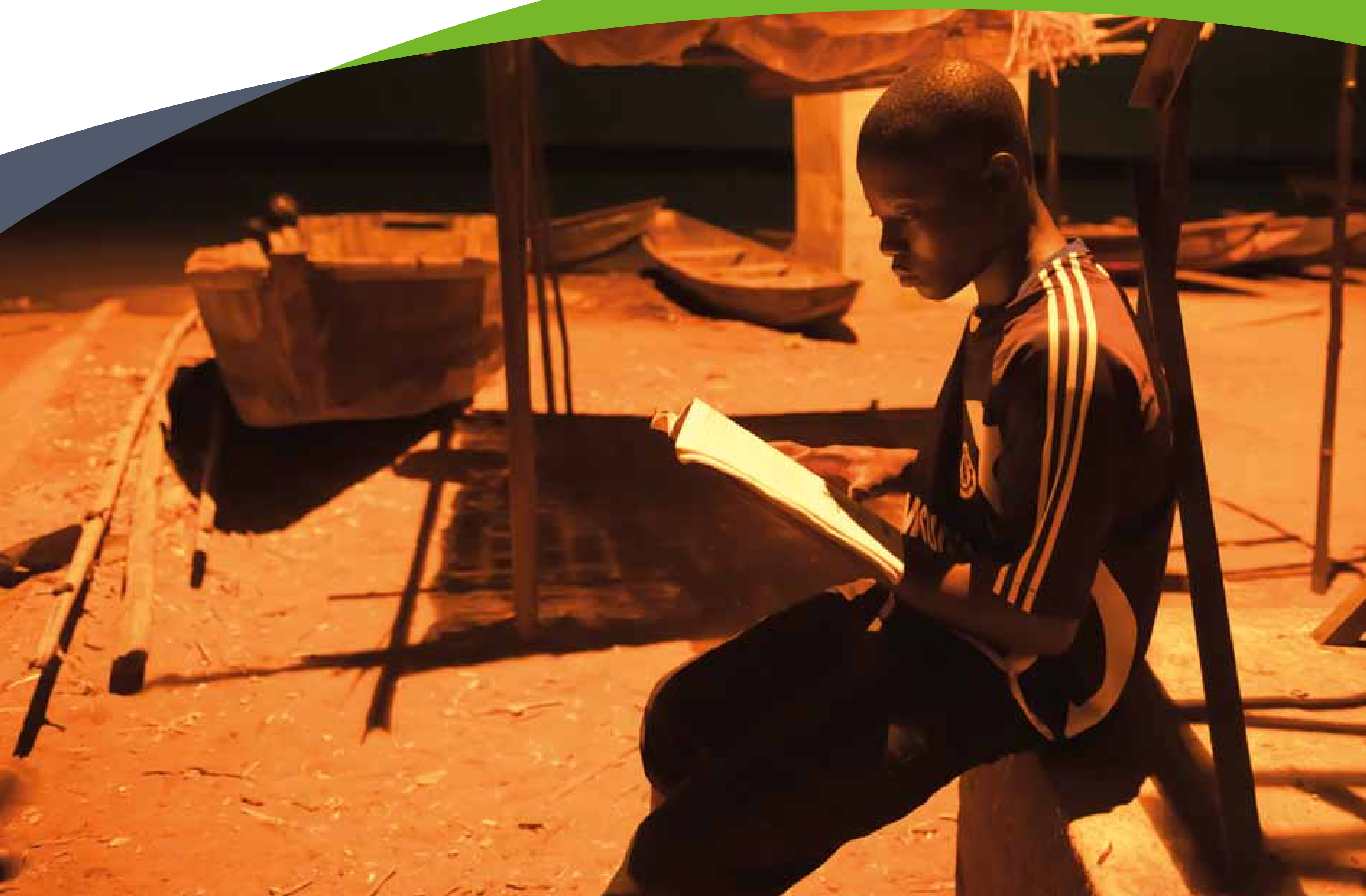
African Development Bank Group

Annual Development Effectiveness Review 2012

Growing African Economies Inclusively

Annual review



ACKNOWLEDGEMENTS

This second edition of the African Development Bank (AfDB)'s Annual Development Effectiveness Review is the product of estimable collaboration on the part of staff from most of AfDB's departments. We would like to recognise Jean-Guy Afrika, Harold Akingbade-Taylor, Aymen Ali, Cecile Ambert, Youssef Arfaoui, Senait Assefa, Akissa Bahri, Douglas Barnett, Aimee Bella-Corbin, Bouchaib Boulanouar, Thomas Ampah Brient, Moez Charfeddine, Mariem Dridi, Henrik Franklin, Gisela Geisler, Azza Gharbi, Samer Hachem, Helmi Hmaidi, Jonathan Kaliwata, Seung Kook Kang, Patience Kuruneri, Lamia Mahrouk, Benson Maina, Moono Mupotola, Patrick