Chapter 6
Cross-cutting and strategic issues

Optimising 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
(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

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

<table>
<thead>
<tr>
<th>INDICATOR</th>
<th>ALL AFRICAN COUNTRIES</th>
<th>ADF COUNTRIES</th>
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<tbody>
<tr>
<td><strong>Cross-cutting strategic areas indicators—Progress in Africa (Level 1)</strong></td>
<td></td>
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<tr>
<td></td>
<td>Baseline 2015</td>
<td>Latest 2017</td>
</tr>
<tr>
<td>Real gross domestic product (GDP) growth (%)</td>
<td>3.6 2.2</td>
<td>3.7 4.2</td>
</tr>
<tr>
<td>GDP per Capita (constant 2010 US$)</td>
<td>1941 1966</td>
<td>2085 2660</td>
</tr>
<tr>
<td>Mo Ibrahim Index of African Governance (scale, 0 Low – 100 High)</td>
<td>50 51</td>
<td>50 52</td>
</tr>
<tr>
<td>Tax and non-tax fiscal revenues (percentage of GDP)</td>
<td>16.1 16.4</td>
<td>16.5 18.0</td>
</tr>
<tr>
<td>Gender Inequality Index (0 Low – 1 High)</td>
<td>0.53 0.52</td>
<td>0.5 0.4</td>
</tr>
<tr>
<td>Production efficiency (kg CO2 emissions per constant 2010 US$ of GDP)</td>
<td>0.55 0.51</td>
<td>0.46 0.12</td>
</tr>
<tr>
<td>Resilience to water shocks (index, from 0 to upwards – Lower resilience)</td>
<td>3.5 4.0</td>
<td>3.62 4.10</td>
</tr>
<tr>
<td>Number of refugees and internally displaced people (million)</td>
<td>17.5 18.5</td>
<td>14.0 Towards 0</td>
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| CROSS-CUTTING STRATEGIC AREAS INDICATORS—AfDB CONTRIBUTIONS (Level 2) | | |
| | Baseline 2015 | Delivered 2017 | Target 2017 2025 | Baseline 2015 | Delivered 2017 |
| 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

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

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Source: IMF, World Bank
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 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.

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-UNEA 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.

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...
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.

We are establishing in our offices the African Nationally Determined Contributions Hub, which was launched during the 23rd 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 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.

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**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.