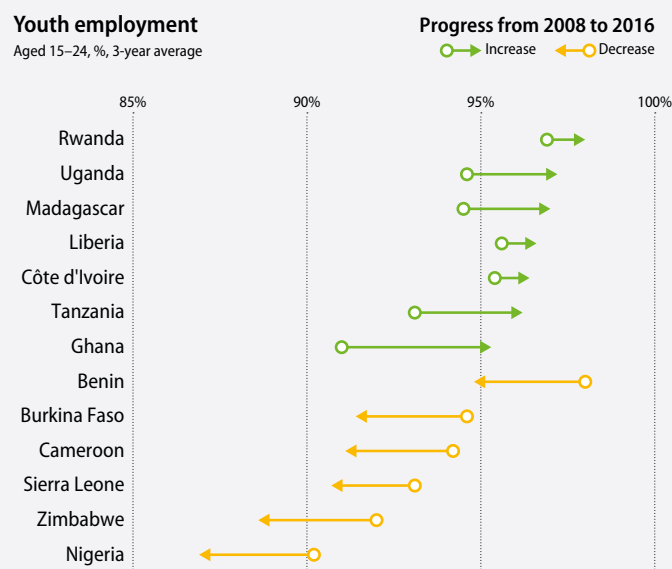


Table 5 Improve the quality of life for the people of Africa indicators (Level 1 &amp; Level 2)

INDICATOR	ALL AFRICAN COUNTRIES				ADF COUNTRIES	
IMPROVE THE QUALITY OF LIFE FOR THE PEOPLE OF AFRICA INDICATORS—PROGRESS IN AFRICA (LEVEL 1)	Baseline 2015	Latest 2017	Target		Baseline 2015	Latest 2017
			2017	2025		
● Population living below the poverty line (%)	42	41	40	32	44.94	43.82
● Income inequality (Gini index)	41	42	40	38	41.29	42.04
● Youth unemployment rate (%)	14	13	13	11	10.3	10.2
● — rate for young women	16.5	15	15.8	13.0	12.2	11.7
● Unemployment rate (%)	8.9	7	8	7	6.3	6.3
● — rate for women	9.8	9.4	9.4	8.0	7.9	7.3
● Enrolment in technical/vocational training (%)	11	11	11.2	12	7.7	11.4
● — of which women	9	9	9	10	6.8	8.9
● Enrolment in education (%)	62	63	63	68	58.8	59.6
● — of which women	59.2	61	60.3	65	55.9	56.3
● Access to safely managed drinking water services (% population)	72	72	74	83	64.0	65.7
● Access to safely managed sanitation facilities (% population)	39	40	40	43	25.3	25.9
IMPROVE THE QUALITY OF LIFE FOR THE PEOPLE OF AFRICA INDICATORS—AFDB CONTRIBUTIONS (LEVEL 2)	Baseline 2015	Delivered 2017	Target		Baseline 2015	Delivered 2017
			2017	2025		
● Direct jobs created <sup>1</sup> (millions)	1	1.5	1.06	10.6	0.9	1.4
● — of which jobs for women	0.6	0.7	0.53	5.3	0.3	0.7
● Indirect and induced jobs created <sup>1</sup> (millions)	..	..	0.82	8.2	..	..
● — of which jobs for women	..	..	0.41	4.1	..	..
● People trained through Bank operations (thousands)	290	395	900	9000	290	387
● — of which women	118.9	198	450	4500	79.6	193
● People benefiting from better access to education (millions)	0.38	0.5	0.38	3.8	0.38	0.4
● — of which females	0.24	0.3	0.19	1.9	0.24	0.2
● People with new or improved access to water and sanitation (millions)	2.03	8.3	3.6	36.2	1.23	7.5
● — of which women	1.01	4.0	1.8	18	0.6	3.6

● Achieved 95% or more of the 2017 target   ● Achieved less than 95% of the 2017 target but above baseline value   ● Achieved less than the baseline  
 ● Data are not available to measure progress

<sup>1</sup> Measurement methodology is under review.

Uganda and Rwanda made great strides, others, like Zimbabwe and Nigeria, face considerable deterioration in youth employment.

*As Africa's population grows, the youth unemployment rate is 13%*

Each year, 10–12 million school leavers now join the labour market. With the right policies and investment, they can be a major resource for foreign and domestic investors and for Africa's economic development. Education, training and access to capital can provide productive opportunities in employment and entrepreneurship and help to drive economic transformation.

However, to achieve this, many more young people must gain the technical and vocational skills needed in the labour market. Overall, 63% of children (and 61% of girls) are currently ● **enrolled in**

**education.** Only 11% of young people are enrolled in ● **technical/vocational training**, and only 9% of ● **young women**. Angola has the highest proportion of young people in technical and vocational training, whilst Lesotho has made the most progress in increasing enrolment for this training and Sierra Leone has achieved the most progress in enrolling young women.

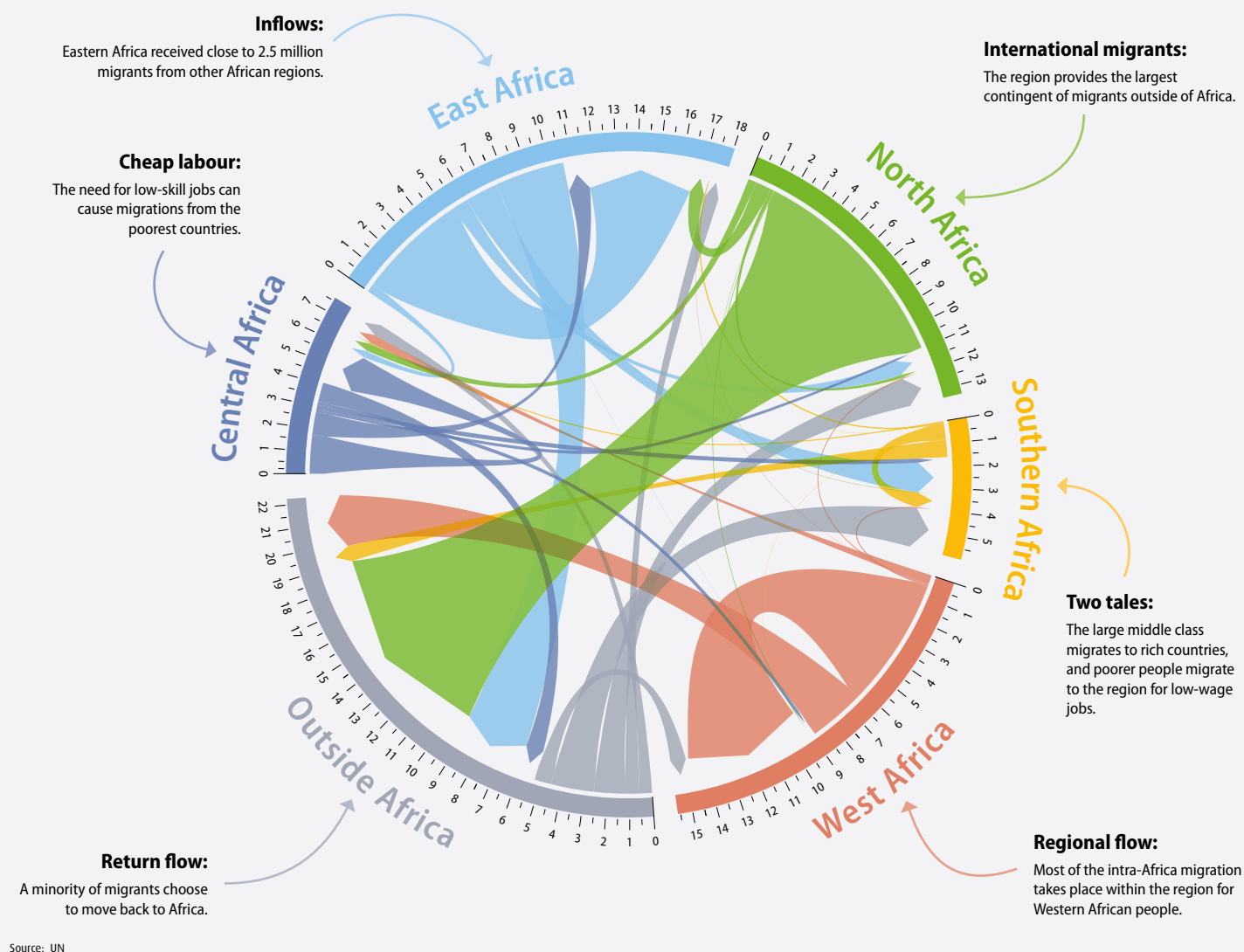
*Education, training and access to capital can provide productive opportunities in employment and entrepreneurship*

Looking ahead, skills in science, technology, engineering and mathematics will be increasingly important to ensure that Africa takes a leading role in the fourth industrial revolution. Young people need to become innovators and gain skills in the new digital and advanced technologies that are critical for industrial development.



**Figure 17 Where the people of Africa migrate to**

This chart demonstrates the relative size of estimated flows between African regions and from Africa to the rest of the world in 2017. The circle's segments represent the origins of migrants and their destinations using an arrow shape. The size of estimated flow is indicated by the width of the link per region and can be read using the tick marks (in millions) on the outside of the circle.



Currently, under one-third of university students study science and technology subjects, and the numbers of women scientists are low.

Since 2000, Africa has seen a shift away from low-productivity agricultural work towards jobs in the service sectors. This reflects the growth of services associated with Africa's rapid urbanisation. There has also been an increase in manufacturing jobs, but it will be necessary to scale up industrialisation to create jobs at a much greater rate.

Access to services is key to improving quality of life. For women, it is also necessary to free up their time from household chores such as collecting water or fuel, and caring duties. Better health,

education, and water and sanitation services are essential to creating a healthy, well-nourished and well-educated population that is equipped to take advantage of work and business opportunities. There is still a long way to go to achieve this ideal, with only 72% of the population having ● **access to safely managed drinking water services** and 40% having ● **access to safely managed sanitation facilities**.

### Migration

The flow of refugees and irregular emigrants from various parts of Africa has led to a humanitarian crisis in the Mediterranean. However, most migration takes place within the continent, particularly to neighbouring African countries, or within the



sub-region (see Figure 17). Where migrants can find work, they contribute to the economy. For example, more than 2 million immigrants in Côte d’Ivoire, a lower-middle-income country, make up 9.6% of the population and contribute 19% of the country’s economic growth.

“*Whilst escaping from conflict is a major cause of migration, many young people migrate to search for work to support themselves and their families*”

Whilst escaping from conflict and fragility is a major cause of migration, many young people migrate to search for work to support themselves and their families, often through remittances. Facilitating

the creation of jobs and enterprises is critical to help people earn an income and provide for their families within their countries.

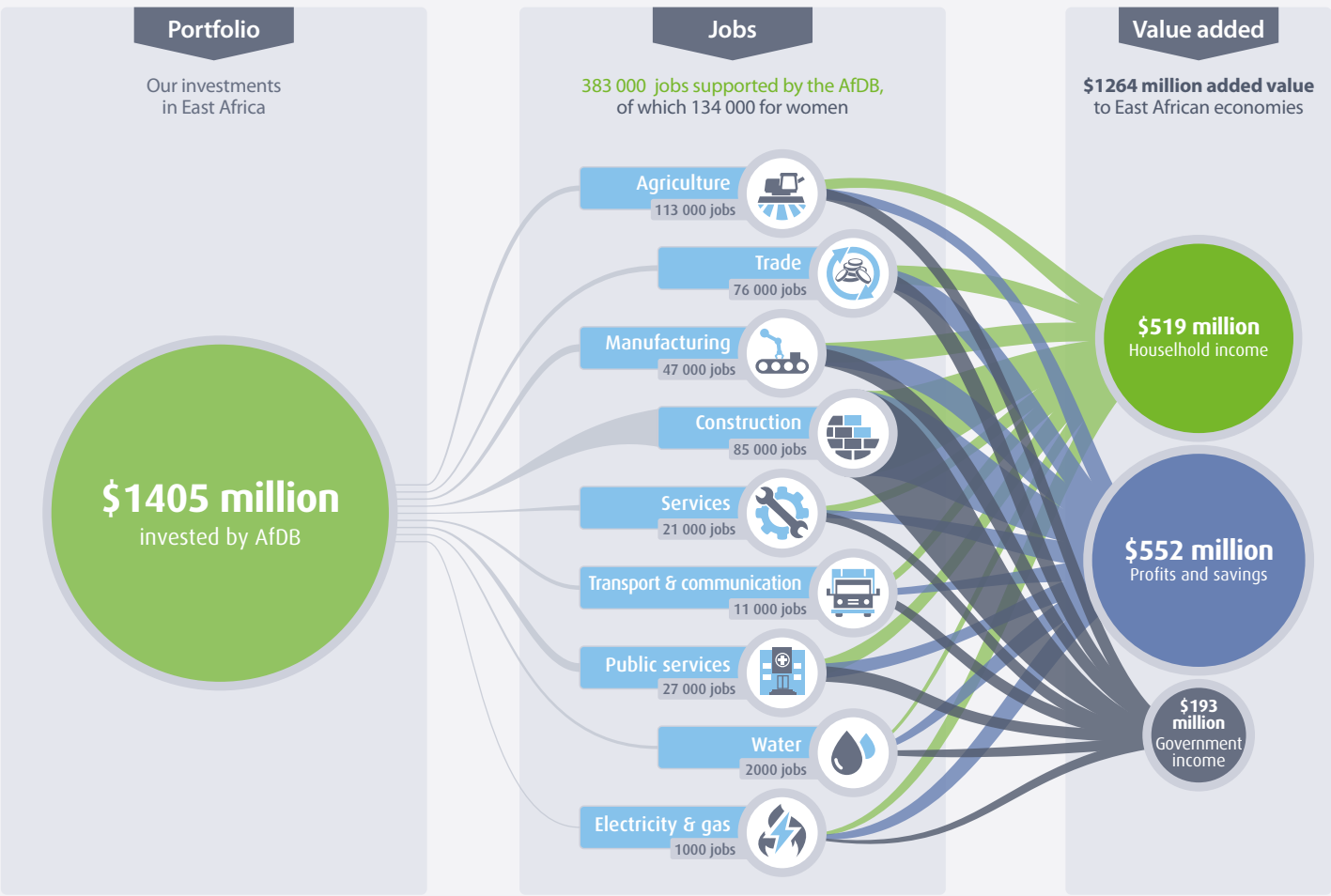
A key solution to irregular emigration is to create work opportunities for safe and regular intra-Africa migration. Large cities across the continent already attract young people in search of opportunities. Job creation in these cities and greater focus on skills development for employment and entrepreneurship offer the best long-term strategy for addressing irregular migration.