Musa, Anne Sophie Olsen, Peter Ondiege, Sunita Pitamber, Joshua Powell, Patricia Rogers, Karen Rot-Munstermann, Richard Schiere, Olivier Shingiro, Frank Sperling, Carina Sugden, Suzie Teete, Tilahun Temesgen, Georg Weiers, Yosabeth Weldemedhin, Mamadou Yaro, and Sylvia Zulu.

We especially acknowledge the contributions of chief writer Marcus Cox (Agulhas Applied Knowledge) and graphic designer Nadim Guelbi (Belmakett), both consultants.

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Development Effectiveness Review 2012

Note: In this report, "$" refers to US dollars.

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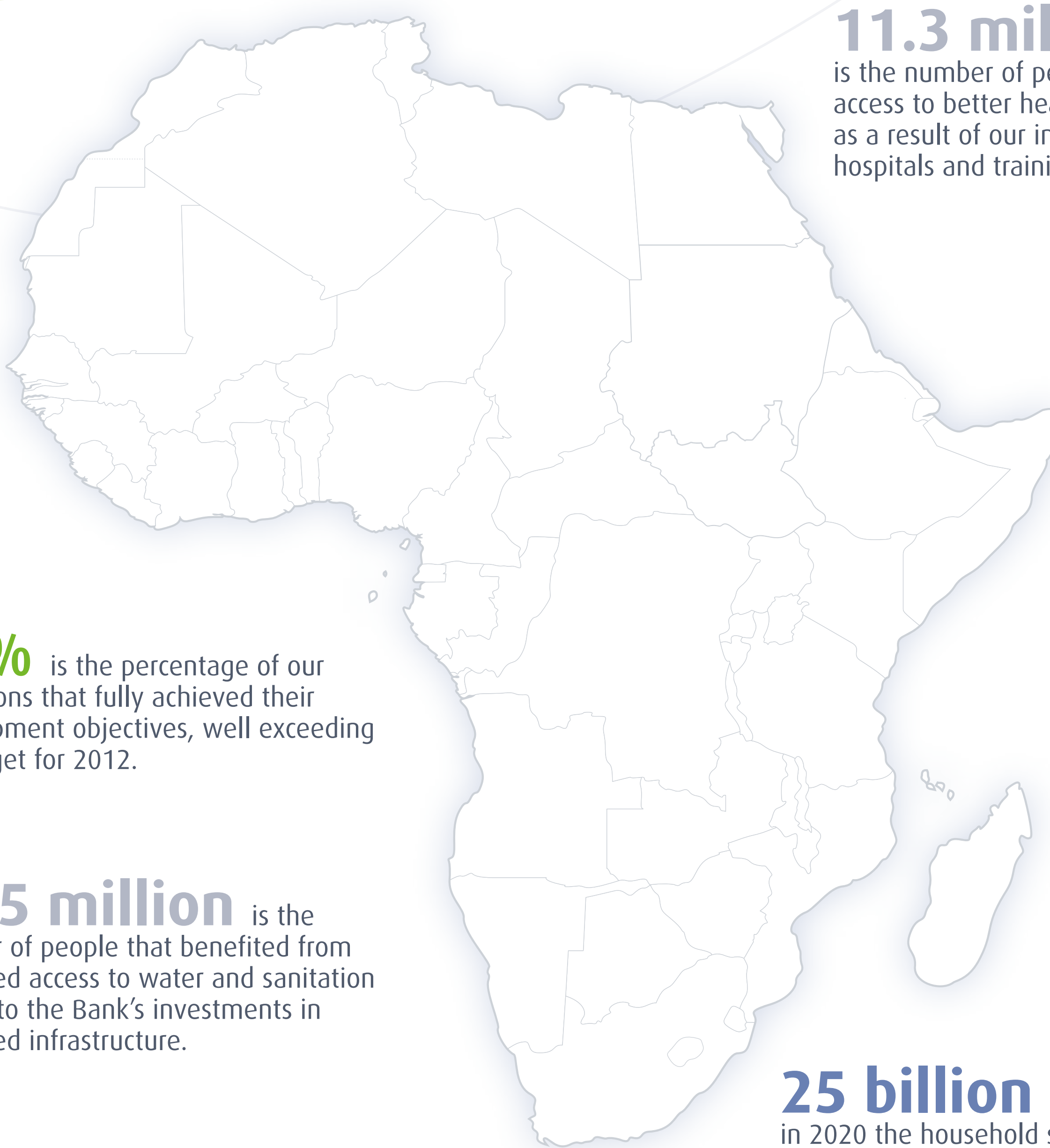
The 2012 ADER in 7 numbers

1.7 trillion is Africa's collective GDP in dollars, putting it on an economic par with Russia and Brazil.

