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.

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.

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.

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.

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
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

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.