**The Bank’s contribution to changing people’s lives**

The Bank’s portfolio of projects helps African economies promote economic and social development. Many of our projects create new employment opportunities. In 2017, we exceeded our targets, creating 1.5 million ● **direct jobs**, of which 0.7 million were for

Figure 18 **Bank investments are creating jobs and adding value across East African economies**

**Measuring our social and economic impact:** To better track our development impact, the Bank is introducing the Development Impact Approach — an innovative approach to measure how the resources we invest flow through economies, leading to economic growth and the creation of jobs. Our first pilot was our investments of \$1.4 billion in East Africa covering operations closed between 2013 and 2015. The figure shows the ripple effect through the East African economies on households, businesses and government taxes.



● **women.** We are revising our measurement approach to better assess our contribution to supporting jobs.



*To assess our wider development impact, we are piloting a Development Impact Approach on our East Africa portfolio*

New jobs are also ● **created indirectly or induced** from our operations. To assess our wider development impact, we are piloting a Development Impact Approach on our East Africa portfolio (Figure 18). Early results show that our projects deliver wider economic benefits through indirect mechanisms such as creating and strengthening supply chains and boosting demand. The pilot showed that 39 of our investments in East Africa contributed to the creation of 383 000 jobs and added \$1.2 billion to East African economies.

In 2017, our projects resulted in half a million ● **people benefitting from better access to education**, of which 300 000 were ● **women**. We also provided support to technical and vocational training across Africa: 395 000 people were ● **trained through Bank operations**. These figures were below our targets and, in line with our strategy, we are scaling up our efforts to equip young people for work and enterprise.

In Lesotho, to enhance the quality of education and training, we trained secondary teachers and technical and vocational training instructors. Trainees in entrepreneurial and technical training acted as role models in the community and inspired more young people to join the training programme. In Rwanda, we helped entrepreneurs create businesses (Box 15).

In Nigeria, we supported skills training and vocational education. We improved the curricula, provided training to trainers in different trades and upgraded the training centres in the cities of Uyo, Ikare

### Box 15 Equipping young people for work and enterprise in Rwanda

The Bank provided support to many young people in Rwanda, training and preparing them for work, including providing training on how to start up their own business. Phase III of the Skills, Employability and Entrepreneurship Programme helped implement the Government's policy to train young people and create jobs for them, to promote economic growth and reduce poverty. The programme focused actively on training and work placements for young women, recognising that in Africa women are twice as likely to start a business as they are elsewhere.

A public awareness campaign about the importance of technical and vocational education and training attracted many young people who were interested in starting businesses. The percentage of secondary school leavers who enrolled for training rose from 42% to 56% in 2017, with the share of young women increasing from 42% to 46%. The number of graduates was 116 000, exceeding the target by over one-fifth.

Key to this success were workplace learning policies that encouraged industry to take on trainees, which resulted in 13 600 enterprises hosting trainees and 17 200 business start-ups. Besides receiving training for such low-skill sectors as retail, hotels, and restaurants, young people were linked to higher-productivity sectors, such as manufacturing, tradable services and agribusiness.

and Yaba, among others. In Zimbabwe, our project included a focus on building young people's capacity in 42 vocational training centres: thousands of young people improved their technical and entrepreneurial skills.

We addressed the limited science and technology capacity in higher education in sub-Saharan Africa by funding the Network of African Institutions of Science and Technology. Our support focused on the Economic Community of West African States region and helped improve research and the quality of science and technology education and training.



### Box 16 Better sanitation and flood protection for the urban poor in Yaoundé

The Bank's support to the water and sanitation sector contributed to improving Cameroon's basic social indicators. A flagship programme, the Bank's Yaoundé Sanitation Project, has improved the quality of life of people living near a watercourse by reducing the number of floods in Yaoundé from 15 in 2006 to 3 in 2011. This halved the prevalence of water-borne diseases, malaria and typhoid fever. This project also helped to build the resilience of beneficiaries, including within women's groups. A second phase is under way, constructing an additional 17.5 km of drainage channels to make sustainable sanitation improvements in the capital city.

"When it rained and our children were at school, we were afraid that the rising water level would prevent them from returning home. Now, our neighbourhood is secure. Rainwater passes but is drained into the canal and not into our streets. We can even move around during the rain, whereas before we were blocked." Mrs. Nathalie Kenmogne, President of the Association of African Women for Research and Development



What has worked well

**Using a sectorwide approach to deliver projects**

Sectorwide approaches (SWAPs) in the water and sanitation sector lead to timely delivery of activities and outputs and achieve development impact. In Tanzania, a SWAP resulted in finance for the sector from Government and international development partners, and it reduced the parallel costs of project design and monitoring. The Bank is considering using SWAPs in future water and sanitation programmes.

**Aligning the project to country priorities**

A project that is aligned to the government’s plan delivers results. In Lesotho, the Bank’s support for the strategic priorities to improve access to good-quality and relevant education and training at all levels (including technical and vocational education and training) led to effective project implementation. The Bank should seek to align its support to the client’s priorities.

We also have a portfolio of projects designed to improve access to services. We financed water and sanitation schemes in both rural and urban centres. Overall, because we completed a large number of well-performing operations in this sector in 2017, we exceeded our targets, providing 8.3 million ● **people with new or improved access to water and sanitation.**

In Burkina Faso, we provided four rural regions with access to drinking water supplies and sanitation services. In rural Mozambique, we delivered 646 new water points and 99 206 latrines. In Senegal, we built or rehabilitated 93 water holes, providing for the water and sanitation needs of about 800 000 people, and in Tanzania, we supplied 7.1 million beneficiaries with access to water.

We ensure that awareness-raising on hygiene is factored into our projects. In Kenya, we increased water supply and sanitation services to small towns, reducing the incidence of water-borne diseases by 50% and the maternal mortality rate by 47%. In Mozambique, we provided water supply and sanitation services to provincial towns, including schools and health centres.

We also supported a health project in Benin to strengthen the country’s health systems and promote mother and child services. This involved insurance schemes covering 44 000 people, a comprehensive training programme on maternal and child health, the provision of insecticide-treated bed nets and training on good hygiene and sanitation practices. Our projects in cities have a transformational effect, as in Yaoundé (Box 16).

**Boosting entrepreneurship and employment with new initiatives**

**Recent initiatives and projects to support Jobs for Youth in Africa**

Under the Bank’s Jobs for Youth in Africa strategy, we have ambitious plans to scale up job creation and enterprise. Besides



What has not worked so well

**Achieving impact by working with municipalities**

Negligible support from municipalities has delayed decisions and thus reduced project impact. In the Republic of Congo, the beneficiary city councils would have found more timely solutions to problems—for example, the need to develop access roads to sludge treatment plants—and helped project implementation. The Bank should ensure that project implementation units work directly with city councils in such projects.

**Providing sustained support to small businesses**

New small businesses need sustained technical support if they are to survive and grow. Under the Rwanda Skills, Employability and Entrepreneurship Programme to support small businesses, providing start-up capital and tools was not enough. The Bank should ensure continued technical back-up to small businesses under this programme and monitor their survival and growth, including the number of jobs created.

funding major new programmes to implement the strategy, we are also targeting job creation throughout our portfolio.



*We are targeting job creation throughout our portfolio*

Last year, we approved the Youth Entrepreneurship and Innovation Multi-Donor Trust Fund to catalyse funds for our Jobs for Youth in Africa strategy. The Fund will support a Youth Innovation Lab, promote business development and promote a culture of entrepreneurship across the continent. We also approved a skills and business development programme in Rwanda and a technical and technological skills-building project in Tunisia.

Working with the Rockefeller Foundation, Microsoft and Facebook, we are promoting technology and innovation through the launch of 20 Digital Innovation Centres of Excellence in Nigeria, Rwanda, Kenya, Côte d’Ivoire and Senegal. The aim is to establish 120 centres of innovation by 2025 for the next generation of tech-enabled youth.

In addition, the Bank organised and commissioned papers for the Third Africa Science, Technology and Innovation Forum, which focused on private sector competitiveness and economic transformation in Africa. We will release a publication on Youth Employment for Industrialisation, prepared jointly with the United Nations.

**Social sector initiatives and projects**

We continue to support initiatives and projects to achieve better nutrition and improve the quality of social services. On nutrition, we seek to build resilience related to food and nutrition security in the Sahel, using innovative approaches to nutrition interventions such as mother-to-mother groups and home gardens. We also published

the *Synthesis of Evidence of Multi-Sectoral Approaches for Improved Nutrition*, to highlight the interventions that researchers and practitioners agree are most effective in reducing malnutrition.

In regard to health services, we worked with others to publish a Framework for Action for Advancing Universal Health Care in Africa, and we also undertook health care needs assessments. Drawing together findings on how climate change affects health and what the implications are for sub-Saharan African policies and regulations, we also prepared separate analysis based on case studies in Djibouti, Malawi, Nigeria and Rwanda.

We conducted a feasibility study for a new African Education Fund to raise the quality of education and the ability to innovate across the continent. The Bank approved a project to improve the

quality of education and training in Namibia, and another one to strengthen the teaching of science and technology in Tunisia.

In the water and sanitation sector, we approved projects to invest in the Bamako sanitation sector in Mali, the development of the Abu Rawash wastewater treatment plant in Egypt and a sanitation and livelihoods improvement project in Greater Accra.

We are scaling up our support to equip young Africans for the job market and create opportunities for jobs and enterprise. Our Jobs for Youth in Africa strategy is our framework for helping African countries provide practical, high-impact solutions through education and training and job creation. Enabling millions of young people to find jobs will fuel the economic transformation Africa needs, promoting sustained economic growth and reducing poverty. ■





## Making African cities more productive, green and livable

Cities across the continent are growing rapidly, without offering the right connections for businesses and workers to thrive. In Dar es Salaam, the Bank is supporting the expansion of the rapid bus transit system network to allow commuters to reach their workplaces faster and reduce transit costs.



## Chapter 6

# Cross-cutting and strategic issues

**O**ptimising the development impact from the Bank's High 5 priorities requires concentrated action on cross-cutting and strategic areas. Throughout our portfolio, to ensure sustainable outcomes, we focus on governance and institution building, mitigating fragility, adapting to climate change and striving to ensure gender equality.

This chapter puts the Bank's work in the context of Africa's cross-cutting challenges. Overall, Africa has achieved progress on governance, although some countries still face serious governance challenges. The Bank remains involved in fragile situations, adapting our programmes and instruments to promote development outcomes. And many of our projects are designed to increase Africans' resilience to the effects of climate change and to help women overcome the barriers they face to contributing fully to Africa's economy.

### Anchoring the High 5s in an inclusive and sustainable environment

#### Economic growth on the continent

Following years of high growth, Africa is undergoing major changes. Rapid urbanisation is bringing increased demand for goods and services, and increased trade and investment. Africa's economy is shifting towards the service sector and light manufacturing, and its demographics are favourable. The challenge is now to attract a significant boost in investment to accelerate progress towards meeting the Sustainable Development Goals.

Over the last year, Africa's economic indicators have become more mixed, partly reflecting the subdued global economy. Average **real gross domestic product (GDP) growth** slowed to 2.2% in 2016 (latest data available), affected by the decline in commodity prices, while the growth rate for low-income countries held up at 4.5%. Meanwhile, **GDP per capita** (at constant 2010 \$) increased marginally for Africa from \$1,941 in 2015 to \$1,966 and for sub-Saharan Africa from \$791 to \$850. Thus growth across the continent was somewhat weaker than expected, in part because of weak investment and declining productivity growth.

#### The growth of African debt

Following the global financial downturn in 2008, African countries turned to private inflows to finance social and infrastructural development. At that point, the cost of commercial debt was very low and the availability of grants and concessionary loans from traditional donors had tightened. Private debt also could involve fewer conditions than traditional development finance. Further increases in private sector debt took place when the oil-exporting countries sought to ameliorate the impact of a fall in oil prices.