539 is the number of professionals working in our 31 field offices. They all contribute to bringing us closer to the people we serve.

11.3 million is the number of people with access to better health services as a result of our investments in hospitals and training.



93% is the percentage of our operations that fully achieved their development objectives, well exceeding our target for 2012.

12.5 million is the number of people that benefited from improved access to water and sanitation thanks to the Bank's investments in improved infrastructure.

250 million is the number of East and Southern African beneficiaries that will be connected to internet thanks to the high-speed communications cable co-funded by the African Development Bank.

25 billion will be in 2020 the household spending in dollars of the continent's five largest consumer markets—Alexandria, Cairo, Cape Town, Johannesburg and Lagos.

6° 44′ 11″ N — 2° 39′ 29″ E

The Nigeria-Benin transmission line is powering and connecting rural centres to the national electricity grid. About 40% of Benin's electricity consumption is now imported from neighbouring Nigeria at 1/6th of the cost of local power generation.

Foreword

The wave of unrest that swept North Africa in recent months caught many people by surprise. It occurred against the backdrop of one of the most rapid periods of economic growth in Africa's history. The countries affected were among the continent's leading performers on growth and human development.

The events revealed that growth is not enough if its benefits are concentrated in only a few hands or geographical regions. In fact, when combined with a lack of political voice and persistently poor governance standards, growth itself may become a source of instability.

The events were a stark reminder that, for development to be sustainable, growth and equity must go hand in hand. We need strong growth to make serious inroads into poverty. But we must also be concerned with the pattern of growth. It must generate jobs and economic opportunities for the majority of Africans. And it must offer brighter prospects to Africa's growing ranks of young people.

We have therefore made inclusive growth an overarching theme for all of our work at the African Development Bank. Our second Annual Development Effectiveness Review (ADER) explores the challenges Africa faces in achieving inclusive growth and the contribution the Bank is making to address them.

Most of our operations—from overcoming infrastructure deficits to boosting agricultural productivity and improving education and training for African youth—help to promote inclusion by creating opportunities for isolated or marginalised groups. But there is always scope to do more. This ADER will help us to sharpen our focus on this key theme.

The ADER also reviews how well we manage our portfolio and our own organisation. This has been a dynamic period for the Bank as we reorganise our structures and business processes to make us more responsive to the needs of our member countries. I am pleased to note that many of these reforms are beginning to bear fruit. However, we must keep our operations under constant scrutiny. This ADER is one of the tools by which we ensure continuous improvement.

Donald Kaberuka

President of the African Development Bank Group

0° 21′ 53″ N — 31° 44′ 2″ E

Due to the lack of financial infrastructure in rural communities, micro-lending programs are increasingly critical in helping men and women in Africa's villages to fulfil their aspirations. Having received a microloan of $400 in 2003, a public school teacher started a private school, which now offers high quality instruction in various disciplines including access to modern information and communication technology.

Executive summary

Launched in 2011, the **Annual Development Effectiveness Review (ADER)** provides an overview of the performance of the African Development Bank. With inclusive growth as its theme, this second ADER reviews development trends across the continent from this perspective and explores how the Bank's operations have addressed them. It also looks at how well we manage our portfolio and our own organisation.

This ADER reports against the four different levels of our Results Measurement Framework. **Level 1** measures Africa's overall development progress across nine areas, such as economic growth, human development, infrastructure and the private sector. In each of these areas, we examine Africa's recent progress and some of the factors contributing to inclusive growth. **Level 2** presents the aggregate outcomes of our operations in the same nine areas, showing how the Bank has contributed to Africa's development. It also explores how our operations contribute to inclusive growth. **Level 3** assesses how well we manage our portfolio of operations, while **Level 4** describes our management of our own organisation, looking at areas such as decentralisation and human resource management. Data from our Results Management Framework is included throughout the Review, together with a simple traffic-light rating showing our progress towards our goals.

Inclusive growth is vital to improving the lives and livelihoods of Africans. This ADER is a tool for assessing what we are achieving and where we can do more to improve results for Africa's poorest. It also supports our commitment to transparency and accountability, giving our member countries, stakeholders and partners the information they need to assess our performance.

Inclusive growth in Africa

Africa is going through its most dynamic growth period in recent times. The continent has achieved growth rates above 6% for most of the past decade, making Africa one of the fastest-growing regions in the world today. Despite continuing global financial turmoil, we remain confident that Africa can continue its outstanding growth performance, for a number of reasons. A decade of reform has resulted in better macroeconomic management and a more attractive business climate. The rise of China and other emerging economies is helping to sustain high commodity prices, to the benefit of the resource-rich African continent. Another key factor is the emergence of Africa's middle class, putting more Africans in a position to make consumer choices and making Africa an increasingly attractive market for both domestic and foreign investors.

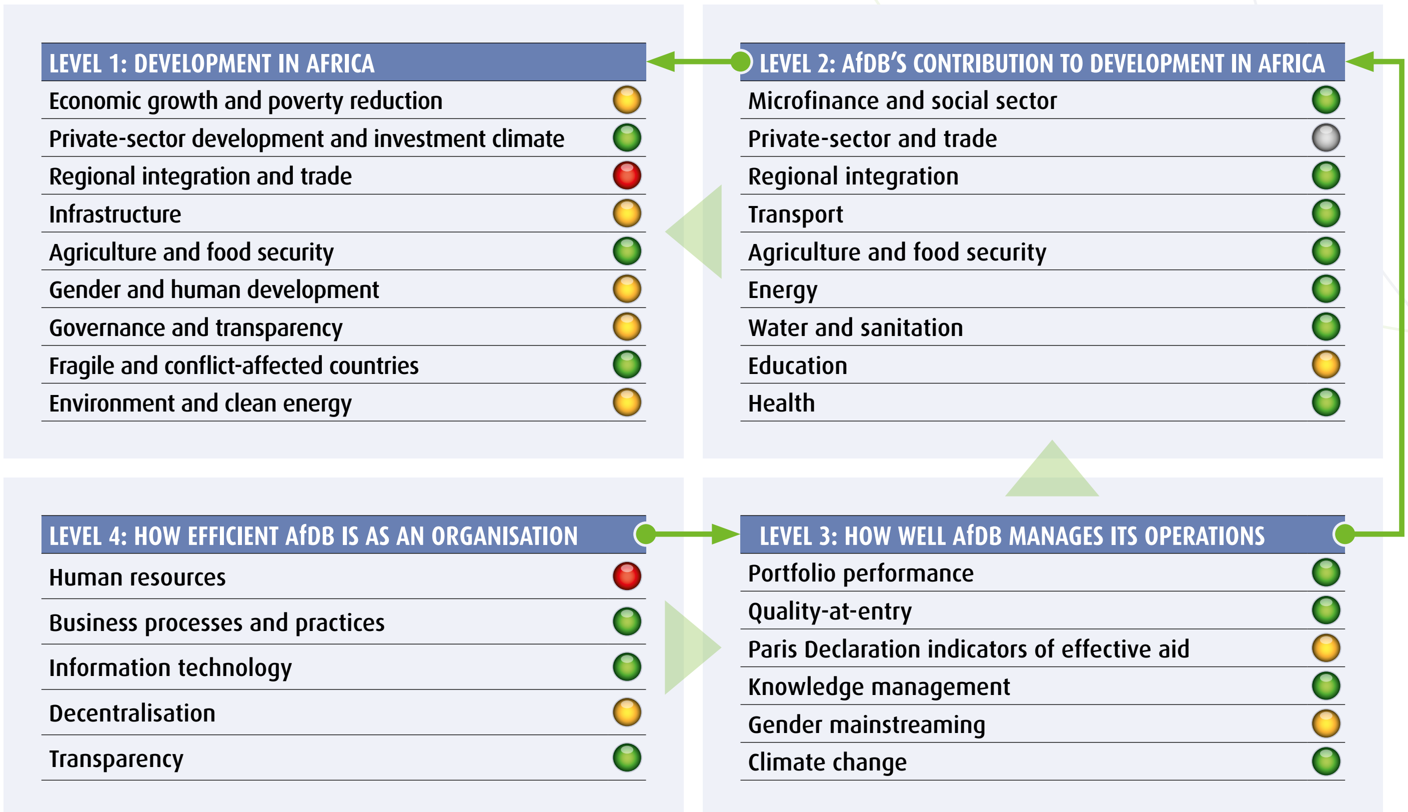
Africa is making progress on a broad range of development frontiers. Poverty rates are falling, the private-sector environment is improving rapidly, trade is expanding, and more and more people are becoming connected—to roads, electricity, information technology, water and sanitation. Education and health are making steady progress and the number of fragile states has declined. However, Africa's growth is often concentrated in a few sectors and areas, benefiting only part of the population. We need to change the quality of growth, to create more and better jobs and economic opportunities and lift more Africans out of poverty.