The result is that governments of major sub-Saharan African nations are more indebted than at any point since 2005, when public debts were written off under the Heavily Indebted Poor Countries initiative. The median level of debt in sub-Saharan African economies has risen from 34% in 2013 to 48% at the close of 2017 (see Figure 19).



*Following the global financial downturn in 2008, African countries turned to private inflows to finance social and infrastructural development*

Ghana, which in 2007 was one of the first African countries to raise international capital, has seen its debt rise to 73% of GDP. Several countries are now implementing IMF programmes, undertaking fiscal and structural reforms to tackle constraints to economic growth and manage their debts.

Although debt-to-GDP ratios have increased, some countries are managing their debt level effectively. It should also be noted that economic fundamentals have improved in African countries, allowing higher capacity to borrow. This situation calls for a need to engage in policy dialogue to sensitise countries that debt should be used primarily to finance productive investments.

In this context, the Bank selects investments that will achieve the greatest economic and social impact. Our Ten-Year Strategy

Table 6 Cross-cutting and strategic areas indicators (Level 1 &amp; Level 2)

INDICATOR	ALL AFRICAN COUNTRIES				ADF COUNTRIES	
CROSS-CUTTING STRATEGIC AREAS INDICATORS—PROGRESS IN AFRICA (LEVEL 1)	Baseline 2015	Latest 2017	Target		Baseline 2015	Latest 2017
			2017	2025		
● Real gross domestic product (GDP) growth (%)	3.6	2.2	3.7	4.2	5.1	4.5
● GDP per capita (constant 2010 US\$)	1941	1966	2085	2660	791	850
● Mo Ibrahim Index of African Governance (scale, 0 Low – 100 High)	50	51	50	52	46.7	47.9
● Tax and non-tax fiscal revenues (percentage of GDP)	16.1	16.4	16.5	18.0	13.1	14.3
● Gender Inequality Index (0 Low – 1 High)	0.53	0.52	0.5	0.4	0.6	0.6
● Production efficiency (kg CO <sub>2</sub> emissions per constant 2010 US\$ of GDP)	0.55	0.51	0.46	0.12	0.28	0.28
● Resilience to water shocks (index, from 0 to upwards – Lower resilience)	3.5	4.0	3.62	4.10	2.21	2.28
● Number of refugees and internally displaced people (million)	17.5	18.5	14.0	Towards 0	16.1	15.7
CROSS-CUTTING STRATEGIC AREAS INDICATORS—AfDB CONTRIBUTIONS (LEVEL 2)	Baseline 2015	Delivered 2017	Target		Baseline 2015	Delivered 2017
			2017	2025		
● Countries with improved quality of budgetary and financial management	6	3	3	38	5	2
● Countries with improved transparency, accountability in public sector	5	3	1	6	4	3
● Countries with improved procurement systems	2	2	3	36	1	1
● Countries with improved competitive environment	3	1	1	15	2	1

● Achieved 95% or more of the 2017 target ● Achieved less than 95% of the 2017 target but above baseline value ● Achieved less than the baseline  
 ● Data are not available to measure progress

(2013–22) is focused on inclusive and sustainable growth, and our High 5 priorities have been agreed with regional member countries. To ensure that our investments are as effective as possible, we take account of the cross-cutting issues that determine sustainability—governance and institution building, fragility, climate change and gender equality.

### Governance and institution strengthening

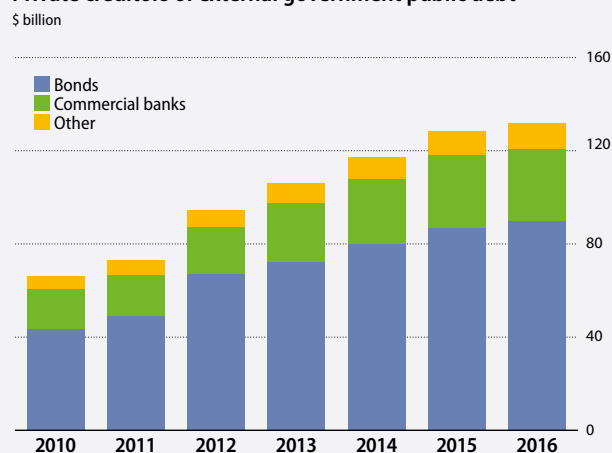
Overall, Africa has achieved continued progress on governance. The ● **Mo Ibrahim Index of African Governance** ranks Africa as 51 on a scale from 0 to 100, an increase from 50 in 2015. Over the past

decade or so, African countries have made considerable progress in promoting democracy, achieving more vibrant civil societies and increasing citizen involvement in public life. Governments have also become more effective. Many countries are delivering on economic governance, strengthening their fiscal frameworks and improving public financial management.

Yet there is considerable variation in governance across the continent. Over the past five years, the Mo Ibrahim index has marked progress on governance in 34 of the 54 countries, while 20 countries have gone backwards. The Bank's own Country Policy

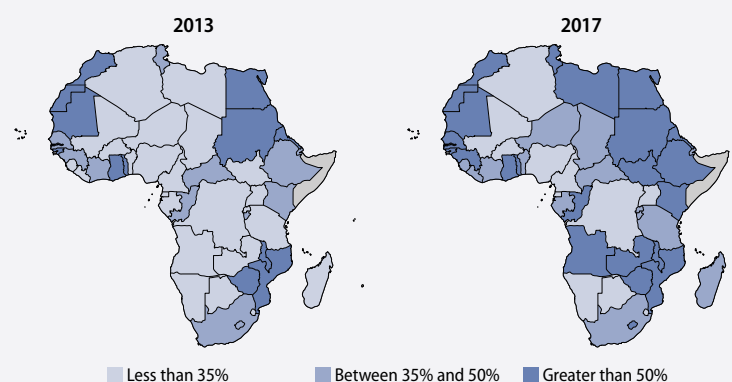
Figure 19 Public debt is rising across the continent, with higher borrowings from the private sector

#### Private creditors of external government public debt



Source: IMF, World Bank

#### Total public debt as percentage of GDP



and Institutional Assessment (CPIA) sub-index on governance has registered only marginal improvement over the past decade. One key concern is corruption, as the Corruption Perception Index points to slow progress. Accountability, transparency and the rule of law are essential to reduce corruption and ensure that greater economic activity delivers benefits to citizens.

### *Overall, Africa has achieved continued progress on governance*

Countries that have achieved significant governance improvements include Côte d'Ivoire, Kenya, Liberia, Morocco, Rwanda, Togo and Zimbabwe. The index shows Mauritius to be the top-performing country. Meanwhile, countries affected by conflict and prolonged insecurity tend to have serious governance problems—for example, Burundi, Central African Republic, Libya, Somalia, Sudan and South Sudan. Yet between 2015 and 2017, following the end of the civil war, the Central African Republic has delivered improvements and made the most progress.

To diversify their economies, African governments need to demonstrate active leadership and oversight (see Box 18). They are already doing better in developing, resourcing and delivering a concerted set of policies to improve the business climate and attract investment, as previous chapters of this ADER have noted. To move forward, they need strong implementing and regulating institutions that are underpinned by greater accountability, transparency and the rule of law.

### *Our programmes strengthened the public sector's capacity to encourage private sector development*

During the period under review, the Bank strengthened public financial management as part of our budget support operations. For example, in Gambia, we built staff capacity, delivering a comprehensive training programme and improving accountability. In Djibouti, we introduced an integrated financial management system in six ministries and a management system to coordinate aid. In Mozambique, the Bank helped simplify licensing procedures, reducing the costs and time for setting up businesses. Overall, we supported three **● countries that improved the quality of budgetary and financial management**, meeting our target, and three **● countries that improved transparency and accountability in the public sector**, exceeding our target.

Our programmes strengthened the public sector's capacity to encourage private sector development. We met our target to support one **● country in improving its competitive environment**. We

#### Box 18 **Putting results first for better governance in Africa**



The Bank has been a key advocate in Africa for managing for development results. We supported the African Community of Practice (AfCoP), which trained about 10 000 people in managing for results, and shared tools and know-how through online discussions. The focus was on leadership,

monitoring and evaluation, planning, budget and accountability. The trainees—civil servants, parliamentarians and civil society workers—are part of the continent's change-makers, equipped with knowledge about institutional change and better results. Increasingly, governments are using performance indicators to take decisions and monitor the impact of their policies, whilst citizens have better access to data and can hold governments to account for tangible results.

The AfCoP established two regional communities of practice, and as a result the West African Economic and Monetary Union and the Common Market for Eastern and Southern Africa (COMESA) took early actions to encourage their member countries to promote better results. This supported regional integration.

Saturnin Kite Nduwa, the Division Chief of the Budget Directorate in the Democratic Republic of Congo's Planning Ministry, has been active in using results tools. He said, "Through the AfCoP, I became more persuasive in convincing my management to apply managing for development results concepts. Today I use these tools when preparing the capital expenditures of the DRC budget." He added that DRC now works in a better way with COMESA and has improved its relationships with COMESA member countries.

created a new legal framework for investment promotion in Algeria and prepared a programme to establish industrial parks and expand renewable energy generation. In addition, we built capacity for managing public-private partnerships (PPPs), as in Burundi, where we developed and disseminated a PPP framework law.

We supported two **● countries that improved their procurement systems**. For example, in the Seychelles, we improved the business climate, particularly access to credit and the ease of paying taxes, and we developed a PPP institutional framework, increasing procurement transparency.

#### **Domestic resource mobilisation**

Raising tax revenue, a key challenge for African economies, is integral to meeting both recurrent and capital spending needs.



Countries have made significant efforts to strengthen their tax policy and administration. Overall **tax and non-tax fiscal revenues** have improved, reaching on average 16.4% of GDP compared to 16.1% in 2015; for low-income countries, the revenues increased from 13.1% to 14.3% of GDP.



*Countries have made significant efforts to strengthen their tax policy and administration*

Despite a strong push to increase fiscal revenues, they still fall short of Africa's financing needs and remain on average lower than the tax-to-GDP ratios elsewhere—for example, 22.8% in Latin America and the Caribbean and 34.3% in OECD countries. As Figure 20 shows, there is considerable variation across Africa: in 2015 Tunisia's tax revenues were 30.3% of GDP, whilst the Democratic Republic of Congo reached 10.8% of GDP.

The situation is more acute in resource-rich countries because of losses from illicit financial flows in the extractive sector, driven largely by companies' tax avoidance and evasion. An AU-UNECA High Level Panel found that Africa loses at least \$50 billion each year in illicit flows. To enhance countries' ability to increase

resource mobilisation, the Bank is helping to build capacity for good governance in the natural resources sector.

Whilst effective aid is crucial for low-income and fragile economies, a strong push on mobilising Africa's own fiscal resources will reduce aid dependence and lead to self-financed exit from poverty. Increased domestic mobilisation provides a sound basis for economic growth, enabling African economies to manage their increasing levels of commercial debt. To this end, the Bank supported Togo in establishing the tax authority as a semi-autonomous entity separate from the Ministry of Finance.

### Transitioning out of fragility

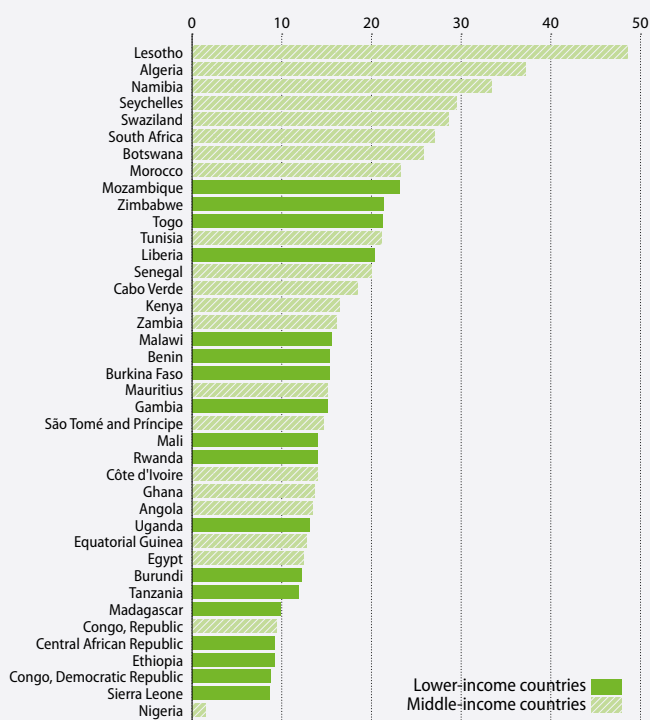
More than one-third of African countries are affected by fragility and conflict. The political and economic drivers of fragility are complex, and are often linked to weak institutions. Conflict spills over borders, creating regional fragility traps, as in the Horn of Africa and the Sahel. One result of such conflict, combined with food insecurity, is the massive movement of people. Last year, 18.5 million **people were refugees or internally displaced**, an increase from 17.5 million in 2015. That number has soared in recent years, partly because of ongoing crises in the Central African Republic, Nigeria and South Sudan, and partly as a result of a new conflict in Burundi.

Recovering from fragility and creating legitimate and resilient institutions to resolve conflict and prevent fragility is a slow process, and it must be accompanied by efforts to create more income-earning opportunities, and by social protection to address economic and social vulnerability.

**Figure 20 Lower-income countries need to increase domestic resource mobilisation**

#### Tax revenues as a % of GDP

2014–2016 average



Source: World Bank



*We prepare resilience and fragility assessments based on country and regional knowledge*

The Bank's focus in fragile situations is to build resilience at local, national and regional levels. We seek to stay involved in these complex and dynamic environments, even in deteriorating situations, and adapt our programmes and financial instruments to promote development outcomes. We prepare resilience and fragility assessments based on country and regional knowledge, and we use a fragility lens to identify risks and opportunities. To date, we have designed over 70 projects using this assessment tool.

In addition, we seek to develop and share knowledge about effective interventions in fragile and conflict situations. In early 2017 we launched an annual event called the Africa Resilience Forum to examine fragility in the continent and determine what can be done to address it. Through the Forum, we identified innovative initiatives and partnerships, and shared knowledge and evidence about what works.

Many of Africa's poorest and most vulnerable groups live in fragile situations, with their difficulties often exacerbated by



### What has worked well

#### Choosing achievable triggers for timely programme implementation

The disbursement triggers for the budget support programme in Rwanda were realistic and achievable. This enabled the programme to deliver its results in a timely way, rather than being delayed until pre-conditions were implemented. The Bank will conduct the right assessment to define the disbursement triggers it uses.

#### Engaging the private sector in the absence of functioning institutions

Providing quasi-budget support to the private sector can sustain lives in fragile situations such as Somalia and Sudan. In the absence of state provision, Somali businessmen used their networks to provide services and infrastructure. The Bank will place the importance of supporting the private sector at the core of its approach to building resilience in fragile situations.

climate impacts, and they are hard to reach. They do not benefit from development efforts and are at risk of being left behind. To address the serious problems of these excluded communities, the Bank has announced a programme to provide High 5 priorities and build resilience – the “10 000 communities in 1000 days” initiative. This flagship programme will be based on the principles that proven, effective and affordable solutions exist, and the private sector, using its capital, expertise, technology and imagination, is best placed to deliver them, working in conjunction with local organisations.

#### Adapting to climate change

Climate change impacts are already affecting hundreds of millions of Africans. Even small changes in local climates can have a devastating effect on those who are already food-insecure, trapping them in poverty, hunger and malnutrition. Climate change holds back efforts to increase agricultural productivity and exacerbates extreme weather conditions such as droughts and floods that damage rural and urban communities and their productive capacity. In fact, four out of the five world's most vulnerable countries are in Africa. As more and more Africans face water stress, adaptation strategies are needed to increase their

- **resilience to water shocks.**



*Last year, the Bank was accredited to draw down climate finance from the Green Climate Fund*

Accessing global climate funding and investing in climate resilience and adaptation are critically important to prevent the rollback of Africa's hard-won progress. Last year, the Bank was accredited to draw down climate finance from the Green Climate Fund. We will use the Fund to cofinance climate mitigation and adaptation projects. We are also positioning the Bank to play a critical role in the new cycle of the Global Environment Facility.



### What has not worked so well

#### Focusing on only key actionable areas of reforms

Policy reforms were agreed with the Government of Seychelles as the basis for our support. During the implementation stage, it became apparent that too many reforms were being implemented under this programme. We worked with the country to refocus efforts in a few areas at a time, which led to improvements in public financial management and the business climate.

#### Identifying indicators that can be measured in a timely way

To monitor a budget support programme, the indicators in the logical framework must be measurable within the programme timeframe. In Algeria, some indicators measured outcomes that were beyond the control of the Bank and the country. The Bank should select only indicators that can be verified in a timely way.

We are establishing in our offices the African Nationally Determined Contributions Hub, which was launched during the 23<sup>rd</sup> climate change Conference of the Parties meetings. The Hub will provide technical support and financial resources to regional member countries to help them keep within their climate emission targets. Although Africa accounts for less than 4% of the world's greenhouse gas emissions, it is already making some efficiency advances in carbon dioxide emissions, as shown by the ● **production efficiency** indicator, rated at 0.51 kg per dollar of GDP.

Last year we launched the Desert-to-Power initiative, which will transform development opportunities for agricultural communities in 11 countries of the Sahel and Sahara region. This major energy initiative will reach 250 million people through on-grid and off-grid energy solutions, whilst also improving climate resilience.

#### Addressing gender equality

In Africa, women perform the majority of agricultural activities, own a third of all firms and, in some countries, make up 7 in 10 employees. They also are central to family welfare and household economies. However, continuing gender inequality in many spheres of African life limits opportunities for women. Women face barriers to accessing land, finance and technology and are prevented from participating fully in Africa's economy and decision-making, to the detriment of their well-being and the continent's development. The ● **gender equality index** is 0.52 on a scale of 0 to 1, representing slow progress towards equality.

The Bank's Gender Strategy 2014–2018 affirmed the Bank's commitment to promoting gender equality across the whole portfolio. Partnering with the UN Economic Commission for Africa, we are producing our second Africa Gender Index to measure progress by country and highlight the policies that are needed to achieve global gender targets.

Our support to African women includes new electricity connections and access to clean cooking solutions, improved

agricultural opportunities, better access to water and sanitation and improved transport services. To bridge the finance gap for women entrepreneurs, we are implementing the continent-wide initiative, the Affirmative Finance Action for Women in Africa (AFAWA). In 2018, with the support of the Bank and other financing institutions, AFAWA will initially focus on selected countries, investing and building capacity. The Bank will also deepen its involvement in the Women Empowerment Finance Initiative hosted at the World Bank.



*Women face barriers to accessing land, finance and technology and are prevented from participating fully in Africa's economy*

We work to increase access to science and digital technology for women and girls, and this year joined the Global Partnership for Gender Equality in the Digital Age (EQUALS). To further promote innovations in agricultural technology that help close the gender

#### **Box 20 Supporting Morocco's industrialisation strategy**

The Bank is supporting Morocco's Industrialisation Acceleration Plan (2014–2020) to promote economic growth and jobs. After a decade of active strategies to promote industrialisation, Morocco has diversified into new industries, including the automotive, aeronautics and electronics industries. The Plan adopts a new approach to accelerate industrialisation, by developing industrial ecosystems and strengthening linkages between industrial leaders and MSMEs.

The Bank's programme is financing measures to improve the business climate and increase competitiveness, to enable trade and expand industrial activity. In particular, the programme supports innovative start-ups and provides guarantee products to enterprises, including those owned and managed by women. The operation is expected to result in establishing a clear and coherent investment attraction scheme, including for start-ups, developing five productive industrial clusters and increasing the number of MSMEs, and particularly women's MSMEs.

gap, we have partnered with African Women in Agricultural Research and Development to launch a new programme called Gender in Agribusiness Investments for Africa (GAIA).

We also took forward our support to the African textile and fashion sectors. We developed a digital market platform to link small and medium enterprises, which are mainly led by women, into the supply chain. We also provided training in business, finance, branding and marketing.

#### **New programmes to build accountable and effective institutions**

In 2017, the Bank prioritised policy-based operations that provide budget support in support of policy reforms, including to support industrial development. We approved a new programme in Morocco to accelerate the country's industrialisation programme, which includes a strong focus on entering or transforming industries such as aeronautics and robotics (Box 20).



*To achieve sustainable results at scale, we need to give close attention to cross-cutting and strategic areas when designing programmes*

We continue to support Rwanda and Ethiopia as they implement their major industrialisation programmes. By diversifying into selected industry clusters, their economies have become linked into global value chains in coffee, horticulture, tourism, textiles and other manufacturing activities.

To achieve sustainable results at scale, we need to give close attention to cross-cutting and strategic areas when designing programmes. In this way, investment in our High 5 priorities will deliver economic transformation and achieve the Sustainable Development Goals. We will continue working to strengthen the resilience of institutions and support gender equality at all levels in society. We will also address profound climate impacts by promoting and facilitating funding for widespread climate adaptation strategies. ■







## Providing access to safe water and sanitation

Over one-quarter of African people still do not have access to drinking water services, and 60 percent lack access to sanitation services—especially in fragile situations. The Bank helped Angola rebuild and expand its water and sanitation network at the end of its civil war.



## Chapter 7

# Improving our development impact and efficiency

**T**he Bank continually seeks to improve its performance. We undertake new measures to maximise our development impact, mobilise more investment resources and deliver development outcomes as efficiently as possible.

This chapter shows that, overall, the Bank is improving its operational effectiveness and its organisational efficiency. In 2017, Bank disbursements reached a record level of \$7.6 billion. As our operations scale up, our Development Business and Delivery Model is driving forward deep internal reforms, designed to enable us to deliver better value for money for our clients and stakeholders.

### Accelerating results through organisational reforms

Under the Bank's Development Business and Delivery Model (DBDM), we have undertaken comprehensive organisational reforms to become more effective in delivering our High 5 priorities. The DBDM introduces changes to the Bank's organisational structure and the roles of departments, and streamlines business processes. The reforms are geared to ensuring that we are better equipped to serve our clients and be accountable to our shareholders.



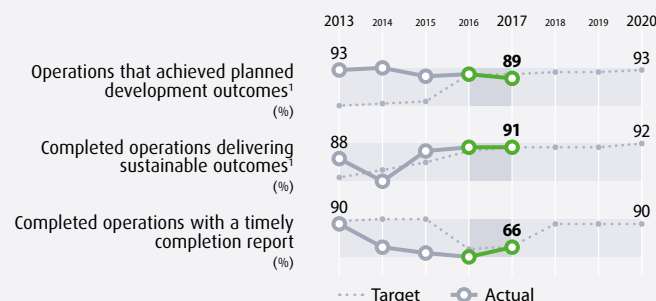
*Under the Bank's Development Business and Delivery Model, we have undertaken comprehensive organisational reforms*

### Driving impact with enhanced accountability

In 2017, the Bank approved projects valued at \$ 7.73 billion. Debt sustainability problems in several member countries and certain project preparation delays reduced the volume of approvals. This contrasted with the previous year's record level of approvals, when we supported economies facing low global commodity prices, in line with the Bank's countercyclical role.

Across our portfolio, we strive to achieve the greatest development impact. The Bank's Project Completion Reports (PCRs) show that 89% of ● **completed operations achieved their planned development**

**Figure 21 The Bank is achieving development impact and improving its measurement approach**



<sup>1</sup> The methodology is being revised to introduce more exacting standards.

**outcomes** against a target of 91%.<sup>1</sup> They also indicate that 91% of our ● **completed operations delivered sustainable outcomes**.

The Bank's independent evaluation office (IDEV) independently rates PCRs, and the disconnect between its independent ratings and those of self-assessments recorded in PCRs gives an indication of operations' teams level of candour and realism in preparing PCRs. While data are unfortunately missing for ● **independently rated PCRs**, previous evaluations of the Bank point to a limited level of realism from self-assessments.

The Bank's Comprehensive Evaluation of Development Results (CEDR) suggested, however, that the Bank should set itself higher standards

<sup>1</sup> The Bank is reviewing its approach for assessing the development impact of its operations in the light of the findings of its Comprehensive Evaluation on Development Results.

Table 7 Is AfDB managing its operations effectively? (Level 3)

INDICATOR	AFDB				ADF	
	Baseline 2015	Latest 2017	Target		Baseline 2015	Latest 2017
			2017	2025		
<b>ACHIEVE DEVELOPMENT IMPACT</b>						
● Operations that achieved planned development outcomes <sup>1</sup> (%)	90	89	91	>95	90	88
● Operations independently rated as satisfactory and above at completion <sup>2</sup> (%)	65	..	..	>80	63	..
● Completed operations delivering sustainable outcomes <sup>1</sup> (%)	90	91	91	>93	90	93
● Completed operations with a timely completion report (%)	60	66	67	>95	64	65
<b>ENHANCE THE QUALITY AND SPEED OF OPERATIONS</b>						
● Quality of Country Strategy Papers (scale, 1–4)	3.0	3.0	3.14	>3.7	3.0	3.0
● Quality of new operations (1–4)	3.3	3.1	3.38	>3.7	3.3	3.1
● Time from concept note to first disbursement (months)	21.9	18.9	20	>11.0	23.9	18.4
● Operations with satisfactory ESS mitigation measures (%)	87	90	89	>95	92	85
● New operations with gender-informed design <sup>3</sup> (%)	75	84	79	>95	84	82
● New operations with climate-informed design (%)	75	70	79	>95	90	70
<b>IMPROVE PORTFOLIO PERFORMANCE</b>						
● Disbursement ratio of ongoing portfolio (%)	21	23	22	24	18	21
● Time for procurement of goods and works <sup>4</sup> (months)	8.5	8.2	8.0	6.0	8.5	8.2
● Procurement contracts using national system (% value)	0	14.3	4	20	0	14.3
● Non-performing operations — Operations at risk (%)	15	11.9	14	8	18	11.4
● Non-performing operations — Operations eligible for cancellation (%)	25	29	22	12	31	28
● Projects facing implementation challenges and delays (%)	29	36	26	15	29	40
● Timely coverage of Country Portfolio Performance Reports (%)	57	46	61	75	65	54
<b>KNOWLEDGE &amp; ADVISORY SERVICES</b>						
● New ESW and related papers (number)	122	252	141	217	110	230

● We have achieved or are within 90% of achieving the 2017 target   ● We have achieved 80%–90% of the 2017 target   ● We have achieved less than 80% of the 2017 target  
 ● Data are not available to measure progress


1 The methodology is being revised to introduce more exacting standards.

2 Indicative baseline data based on the average rating of a sample of 2014–2015 PCRs rated independently.

3 The methodology is being revised with the implementation of the gender marker system.

4 Corrections—The 2017 ADER misstated values for this indicator. The 2015 baseline value is 8.5, not 7.9. The 2016 target value is 8.3, not 7.7. And the traffic light colour is green instead of red.

for assessing the achievement and sustainability of its development objectives, concluding that the Bank delivered development results, but not to its full potential. Over two-thirds of sampled operations were rated moderately satisfactory and above on effectiveness criteria, but only one-third was considered fully satisfactory. Building on these findings, the Bank is reconsidering its approach to assessing the impact of its operations with a view to setting higher standards of performance for its PCRs. It is also working with IDEV to strengthen project design, quality at entry and depth of project supervision.