One worrying sign is the rise of inequality. While economic growth has lifted many households out of poverty and the number of middle-income households is increasing, inequality in Africa is still high and growing. Africa's Gini index—a measure of income inequality—has widened over the past six years, as it has in other developing regions, and is hardly better than it was in 1980. As a result, not everyone benefits from growth. Many are left behind. Inclusiveness in Africa has several dimensions: geographical (e.g. rural poor); social (e.g. gender); and economic (e.g. unemployment). Recent political upheavals in North Africa have highlighted the plight of Africa's youth. Despite rapid expansion in education across the continent, young people remain largely excluded from the formal economy, creating a clash between expectations and reality that may pose a challenge to social and political stability.

Creating private-sector jobs is one of the most promising strategies for lifting more Africans out of poverty. In recent years, African countries have made significant progress in improving the environment for business and in promoting competition, trade and investment. The average cost of starting a business in Africa fell dramatically from $217 in 2006 to $77 in 2011, while the average time declined from 58 to 35 days. However, limited access to finance remains a problem, together with limited infrastructure and education systems that are sometimes poorly suited to the needs of the labour market.

Regional integration is essential for sharing the benefits of growth more broadly. With its 54 countries, many of them small and landlocked, Africa is the most economically fragmented continent, making it difficult to build economies of scale and become internationally competitive. A high proportion of Africa's poor lives in economically marginal areas. Isolated by poor infrastructure, they may miss out on the benefits of growth in the more dynamic regions. In recent years, African countries have made high-level commitments to promoting regional integration and have begun simplifying the regional economic architecture. Intra-African trade has more than doubled and Africa's share of world trade is growing. To build on this momentum, deepen regional integration and sustain

Summary performance scorecard 2011



For Level 1 Africa's relative performance is measured by comparing its progress with progress in Africa's peer group (low-and middle-income countries across the world); for Level 2 the Bank's performance is measured by comparing expected and actual achievements for all operations that have been completed; for Level 3 and 4 the Bank's progress is measured against its progress in achieving its 2012 targets set out in the Bank Results Measurement Framework.

Made progress: More than half of the indicators in the group improved over baselines or reference groups.

Little progress: Results are mixed, with equal number of indicators showing improvement or little / no progress.

Progress stalled or regressed: More than half of indicators in the group stalled or regressed over two or more review periods.

Progress could not be measured

the growth in African trade, the level of investment in regional infrastructure needs to increase dramatically.

Africa still has some way to go to improve its infrastructure. A fifth of Africans live in small, scattered communities, where the costs of providing infrastructure can be prohibitive. Less than half of the rural population has access to all-season roads and the rural electrification rate stands at only 10%. Even in urban centres, population growth has outstripped infrastructure development, and basic services are twice as expensive as in other developing regions. Progress on improving water and sanitation has been slow. In sub-Saharan Africa, only 57% of the population has access to an improved water source and only 28% to improved sanitation facilities—an improvement of just 1% on both figures. However, Africans are becoming much better connected to information and communications infrastructure. Mobile telephony will reach 735 million subscribers by the end of 2012, which is helping to promote financial inclusion through mobile banking.

Agriculture is the foundation of Africa's economy, employing 60% of the population and contributing 30% of GDP. With 16% arable land—the highest of any continent—but only 21% under cultivation, Africa has enormous potential for agricultural development. Yet with population growth outstripping production, food production per head of population is declining and food prices are rising at an ever-faster rate. While output per farmer has been growing at 2% per year in Asia and 3% in Latin America, farm productivity in Africa has failed to improve, leaving rural incomes to stagnate or decline. High food-price volatility now appears to be a long-term problem. This has a serious impact on the poor, who spend most of their money on food and have no cushion against rising prices. Yet Africa's agricultural problems are not insoluble. Rwanda has demonstrated that intensive investment in agricultural productivity can be a major driver of poverty reduction.

With two-thirds of its population under 25, Africa is the youngest continent in the world. By 2050, almost 400 million Africans will be between 15 and 24 years of age. If the energy and creativity of young Africans can be harnessed, this may prove to be Africa's greatest asset. But the challenge is urgent. The "youth bulge" is already generating increasing demands for economic opportunities and political voice. If these demands cannot be met, they could become a source of social and political instability.