 *We use evaluation findings to improve the quality and impact of our lending*

To drive our development impact, the Bank Group developed a new sovereign lending instrument. The Results-Based Finance policy

enables the provision of flexible financial and technical support while linking disbursements to the delivery of results and helps countries achieve structural reforms to their economies.

We use evaluation findings to improve the quality and impact of our lending. We track the implementation of agreed evaluation recommendations each quarter, using our Management Action Record System. Our PCRs also identify lessons for improving project design and implementation. Last year, we increased the proportion of ● **completed operations with a timely completion report** to 66%, up from 60% in 2015. For 2018 our target is to reach 90%.

The Bank was ranked among the top three multilateral organisations in an assessment by the Multilateral Organisation Performance Network (MOPAN), an independent network of 18 bilateral donors. MOPAN compares the performance, results and organisational effectiveness of major multilateral development organisations, and it assessed the Bank as a robust and resilient organisation that is fit for purpose.

### Managing operations for development effectiveness

Whilst managing our lending, we are determined to retain and enhance the quality of our work. The ● **quality of Country Strategy Papers** was rated at 3.0, the same as in 2015; this is on a scale of 1–4 that assesses compliance and procedural and financing factors. The ● **quality of new operations** was rated at 3.1, slightly lower than 2015's 3.3.



*Whilst managing our lending, we are determined to retain and enhance the quality of our work*

Reducing delays in preparing projects matters to achieving development effectiveness in a timely way. The ● **time from concept note to first disbursement** was 18.9 months, compared to a target of 20 months. The time from approval to signature and to first disbursement improved for most countries, suggesting that the 2015 Presidential Directive on the design, implementation and cancellation of projects has generated positive momentum for speed and efficiency. This partly explains how our ● **disbursement ratio** reached 23%, exceeding our target of 22%. Overall, important progress has been made, although it is below the expectations set out in the Presidential Directive (see Box 21).



*The time from approval to signature and to first disbursement improved for most countries*

We pay close attention to cross-cutting issues in project design to deliver sustainable outcomes. On gender, we achieved 84% of ● **new operations with gender-informed design**. We also introduced a gender marker system to ensure that measures to address gender inequality are included in project design.



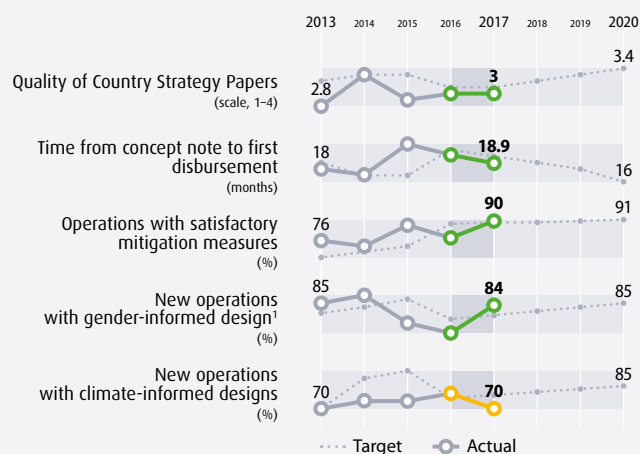
*On environmental issues, 90% of our operations had satisfactory environmental safeguard system mitigation measures*

On environmental issues, 90% of our ● **operations had satisfactory environmental safeguard system mitigation measures**, compared to 87% in 2015. We achieved only 70% of ● **new operations with climate-informed design**, a decline from 2015 and lower than our target. This decline was due to inconsistent application of our climate risk screening and greenhouse gas accounting tools and the lack of climate-informed design in some private sector projects. With an improved Safeguard Tracking System in place and responsibility now focused

in one single department, we should achieve a more consistent approach to climate issues in project design.

Under the Bank's first Climate Change Action Plan (2011–2015), we delivered around \$12 billion of climate investments in renewable energy generation, energy efficiency, sustainable transport and sustainable natural resource management. In addition, many critical infrastructure investments were climate-proofed. Overall, the Plan contributed to Africa's ongoing transition to low-carbon and climate-resilient development.

**Figure 22 The Bank is improving the quality of its projects, while accelerating implementation**



1. The methodology is being revised with the implementation of the gender marker system.

Our second Climate Change Action Plan (2016–2020) builds on current activities and is closely aligned to both our High 5 priorities and the Nationally Determined Contributions plans of member countries. All new projects across the Bank's portfolio will need to indicate whether and how they will address climate mitigation or adaptation.

### Improving portfolio performance

Our new procurement policy is now at full implementation stage, with a larger number of projects using country procurement systems. As a result, we increased our share of ● **procurement contracts using national systems** from zero in 2015 to 14.3% of value. This increase is partly due to the fact that quick-disbursing policy operations accounted for two-thirds of the volume of approved operations in 2017. During the same year, the ● **time for procurement of goods and works** was 8.2 months compared to 8.5 months in 2015.

Our procurement processes are in line with the global development effectiveness agenda. We also put in place a mutual reliance procurement agreement with the European Bank for Reconstruction and Development to increase the procurement efficiency of our cofinanced public sector operations.



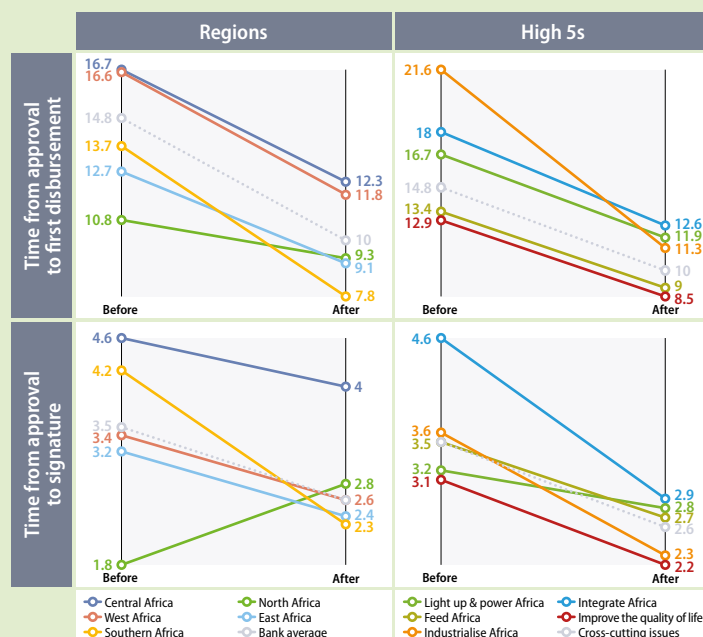
### Box 21 Addressing project start-up delays

The November 2015 release of the Presidential Directive on the design, implementation and cancellation of operations marks a bold effort to reduce project start-up delays. It requires all public sector projects to reach signature within 3 months, and first disbursement within 6 months, after Board approval. Projects failing to meet this target are flagged for special attention and require a waiver to avoid cancellation.

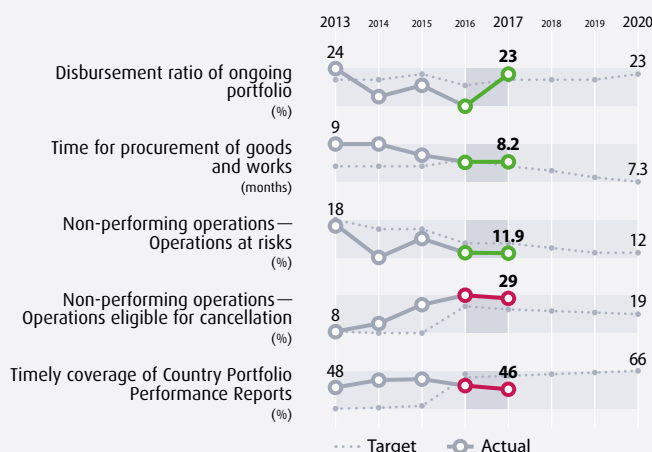
This Directive's goal is to fix persistent slow disbursement: less than 20% of Bank financing is disbursed within the first three years of implementation. The Bank achieves its highest level of early disbursement in the transport sector, owing to the availability of technical studies and of experienced implementation agencies and contractors. Meanwhile, the energy sector faces greater disbursement challenges, in part because of the complexity of the procurement processes.

An implementation review comparing the 22 months before and after the Directive's issuance shows promising results. The Directive has generated a sense of urgency and momentum for reforms both within the Bank and among client countries. Project signature and ratification delays decreased by over 25% from 3.5 months to 2.6 months. Several countries even reached signature in less than 2 months—particularly where the executive branch has the authority to sign loan agreements without parliamentary approval, as long as the loan is within the approved debt ceiling.

Similarly, good progress has been achieved in reducing delays in first disbursements. Two-thirds of operations approved since the Directive was issued have disbursed in less than 10 months—above the 6-month limit, but a 32% improvement as compared to before the Directive. To achieve further progress, the implementation review recommends focusing more resources on project preparation. Making available feasibility studies and procurement packages early in the project life will also reduce the time to first disbursement.



**Figure 23 The Bank faces portfolio challenges, while improving its procurement work**



In 2017, our **operations facing implementation challenges and delays** increased, reaching 36% of our portfolio. This increase reflects the number of operations that fell under the scope of the Presidential Directive described in Box 21, requiring the first

disbursement within 6 months after approval. The full impact and cumulative effect of the policy change was felt in 2017, when the number of loans and grants signed and undisbursed for more than 6 months jumped from 24 in 2016 to 113 the following year. Meanwhile there was a moderate decrease in the share of our **operations eligible for cancellation** to 29% in 2017, from 31% in 2016.



*11.9% of projects were classified as operations at risk, a lower share than in 2015*

While this level of performance still falls short of our own standard, Box 21 demonstrates our progress in reducing start-up delays. Benchmarking analysis on the matter also indicates that our performance is on par with or stronger than that of other multilateral development banks. Management is analysing the underlying challenges and bottlenecks associated with start-up delays with a view to making further progress in meeting our stretch targets. It should also be noted that 11.9% of projects were classified as **operations at risk**, a lower share than in 2015.

Table 8 Is AfDB managing itself efficiently? (Level 4)

INDICATOR	Baseline 2015	Latest 2017	Target			
			2017	2018	2019	2025
MOVE CLOSER TO CLIENTS TO ENHANCE DELIVERY						
● Share of operations staff based in country offices and regional hubs (%)	40	58	49	54	58	85
● Projects managed from country offices (%)	60	76	65	68	70	85
IMPROVE FINANCIAL PERFORMANCE AND MOBILISE RESOURCES						
● Climate-related Bank commitments <sup>1</sup> (%)	15	28	20	32	35	40
● Total Bank income <sup>2</sup> (UA millions)	93.2	258	271	271	271	2710 <sup>3</sup>
● Resources mobilised from public sector entities (UA billion)	3.5	3.4	5.3	5.3	5.3	53 <sup>3</sup>
● Resources mobilised from private sector entities (UA billion)	5.8	2.8	6.4	6.4	6.4	64 <sup>3</sup>
INCREASE VALUE FOR MONEY						
● Administrative costs per UA 1 million disbursed (UA '000)	98.9	70	97	95	94	87
● Work environment cost per seat (UA '000)	3.6	3.2	3	3	3	3
● Cost of preparing a lending project (UA '000)	85.6	89.4	84	83	83	78
● Cost of supporting project implementation (UA '000)	19.7	20.1	19	19	19	18
STAFF ENGAGEMENT, DEVELOPMENT AND PRODUCTIVITY						
● Employee engagement index (%)	73	..	68	75	76	83
● Managerial effectiveness index (%)	48	..	52	54	56	68
● Share of women in professional staff (%)	26.7	28	29	30	31	38
● Share of management staff who are women (%)	29.4	28.8	31	32	33	38
● Net vacancy rate—professional staff (%)	16	28	15	14	13	9
● Time to fill vacancies (days)	223	120	196	183	170	90
● Operations professional staff (%)	67	73	68	68	68	70

● We have achieved or are within 90% of achieving the 2017 target ● We have achieved 80%–90% of the 2017 target ● We have achieved less than 80% of the 2017 target  
 ● Data are not available to measure progress

1 The unit of measure for this indicator has changed from tracking the volume of commitments to measuring the share of climate-related Bank commitments over total commitments. This reflects the targets set in the 2016–2020 Climate Change Action Plan approved by the Board of Directors in 2017. For the purpose of the ADER exercise, the 2020 target of 40% is kept as flat until 2025.

2 Correction—The 2017 ADER misstated the value for the indicator Total Bank income. The 2016 value is 120, not 135.

3 Cumulative for 2016–2025.

Our Special Operations Unit addresses non-performing operations in the private sector. The unit is overseeing a major restructuring of the South African Kalagadi resource project to recover Bank finance and a successful recapitalisation of Shelter Afrique to preserve the Bank's equity stake and ensure loan recovery.

Last year, 46% of our ● **Country Portfolio Performance Reports** were completed on time, below our target of 61%—but this was a period when many country offices did not have country managers. Country managers have now assumed duty in all but two country offices. These annual reports check the health of our country portfolios and will be tracked more carefully to ensure timely delivery.

### Becoming a knowledge Bank

We aim to become a leading analytical voice on economic and statistical research in Africa. Our new Bank department for country economists enables greater coordination and quality assurance of research. Working closely with member countries, we will focus our expertise on policies to achieve the High 5s. Our aims are to generate knowledge to transform economies and create jobs, improve operational quality to increase development effectiveness

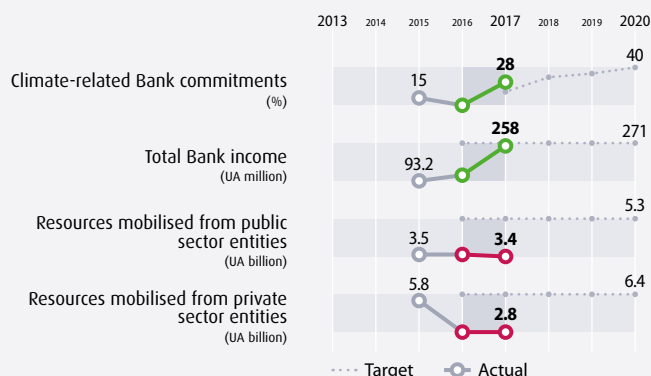
and strengthen national policymaking to build institutions. This knowledge will also inform programme design by both the Bank and the international community.

In 2017, we produced 252 ● **new economic and sector work products**, exceeding our target of 141. Examples include an assessment of Somalia's transport needs and an analysis of how to build small and medium enterprise value chains in Algeria.

### Mobilising resources to maximise value for money

Given the ambitious global development agenda captured in the SDGs, our member countries need more development finance over the coming years. In response, the Bank has raised its level of ambition, focusing on the High 5 priorities to accelerate the SDGs.

Last year, the Bank disbursed a total of \$7.6 billion, the highest amount in its history. This is partly because we disbursed against some of our large policy-based operations in Nigeria, Egypt and Algeria. We are mobilising public and private sector resources to

**Figure 24 Improve financial performance and mobilise resources**

enhance our development impact whilst ensuring value for money for our member countries. Through our DBDM, we are undertaking deep internal reforms to be fully equipped to serve our clients better.

### Catalysing development resources and improving financial performance

Cofinancing with other international development agencies is a high priority for us. Last year, \$4.8 billion (UA 3.4 billion) was **mobilised from the public sector**, compared to our target of \$7.5 billion (UA 5.3 billion). This is in part a reflection of our lower level of lending in 2017 as compared to 2016. We expect to see an increase in this level in

#### Box 22 The Private Sector Facility to alleviate investment risks

The Private Sector Credit Enhancement Facility participates in the credit risk of qualifying private sector operations in ADF countries, thereby helping to release capital held against loans in low-income countries for more lending to the private sector in those countries.

PSF can leverage approximately three times its capital resources, extending the financing capacity of scarce donor resources and creating greater value for money.

With its current financial resources, the facility is building a portfolio of operations, including lines of credit to small and medium enterprise (SME) lenders in Sierra Leone, Burkina Faso and Nigeria. The proceeds of the loans will support investment projects in the manufacturing, agriculture, construction, services and transport sectors. The facility's portfolio also includes trade finance lines with a Mauritanian SME lender and a Nigerian universal bank. Finally, two operations with regional development finance institutions complete the portfolio of approved risk participations, which brings the total portfolio to 33% of the \$1.5 billion target size and the facility's footprint to 25 countries.

The PSF portfolio is balanced across sectors, regions, maturities and risk profile. This portfolio diversification has enabled the PSF to deliver on its mandate to provide headroom relief to the Bank for new financing of investment projects in ADF countries, while continuing to comply with its risk capital framework.

line with our strengthened operations pipeline, which includes large-scale multidonor projects. We formalised a cofinancing agreement with the European Union, signing the European Commission and Bank Group's Pillar Assessed Grant or Delegation Agreement (PAGODA), to support the High 5s and the SDGs. The first grants—15 ADF projects at a value of €434 million—were approved in September 2017.

We also crowd in funding from the private sector, sharing investment risk and using innovative instruments to catalyse resources. In 2017, we achieved only \$4 billion (UA 2.8 billion) in **resources mobilised from the private sector**, compared to \$8.2 billion (UA 5.8 billion) in 2015 and against a target of \$9 billion (UA 6.4 billion). This level of achievement took place during a year of transition when the piloting of private sector operations was moved from the private sector department to sector departments. With expert staff from sector departments now piloting the preparation of private sector operations, we expect an increase in cofinancing and syndication.

Our ADF-funded Private Sector Facility releases additional capital in low-income countries. We use this financial instrument to invest in private sector activities in different sectors across ADF countries, whilst ensuring compliance with the Bank's risk capital framework (see Box 22).

The **total Bank income** increased to \$365 million (UA 258 million), in large part because of higher interest income on increased volumes of loans and investments and the favourable valuation effects of borrowings and derivatives. In addition, the Bank raises private sector finance from global markets at competitive prices. Last year all four rating agencies maintained the Bank's AAA rating with a stable outlook, and this provided the context for the Bank's highest-ever bond issue at \$2.5 billion, with 3-year global benchmark. This was followed by a successful \$2 billion 5-year bond issue.

We are also taking innovative routes to raise more investment finance. As Africa's urbanised middle classes expand, private pension systems are rapidly accumulating assets that could be unlocked to support economic development. We are exploring ways to leverage institutional capital, such as these pension funds, to support the High 5 Agenda. Institutional investors play a critical role in capital markets, allocating long-term savings to support investment.

Another proposal has come from the Bank's High Level Panel on Transforming Trust in the Bank Group into Influence, working with the ADF Policy Innovation Lab. They recommended an innovative approach of front-loading overseas development aid (ODA) through a Big Bond by securitising annual ODA flows over a 30-year period and using it to boost investment to meet Africa's huge infrastructure and human capital needs. The Panel recommends that the Big Bond be accompanied by intensive policy discussion, led by the Bank.

### Climate finance

Under the Bank's second Climate Change Action Plan (2016-2020), we committed to using 40% of total annual approvals as climate finance to promote climate-resilient and low-carbon development in Africa. We also mobilise finance from international climate funds and

the private sector to pursue these objectives, and ramp up climate investment on the continent.



*In 2017, we dedicated 28% of our commitments—\$2.35 billion—to climate finance*

We expect to invest this allocated climate finance in the High 5 priorities. In 2017, we dedicated 28% of our commitments—\$2.35 billion—to **climate finance**. This is higher than our target of 25% for 2017. In 2018 we will continue ramping up our investment to increase resilience to climate impacts and reduce emissions.

### Preventing illicit financial flows in Africa

Illicit financial flows in Africa are one of the serious consequences of poor governance, particularly lack of transparency and accountability. Illicit financial flows and corruption together undermine social, economic and political progress at many levels and are also key drivers of state fragility. The Bank Group developed a new policy and a four-year strategic framework and action plan geared to preventing illicit financial flows in Africa. We will strengthen our internal anti-illicit financial flows practices and collaborate actively at the regional level to combat illicit financial flows.

### Increasing value for money

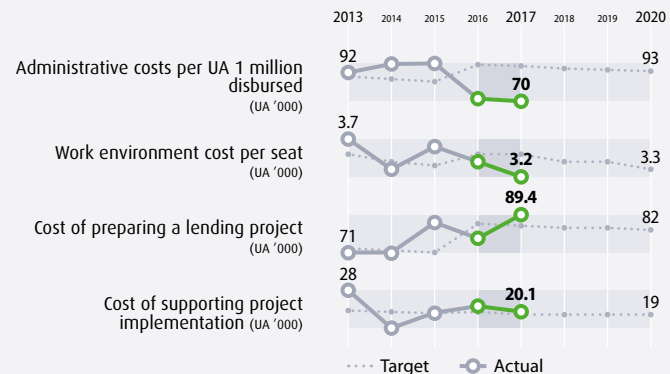
By implementing the DBDM, we are delivering improved performance to increase value for money. Our reforms to business processes, portfolio management and organisational effectiveness are all focused on providing high-quality development outcomes and value for money.

In terms of cost-efficiency, our **administrative costs per million of UA disbursed** decreased from UA 98 900 to UA 70 000. This significant decrease relates to the fact that our disbursement volume reached a record high in 2017, while our expenditure increased only moderately. Owing to better management and control of Bank facilities in the decentralisation context, our **work environment cost per seat** decreased from \$5100 (UA 3600) in 2015 to \$4500 (UA 3200). Our **cost of preparing a lending project** increased to \$126 500 (UA 89 400) and our **cost of supporting project implementation** increased to \$28 400 (UA 20 100). These updated data reflect our strong focus on delivering quality operations, as well as enhanced discipline from staff in reporting on the actual time spent in preparing and implementing operations.

### Bringing the Bank closer to clients

We made progress in implementing our decentralisation plans, which enable us to work more closely with partners, supervise our projects better and deepen our understanding about the context in which we work. Decentralising staff and functions to the regional and country level improves the effectiveness of our operations and policy advice.

**Figure 25 The Bank's efficiency in running its operations achieves greater value for money**



We have 58% of **operations staff based in country offices** and regional hubs, more than our target of 49%. We moved 121 staff from headquarters to regional offices, and 58 of them took up new positions. We also appointed a fresh team of 30 country managers and inducted them into their roles. As a result of these staffing changes, 76% of our **projects are managed from country offices**, above our target of 65%.



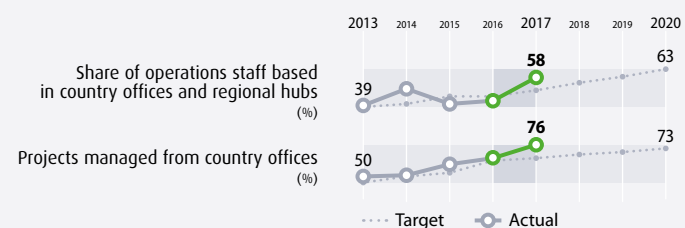
*76% of our projects are managed from country offices*

### Fast-tracking and prioritising recruitments

To achieve the Bank's mandate and deliver the High 5 priority areas, we need to recruit, retain and develop staff of the highest calibre. We need a robust, diverse, talented pool of staff to deliver outstanding results for our regional member countries. Given this context, we had the following human resource priorities in 2017:

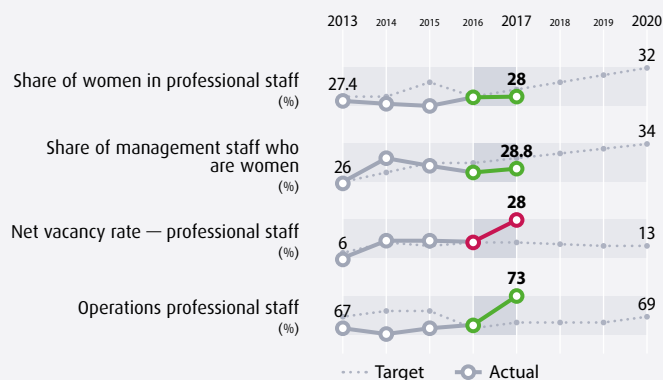
- ▶ Recruiting the best-in-class talent
- ▶ Building a robust succession pipeline for key positions
- ▶ Harnessing a winning employee value proposition
- ▶ Building skills and competencies for winning
- ▶ Cultivating a high-performance culture

**Figure 26 The Bank is moving closer to its clients to enhance delivery**





**Figure 27 The Bank is accelerating the pace of recruitments to fill its vacancies**



To achieve these priorities, we accelerated our recruitment process; the **time to fill vacancies** fell to 120 days, compared to 223 days in 2015. However, we must continue to prioritise recruitment, given that our **net vacancy rate for professional staff** rose from 16% in 2016 to 28% because a large number of new positions were created under the DBDM. We are building our human resources cost-effectively: rather than hiring staff simply to meet gross vacancy numbers, we have prioritised 298 recruitments for critical positions to effectively deliver development results at scale, of which 123 had been recruited by end of 2017. While good progress has been made, the Bank's ability to execute the 2018 work programme requires fast-tracking the recruitment process to fill the most essential positions, without compromising on quality. Actions for fast-tracking recruitment include the following:

**The time to fill vacancies fell to 120 days, compared to 223 days in 2015**

- ▶ Batch recruitment for similar jobs in the same job family;
- ▶ Vacancies are being advertised both internally and externally at the same time to reduce the turn-around time;
- ▶ Advertising time has been reduced from 15 business days to 10 business days;

- ▶ Interviews are more focused to manage the interviewers' time better by having tighter, high-quality shortlists; and
- ▶ Competency-based interviews to reduce the calls on management time while identifying the right calibre of staff.