Human development is the key to unlocking this potential. Over the course of a decade, primary enrolment rates in sub-Saharan Africa have increased from 58% to 76%, while primary completion rates reached 67% in 2011. While health outcomes have been gradually improving, the heavy burden of disease on Africa's poor continues to be a major source of exclusion. African women and girls face a range of additional barriers to their participation in economic and social life. While gender parity has improved in primary school, there has been little progress at secondary and tertiary levels, and access to formal employment has not improved.

Around the world, countries that are better governed also tend to have less inequality. Africa continues to perform poorly on standard governance indicators, scoring 30% lower than the Asian average and 60% lower than industrialised countries. But the picture is by no means static. The unprecedented economic growth that Africa has enjoyed over the past decade has been in large part a result of improvements in some basic governance areas, including macroeconomic management, business regulation and revenue collection.

Conflict and political fragility remain serious constraints on Africa's development. Overall, the level of conflict and fragility has declined in recent years. However, a third of African states—home to over 200 million people—is still classed as fragile. With 50% higher rates of malnutrition, 20% higher child mortality rates and 18% lower primary completion rates, they lag behind on almost all development indicators. No fragile state has yet achieved even a single Millennium Development Goal.

Environmental degradation in Africa is a serious and growing problem. Parts of the continent are losing 50 tonnes of soil per hectare each year, resulting in stagnating agricultural yields and loss of rural livelihoods. Environmental degradation mostly affects the poor, who are also at the greatest risk from extreme weather events. While Africa has contributed little to the causes of climate change, it is acutely vulnerable to its effects. Paradoxically, however, Africa's low levels of infrastructure development leave it in a unique position to pursue a sustainable development path.

Overall, there are good reasons to be optimistic about Africa's economic prospects. The rise of China and other emerging economies, strong commodity prices, a burgeoning African middle class and the continent's growing appeal to private investors all suggest that the strong growth performance of recent years is likely to continue. Without this growth, sustained poverty reduction would not be possible. Yet it is also clear that the nature of growth in Africa needs to become more inclusive, to provide more opportunities for a wider cross-section of society.

How the Bank contributes to inclusive growth

The Bank's Medium-Term Strategy 2008-2012 focuses on addressing the bottlenecks to growth in Africa, focusing on priority areas—infrastructure, governance, the private sector and higher education—that represent the Bank's comparative advantage. But we also recognise that we need a more explicit focus on ensuring that growth is broad-based and inclusive. We need to ensure that our operations address inclusion across its various dimensions. We are increasingly directing our resources towards programmes that directly benefit the poor and excluded, as well as creating a level playing field so that these people can help themselves.

Over the past three years we have worked successfully with our clients to promote improvements in the business environment. We have helped to reduce the time and cost of starting a business, strengthen the financial sector, and create legal frameworks for public-private partnerships. We have used a range of innovative financial instruments to catalyse commercial investment in infrastructure, industry and the financial sector. Our investments in small and medium-sized enterprises have generated around 350 000 jobs. Investment projects completed in the 2009 to 2011 period led to foreign-exchange savings of $2.8 billion and generated government revenues of $1.9 billion.

We are Africa's leading financier of regional projects to promote regional economic integration. More than 40% of our lending goes towards infrastructure development to improve connectivity for marginalised areas and address rural-urban imbalances. Between 2009 and 2011, we constructed, rehabilitated or maintained 10 000 km of main roads and 15 000 km of feeder roads, providing more than 10.8 million people with improved access to transport. Our investments in water management and energy make a direct contribution to reducing exclusion of the rural poor. More than 6.6 million people benefited from our support for power generation and new electricity connections.

Investing in agriculture is one of the most direct ways in which the Bank promotes inclusive growth. We have constructed rural markets, storage facilities and processing plants, provided vaccination for livestock, and helped improve water and land management. In all, we have brought into productive use or improved the productivity of over a million hectares of land through our investments in irrigation and reforestation. Our projects have reached almost 11 million beneficiaries.

In the education sector, we specialise in higher education and training, making us well-placed to tackle the issue of youth employment. We have been working with African countries to adapt their higher-education curricula to emphasise science, technology and entrepreneurship, so as to prepare young people for the needs of the labour market. Our investments in information and communication technologies are helping bridge the digital divide between rural and urban areas. Gender equality is a theme running across many of our operations. For example, we have worked with the Moroccan government to close the gender gap in enrolment and fight gender-based violence in schools. Our education support to Rwanda helped boost girls' enrolment in secondary school from 20% in 2004 to 54% in 2011.