The proportion of **professional staff working on operations** improved to 73%, exceeding the target of 68%. These factors are all critically important to enable the Bank to deliver on its commitments.

### Getting the right talent

Africa has an increasingly competitive market for the premier talent that the Bank is seeking to recruit and retain. We have assessed the employment packages of relevant organisations, and we endeavour to remain an attractive employer. Last year we made changes to the benefits for internationally recruited staff and to the salaries of locally recruited staff based in country offices.

Creating leaders who hold themselves accountable for developing staff and managing them well is critical for the Bank. Embedding a culture of high performance and strong motivation is also closely linked to career development. We are designing a Leadership Academy to invest in our leaders, which is a key part of the Bank's Talent Management Strategy and Framework.

There continues to be a gender gap in the Bank's professional and managerial staff, although limited improvements have been made. The **share of women in professional staff** increased to 28% from 26.7% in 2015, and the **share of management staff who are women** was 28.4%, a decrease from 29.4% in 2015, but still close to the 2017 target of 31%.

Overall, the Bank is making considerable progress towards better development results and outcomes. We set stretch targets but are managing our operations more effectively and ensuring they deliver sustainable benefits. We place greater focus on crowding in both public and private sector finance to deliver greater impact for our member countries. By implementing our Development and Business Delivery Model, we have accelerated our decentralisation and recruitment processes and delivered efficiencies. All this is part of our efforts to increase value for money for our clients and maximise development outcomes to help reach the SDGs. ■







## Strengthening open and accountable institutions

African countries have taken strides to improve their fiscal frameworks and public financial management systems, but governance remains a concern for social, economic and political progress. Angola has reformed its legal framework to provide oversight in financial matters, and it improved its use of budgetary resources during the commodity crisis.



# Looking forward

**A**frica is at a moment of opportunity. Building on its economic growth in recent years, it is well positioned to use its vast natural resources, skills and youthful population to transform its economies. If Africa's leaders and institutions seize this opportunity, they will facilitate the industrial development needed for jobs and economic growth, enabling major strides towards achieving prosperity and reaching the Sustainable Development Goals.

However, taking advantage of this opportunity involves economic transformation: that is, a major shift in resources towards higher-value economic activities. Large- and small-scale industries—across many sectors—are the engine that will enable Africa to mobilise more domestic resources, catch up with other regions and move towards ending its reliance on aid. To achieve this, Africa needs the right policies, capable institutions and substantial investment from public and private sector resources.

## Our role in promoting industrialisation

This Annual Development Effectiveness Review shows that the African Development Bank has delivered substantial development results. We have improved access to infrastructure, business and social services, supported government budgets and strengthened institutional capacity—all activities that are essential to increase the private sector and investment, create jobs and improve the quality of life of Africans across the continent.

**Industrialise Africa.** The ADER sets out the core elements of our strategy to help Africa achieve widespread industrialisation. Our investments provided 14 million people with improved access to transport services and enabled 2.6 million to benefit from investee projects. As we scale up our support for Africa's industrialisation, we will draw on lessons from our lending operations and on our knowledge and research work. We will continue to prioritise investment in both hard and soft infrastructure and to strengthen regulatory, legislative and institutional capacity to improve the business climate, mobilise investment and promote small- and large-scale industrialisation. We will support efficient industry clusters and help Africa capture more of the value-added from global value chains.

**Light up and power Africa.** We prioritise access to reliable and affordable power to develop the private sector and transform the lives of Africans, particularly women and girls. We are taking forward our New Deal on Energy by developing partnerships and innovative approaches to catalysing finance for infrastructure development. Last year, our projects supported energy sector reforms, improved sector governance and financed innovative technologies. We delivered

large-scale renewable power generation capacity, energy distribution systems and on- and off-grid schemes in remote areas and fragile states. We will scale up this work.

**Feed Africa.** We will support agricultural modernisation across Africa. Our programmes are tackling extreme poverty, hunger and malnutrition and enabling farmers to link to markets, supply chains and agriculture-based industries. We will help Africa increasingly become a net food exporter and participate in specific global value chains, to increase the value-added from agricultural products. In 2017, 8.5 million people benefited from our agriculture-based projects, including 4.1 million women. Our programmes were tailored to overcome specific barriers women farmers face. Our projects increased output and yields, local and regional trade, and agribusinesses, by providing better access to inputs, technologies and finance, as well as infrastructure investment. We will build on this experience to scale up our agricultural programmes to transform African economies.

**Integrate Africa.** Regional integration is critical to Africa's development and is part of the Bank's mandate. We believe that economic integration leads to greater trade, investment and job creation, and is essential for industrial development. Last year, our projects delivered 414 km of cross-border roads and trade facilitation measures. We will continue to deliver improved connectivity, promote trade and investment and support financial integration, working closely with regional economic communities. We will crowd in public and private sector finance for national investments and for large, complex multinational investments. We will also continue to support progress towards the Continental Free Trade Area.



**Improving the quality of life for the people of Africa.** Delivering greater access to health, education, and water and sanitation services has been a key part of our remit. Our projects provided education benefits for half a million people, vocational training to 395 300 people, and access to water and improved sanitation services to 8.3 million people. We are equipping young Africans for work and enterprise. Our Jobs for Youth in Africa strategy sets out the framework for helping African countries deliver practical, high-impact solutions through education, training and job creation.

**Cross-cutting priorities: governance, fragility, climate change and gender.** All our programmes must address these cross-cutting priorities to achieve sustainable development results. Industrialisation needs strong implementing and regulating institutions, clear legislation and rule of law. In fragile situations, we build resilience at local, national and regional levels, drawing on detailed risk analyses and using our “fragility lens” assessment tool. We help countries mitigate and adapt to climate change and meet their Nationally Determined Commitments. We prioritise gender equality throughout our programmes, to overcome specific gender barriers and to empower women to have equal opportunities and contribute towards boosting economic development.

## The Bank's performance

This ADER highlights improvements to the Bank's performance. It shows that we are providing better value for money for our member countries and that our portfolio is delivering sustainable development outcomes.

Our Development and Business Delivery Model has improved our efficiency by aligning our organisational structure to our priorities and streamlining business processes. We are enhancing the quality and speed of operations and the performance of our portfolio, which is essential as we scale up our portfolio and deliver development results more rapidly. Yet we must strive for continuing improvement.

We will deepen our internal reforms to ensure that we disburse and supervise our projects in an effective and timely way and deal quickly with poorly performing projects. We will also work towards achieving greater cost-efficiencies across our operations.

Our work on climate change is becoming ever more critical, as Africa's need for climate mitigation, resilience and adaptation increases. The documentation for all our future projects will indicate whether and how they address climate mitigation or adaptation, and two-fifths of new projects will include direct climate-related activities, as set out in our second Climate Change Action Plan (2016–2020). We will also ensure that our projects all have satisfactory environmental safeguards.

Enhancing our knowledge activities contributes to improving our policy advice to member countries and helps shape project design and implementation. We will undertake analytic work and research on our High 5 priorities, to help the Bank and development partners deepen their understanding of how best to support Africa's economic transformation.

We have made significant progress in decentralising staff and project management to country and regional offices so that we can work more closely with our clients, respond to their needs and improve project supervision. We are devoting more attention to staff recruitment, development and retention, and will prioritise efforts to recruit the best-quality staff and develop outstanding leaders. We will also take steps to strengthen gender equality within the Bank's organisation.

Looking forward, we will focus our efforts on mobilising public and private sector resources to meet Africa's infrastructure needs and deliver programmes to promote industrialisation, job creation and eradication of poverty. By deepening our internal reforms and raising the Bank's performance, we will help Africa achieve economic and social transformation and reach the SDGs. ■

Looking forward

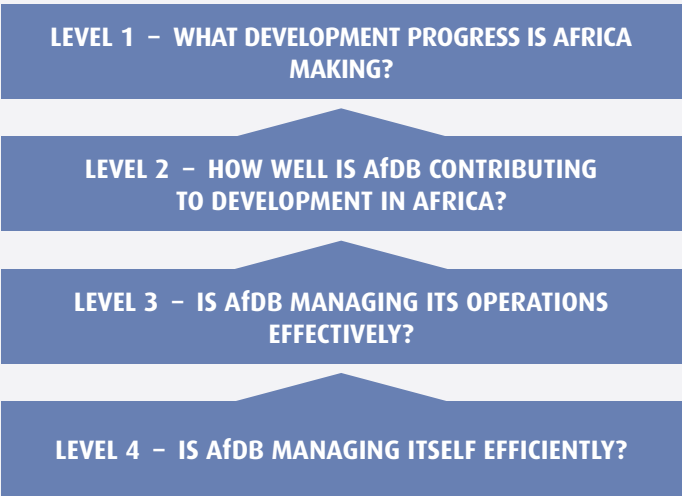
# Annex – Methodological note

*This note describes how the Bank assesses and reports on progress in the ADER.*

Measuring the Bank’s development effectiveness is a complex undertaking. Over the years our understanding of development has broadened. We recognise that economic growth is an essential part of the process—that it supplies households with livelihoods and

opportunities and governments with the means to invest in public goods and services. But development is also about empowering people to achieve a range of needs and aspirations, including through education, better health, and membership in secure and supportive communities.

**Figure A The RMF uses four levels to assess the Bank’s development effectiveness**



One of the methodological challenges of measuring development impact has to do with attribution—that is, the difficulty of assigning high-level development outcomes to a single development institution. Development outcomes are due not just to specific interventions but to a combination of external factors and decisions made by numerous agents, including governments, companies, households and development agencies. The contribution of a single intervention or institution to a particular outcome cannot be isolated from these other factors and assessed with a high level of confidence.

To address these methodological challenges the Bank uses a four-level Results Measurement Framework (RMF) that tracks its performance in meeting its development objectives. Level 1 tracks development progress across Africa, Level 2 measures the Bank’s contributions towards development in all its operations, Level 3 assesses the quality of the Bank’s operations, and Level 4 monitors the Bank’s efficiency as an organisation (see Figure A).

**Figure B The Bank is increasing its strategic focus on five priority areas of action**



## Box A How does the RMF track the Bank's twin goals of inclusive growth and green growth?

The RMF tracks progress in the ADER towards the Bank's twin goals of inclusive growth and green growth set out in the 2013–2022 Ten-Year Strategy for Africa's Transformation. Because these are complex areas of development, the RMF tracks them at multiple levels, as summarised below.

**Inclusive growth** – Progress towards inclusive growth is defined in terms of its four key dimensions: economic inclusion, social inclusion, spatial inclusion and political inclusion.

- ▶ *Economic inclusion: Reducing poverty and income inequality.* Africa has some of the highest rates of income inequality in the world. As African economies grow, the benefits of this growth tend to accrue to a narrow section of the population. Reducing poverty while securing a more even distribution of wealth is a way of both promoting greater economic inclusion and sustaining the pace of growth. It is measured by three indicators: GDP per capita, poverty, and income inequality (Gini coefficient).
- ▶ *Spatial inclusion: Expanding access to basic services.* Spatial inclusion is about ensuring that communities benefit from growth wherever they are. One way of achieving this is by making sure that everybody has access to the basic services that create economic opportunities for all—roads, electricity, water and health services.
- ▶ *Social inclusion: Ensuring equal opportunities for all.* Social inclusion is about ensuring that everyone can contribute to and benefit from growth. Outside agriculture, for example, women hold only 8.5% of jobs in Africa, and youth unemployment stands at 14%. The RMF tracks social inclusion by measuring populations benefiting from growth (education and health) and contributing to it in the labour market.
- ▶ *Political inclusion: Securing broad-based representation.* Political inclusion requires robust and accountable institutions that ensure citizens' democratic and broad-based representation. It is measured through indicators that track governance (Mo Ibrahim Index), the quality of institutions (CPIA indicators) and institutions' ability to ensure broad-based representation (taxation and inclusion of women).

**Transition towards green growth** – Green growth is measured across three important dimensions.

- ▶ *Building resilience and adapting to a changing environment.* Africa is already experiencing major environmental changes, such as an increase in severe weather, caused by a combination of climate variability and human activity. Building countries' resilience and capacity to deal with these external shocks is fundamental to sustaining growth and development. This is measured in the RMF through two proxies: (i) the number of people who are hungry and malnourished, and (ii) resilience to water shocks.
- ▶ *Managing natural assets efficiently and sustainably.* Green growth means ensuring that renewable natural resources, such as land, forests, water resources, fisheries and clean energy sources, are developed and used in a sustainable way. Non-renewables such as oil and minerals must be produced cost-efficiently, to spur innovation and maximise the development return. Using efficient production techniques, especially in manufacturing, will add value and improve Africa's competitiveness. These dimensions are measured in the RMF through two proxies: (i) agricultural productivity, and (ii) cereal yield.
- ▶ *Promoting sustainable infrastructure, reducing waste and pollution.* Green growth also means managing development processes efficiently, so as to reduce pollution and waste. Damage to the natural environment has extensive costs, both to economic sectors like agriculture and fisheries and to the population directly, through the pollution of air or drinking water. Managing waste products intelligently can help to sustain high growth rates and avoid negative impacts on communities. These dimensions are measured in the RMF through two proxies: (i) CO<sub>2</sub> emissions as a share of GDP, and (ii) renewable energy capacity.