In the governance arena, we have concentrated on strengthening transparency and accountability over public resources, with a particular focus on natural resource management. We have implemented 65 projects across 38 countries aimed at improving economic and financial management. We have promoted the Extractive Industries Transparency Initiative (EITI) in ten African countries, and we adhere to EITI principles in our own private-sector mining operations. We are also involved in complementary initiatives, such as the African Legal Support Facility, which helps African governments to negotiate effectively with international companies.

Fragile states are consistently under-aided and their aid flows are twice as volatile. To counter this, the Bank has created a Fragile States Facility (FSF)—a fast and flexible mechanism for channelling additional resources to help fragile states consolidate peace, stabilise their economies and lay the foundation for sustainable poverty reduction. Around 7.5% of Bank resources are channelled to fragile states through the Fragile States Facility, over and above their regular allocation. Through this mechanism, we have helped promote job creation by creating opportunities for small business and increasing access to microfinance, reaching around 115 000 people between 2008 and 2010. We have helped restore basic services through quick-disbursing projects that deliver early results and provide a peace dividend to the population. We rehabilitated 12 health centres and 174 schools and constructed new water facilities for around half a million people.

We have dramatically expanded our role in promoting green development. Over the past year, we have invested in hydropower in Ethiopia and Cameroon and geothermal energy in Kenya, providing clean energy to hundreds of communities. For example, our hydro-electric power project in Lom Pangar in Cameroon will generate 30 MW of clean energy by 2015, providing for 10 000 new subscribers across 150 communities. We are helping to represent Africa's needs in international climate-change negotiations and ensure access to international funds for adaptation.

Overall, we are confident that this adds up to a major contribution to Africa's development. But we also recognise that we can do much more to target our investments to reach those who need them the most.

How well the Bank manages its operations

To achieve our ambitious goals, we need to ensure that our operations are well managed. To that end, we have introduced new "Quality-at-entry" procedures to ensure that our projects are technically sound and designed to maximise development impact. Our Project Appraisal Reports are increasingly well-prepared, leading to fewer problems with implementation. The quality of environmental and social safeguards in our operations has improved notably. Our Environmental and Social Impact Assessments provide beneficiary communities and other stakeholders the opportunity to contribute to project design.

At the end of 2011, the Bank's portfolio consisted of 769 operations with a combined value of $34 billion. As our portfolio has expanded, we have been cutting down on smaller and underperforming operations while becoming more selective in our investments. As a result, the number of public-sector operations has declined over the past year while their average size has increased. We have improved the level of supervision of our operations, with the level of problem projects declining to under 5%.

We include a number of indicators from the Paris Declaration on Aid Effectiveness in our Results Measurement Framework. We have made cautious progress on our use of country systems, as this depends on the rate of progress in bringing them up to international standards. We have made much faster progress in reducing parallel project implementation units. The Bank also helped ensure that African views were voiced at the Fourth High-Level Forum in Busan, leading to some important shifts in the international aid policy agenda.

Our knowledge management is improving over time, with the quality and timeliness of Project Completion Reports reaching their targets, and we have made good progress on "climate-proofing" our operations. However, gender mainstreaming is an area where we need to do more. Reviews have indicated weaknesses in the way gender objectives are incorporated into project designs. We are therefore focusing on this area in our Quality-at-entry process.

The Bank's efficiency as an organisation

The Bank is a large and complex structure, with 1900 staff located across the continent. We need to keep our business processes lean and flexible, while meeting exacting fiduciary standards. And we need to provide the management and technical resources to ensure consistently good results across a decentralised organisation.

We are moving forward on decentralisation, devolving staff and responsibilities to field offices to enable us to form stronger partnerships with our member countries. In 2011, we expanded our field presence to Burundi, Liberia, Togo and the Central African Republic, with a new field office to open in South Sudan in 2012. This brings us to a total of 31 field offices, with nearly a third of our professional staff at country level. A fifth of our project tasks are now managed from the field and this is set to increase substantially in 2012. Our field offices are supported by an increasingly effective information and communications infrastructure.

We are pressing forward with a whole range of measures to improve our business processes and practices. A major achievement of 2011 has been improvements to the speed and quality of our procurement processes, leading to a reduction of a third in the time required for bidding processes.