By tracking performance at all four levels, the RMF offers a comprehensive picture of the Bank's development effectiveness. It also provides Bank management with a tool to assess the organisation's strengths and weaknesses, and to implement the Bank's corporate priorities more effectively and efficiently.

The 2018 edition of the ADER tracks progress against the RMF (2016–2025) approved by the Bank's Board of Directors in April 2017.<sup>1</sup> This new RMF innovates by vertically aligning Level 1 and Level 2, with both levels organised around the High 5s—the Bank's five priority areas of the Ten-Year Strategy. Designing the RMF in

this way helps build stronger conceptual linkages between Africa's development challenges (Level 1) and the Bank's actions to address them (Level 2). It also makes it easier to analyse each field and report on progress. Thus the RMF integrates the five Bank goals and cross-cutting strategic areas in a comprehensive vision of what the Bank aims to achieve. Annex A of the RMF provides a detailed description of the logics of intervention for the RMF as well as the rationale for each of the indicators tracked.

The RMF helps the Bank track progress in achieving its corporate strategies as they are set out in the Ten-Year Strategy, the

<sup>1</sup> African Development Bank Group, *The Bank Group Results Measurement Framework 2016–2025, Delivering the High 5s, Increasing the Bank's Impact on Development*, April 2017, available on the Bank's website.



High 5s and the DBDM. Figure B maps these corporate priorities to the four levels of the RMF, and Box A explains how the ADER tracks progress towards the Bank's twin goals of inclusive growth and green growth.

### Level 1: Tracking Africa's development progress

Level 1 indicators of the RMF report long-term development outcomes providing the broader context for our regional member countries. Progress in Level 1 is not attributed to the Bank; it is the outcome of collective efforts by countries, development partners and the private sector. Indicators under Level 1 are aligned to the High 5s and cross-cutting and strategic priorities.

Data for Level 1 indicators are drawn from internationally available statistical data (e.g., data produced by FAO, IEA, IMF and World Bank), identified in coordination with the Bank's Statistics Department. The ADER reports use the latest data available and provide disaggregated data on ADF countries. More details on the source and computation for each indicator are available in Annex B of the RMF document.

### Level 2: Measuring the impact of Bank-funded operations

The development impact of completed operations is assessed through individual **Project Completion Reports (PCRs)** for public sector operations and **Extended Supervision Reports (XSRs)** for private sector operations, which include information and data on the extent to which the Bank's operation has achieved its intended development objectives. This information includes the project outputs (e.g., number of kilometres of road built), outcomes (e.g., reduction in travel time) and, typically, the beneficiaries of the project (e.g., number of people with better access to roads).

To assess the Bank's development impact for 2017, the ADER provides data in the form of a three-year average covering 2015–2017 to avoid data volatility. The lower section of Tables 1 to 6 covering Level 2 indicators present the aggregate data from all PCRs and XSRs completed within this timeframe: 137 projects in both ADB countries and ADF countries, with data on ADF countries only presented separately for each table.

AfDB is the first multilateral development bank that has chosen to report exclusively on its own contribution and not on the aggregate project contribution, which includes cofinanciers. As our interventions are increasingly cofinanced with other development partners, reporting the total sum of outputs would not adequately reflect the financial inputs of the Bank and would lead to double-counting. Outputs are prorated according to the level of the Bank's financial support against total project costs.

A practical example is the Ain Beni Mathar Solar Thermal Power Plant Project in Morocco, for which the PCR was completed in 2016. The project built 165 km of transmission lines. The Bank funded \$390 million, or 6% of the total \$569 million project envelope. Using

its proportional attribution approach, the Bank will report having contributed to 68% of the 165 km of transmission lines, or just 112 km.

### Level 3 and Level 4: Assessing the Bank's effectiveness and efficiency

Providing accountability on the Bank's own performance is one of the main purposes of the ADER. Chapter 7 of the ADER reports on progress for Level 3 and Level 4 of the RMF.

Level 3 of the RMF tracks the quality of the Bank's portfolio of operations. It gives additional emphasis to the key drivers of performance identified in the DBDM: increasing the development impact of operations, designing high-quality and timely operations, improving portfolio performance, and enhancing knowledge services (see Figure B).

Level 4 of the RMF tracks the Bank's organisational efficiency by monitoring progress in (i) moving the Bank closer to its clients; (ii) improving financial performance and mobilising resources; (iii) increasing the Bank's value for money; and (iv) engaging staff for better performance (see Figure B).

The data for Level 3 and Level 4 are drawn from the Bank's management information systems and cleared by relevant corporate departments. Annex A of the RMF provides a detailed description of the objectives and the rationale for each of the indicators used to track performance at Level 3 and Level 4. The source for each indicator is provided in Annex B of the RMF.

### Tracking performance over time

In the ADER, performance is summarised in a scorecard that uses a three-coloured "traffic light" system to indicate whether the Bank reached or fell short of its targets for all four levels of the RMF. The annual targets are derived in a linear way from the 2025 targets that are available for each indicator.

Colours—green (●), amber (●) or red (●)—are assigned to each indicator. For Level 1 and Level 2 a green traffic light is provided when the indicator reached 95% or more of the 2017 target, a yellow one when it achieved less than 95% of the 2017 target but is above baseline value, and a red one when it achieved less than the baseline. For Level 3 and Level 4, a green light means the Bank reached more than 90% of the 2017 target; a yellow one means it achieved 80–90% of the 2017 target, and a red one means it achieved below 80% of the 2017 target. For all levels of measurement, grey (●) is used when data are not available.

### Reviewing the RMF

To ensure that the RMF remains relevant to the Bank's top priorities, it is reviewed every three years. This review is synchronised with the ADF replenishment process, enabling it

to take into account the specific needs of ADF countries and priorities. The following principles are applied to the revision: discontinuing tracking indicators that have reached 100% and can no longer be improved; tracking emerging development priorities of increased relevance to Bank objectives; and adjusting the direction of the pathway for the annual targets in reaching the 2025 target.

### **New approaches to measuring development impact**

In addition to the methods described above, the Bank is developing new, more innovative, approaches to assessing its impact on development. One of these approaches is the Development Impact Approach, which will allow the Bank to measure the social and economic impact of its operations across Africa. For example, by using social accounting matrices, the approach will assess not only the direct effects that occur at the investment and/or project level (e.g., people employed by the project itself), but also indirect (e.g., supply-chain jobs) and induced effects (e.g., jobs created as the people who are directly or indirectly employed spend their salaries). In essence, with the Development Impact Approach, the Bank traces how

its investments flow through an economy and measures the corresponding development impacts. The data presented in the ADER are drawn from the pilot work undertaken on the East African portfolio (see Figure 18 in Chapter 5).

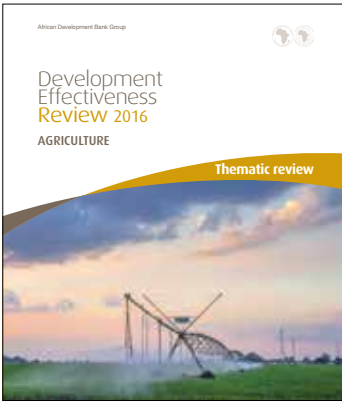
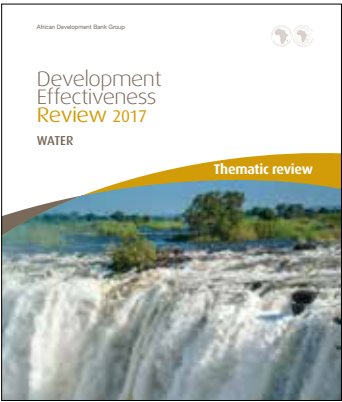
Another innovative approach used to report on the impact of operations supported by the Bank is presented in Figure 15 in Chapter 4. In this case, the Bank is using high-resolution impact mapping to assess the impact of a 1900 km regional road corridor it supported linking the capital cities of Mali, Burkina Faso and Ghana. The map provides details on the road's economic footprint, improvements in human development and increases in cross-border traffic. By comparing data from household surveys and applying geotagged datasets and satellite imagery, the methodology assesses with a high degree of reliability the changes in people's living conditions—for example, additional people with access to energy. Changes in living conditions are drawn from household surveys undertaken in 2003 and 2014, before and after the road was made available, and focusing on an area 20 km wide on both sides of the road. It should be noted that not all of the changes highlighted in the analysis are directly attributable to the project, but they reflect broader improvements in living conditions. ■

# The Development Effectiveness Review series of the Bank

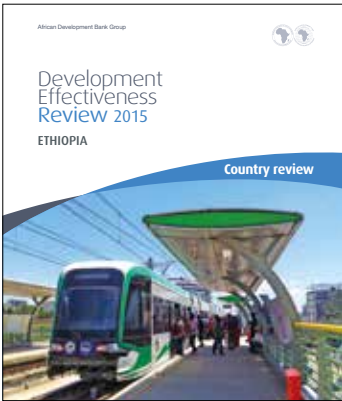
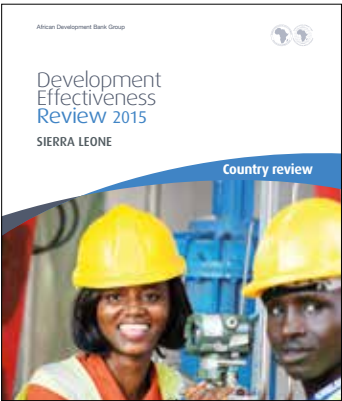
## Annual reviews

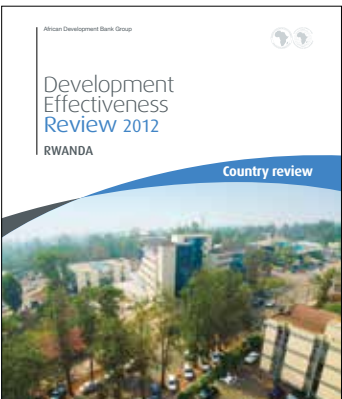
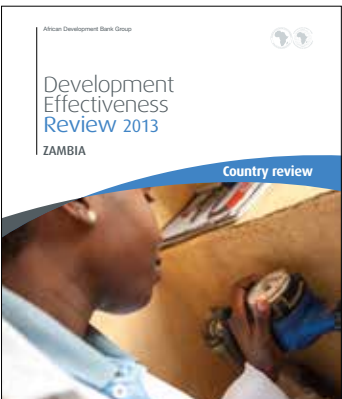
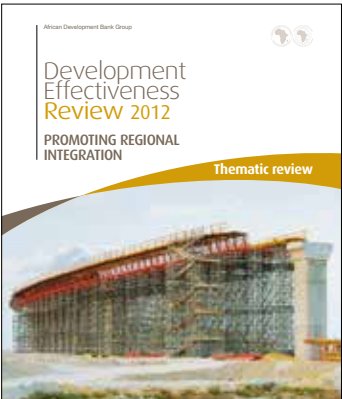
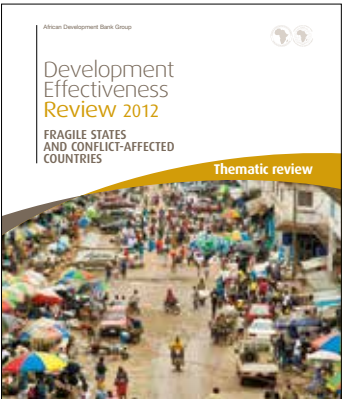
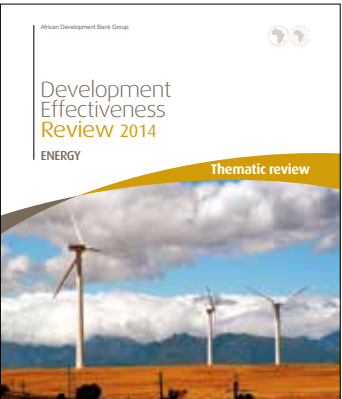


## Thematic reviews



## Country reviews













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### About this publication

The 2018 Annual Development Effectiveness Review is a comprehensive report on the performance of the African Development Bank (AfDB). The report reviews development trends across the continent and explores how the AfDB's operations have contributed to Africa's development results. This review reflects the AfDB's focus on an interlocking set of five critical priorities within the Bank's Ten-Year Strategy: the "High 5s". It also looks at how effectively the AfDB manages its operations and its own organisation. The report is supplemented each year by more detailed reviews of particular sectors and thematic areas as well as selected country reviews.

### About the African Development Bank Group

The AfDB Group is a multilateral development bank whose shareholders include 54 African countries and 26 non-African countries. The AfDB Group's primary objective is to contribute to the sustainable economic development and social progress of its regional members, individually and jointly. It does this by financing a broad range of development projects and programmes through public sector loans, including policy-based loans, and through private sector loans and equity investments; by providing technical assistance for institutional support projects and programmes; by making public and private capital investments; by assisting countries with development policies and plans; and by supplying emergency assistance.



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