Human resource management remains one of our challenges. Both our premature attrition rate—staff leaving before completion of their first contract, as a share of total departures—and our vacancy ratio, which stands at 15%, fall short of meeting our ambitious targets. To help with staff retention, we have introduced a range of financial and non-financial benefits, while introducing new career structures and management practices. We have also enhanced our recruitment processes, including placing a stronger focus on younger professionals and women.

Finally, we fully endorse the current move towards greater transparency in development assistance and have committed ourselves to meeting the International Aid Transparency Initiative standards for publication of aid data.

Conclusions and action points

As the continent's premier development bank, we are committed to promoting inclusive growth. We are currently undertaking consultations on a Long-Term Strategy (2013–2022) that will have inclusive growth at its heart. Inclusiveness should be mainstreamed into all our activities, including policy dialogue, knowledge generation and lending programmes.

In the coming period, we will be looking for opportunities to address the social, geographic and sectoral dimensions of inclusiveness. On social inclusion, we will be tackling youth unemployment by promoting education and skills and creating jobs and economic opportunities, mainstreaming gender to provide more and better opportunities for African women, and ensuring that our operations meet the needs of marginalised groups. On geographic inclusion, we will be targeting infrastructure investments to reduce the isolation of rural communities, pursuing sustainable, off-grid energy solutions, and helping communities exposed to climate variability to become more resilient. On economic inclusion, we will work to boost Africa's entrepreneurial potential and competitiveness by increasing access to scientific and technical knowledge.

The inclusive-growth agenda is broad and ambitious, with implications right across our operations. To meet this challenge, we must continue to strengthen and develop our own organisation while ensuring it remains nimble and responsive. Over the coming period, we will be developing a new results framework to monitor our progress more effectively. We will also invest more in results management and learning, while continuing to streamline our operations and bring them closer to the communities we serve. We will invest more in our own people, to ensure they have the right knowledge, expertise and motivation.

These are ambitious goals that will not be achieved overnight. But we remain a learning organisation committed to continuous improvement

A group of women who call themselves *Juhudi* (Swahili for effort) run a successful catering business in Soni, Tanzania. Initially composed of four friends operating outdoor food stands, the group now has 20 members who work together in their own restaurant. Having participated in adult education in reading, writing and basic accounting, these women are now better equipped to manage their business.

4° 51′ 30″ S — 38° 21′ 60″ E

Introduction

The **Annual Development Effectiveness Review** (ADER) assesses the development challenges facing Africa, as we see them, and shows how the African Development Bank (the Bank) is addressing them. It also reviews the health of our portfolio and how effectively we manage our operations and our own organisation.

Our first ADER, published in 2011, provided an overview of development trends in Africa and the results generated through our operations. For the ADER 2012, we have chosen to focus on a particular theme: inclusive growth. While Africa's economic growth performance over the past decade has been impressive, it has failed to deliver benefits for large areas and population groups. Inequality and social exclusion have become major issues, slowing progress on poverty reduction and posing a growing threat to social and political stability.

In this ADER, we explore the challenges of promoting inclusive growth across its social, geographical and economic dimensions. In **Chapter 1**, we look at Africa's current pattern of growth and its elements of inclusiveness. Across the different sectors in which we are engaged, we analyse the progress Africa is making and review some of the investments and policy measures needed to share the benefits of growth with marginalised groups and communities.

The Bank has traditionally focused on addressing the most important bottlenecks to economic growth, with the emphasis on infrastructure, governance, higher education and private-sector development. While all our operations contribute to promoting inclusive growth, we are now paying more attention to how to target our interventions to ensure that they benefit those who need them most. **Chapter 2** looks across nine of the sectors and thematic areas in which we work and reviews the results we have generated, particularly our contribution to the inclusive-growth agenda.

Chapter 3 looks at the quality of our operations and how well we are managing our portfolio. Finally, **Chapter 4** reports on the Bank's efficiency as an organisation, presenting actions we have taken recently to streamline our business processes, build our staff capacity and make our operations more responsive to the needs of our member countries.

To assess its performance, the Bank uses a Results Measurement Framework (RMF) through which it tracks a series of performance indicators. The four chapters of the ADER correspond to the four levels of our RMF (see Table 0). The RMF enables us to measure progress against our baselines and to assess whether we are on track to achieve our targets. Data from the RMF is included through the ADER, together with simple traffic-light indicators that signal our level of progress towards our goals. As well as making us more transparent and accountable to our stakeholders, the ADER is of considerable value as a management tool, as we strive to improve our operations and fulfil our mandate as Africa's premier development finance institution ■

Table 0: **The Bank's Results Measurement Framework**

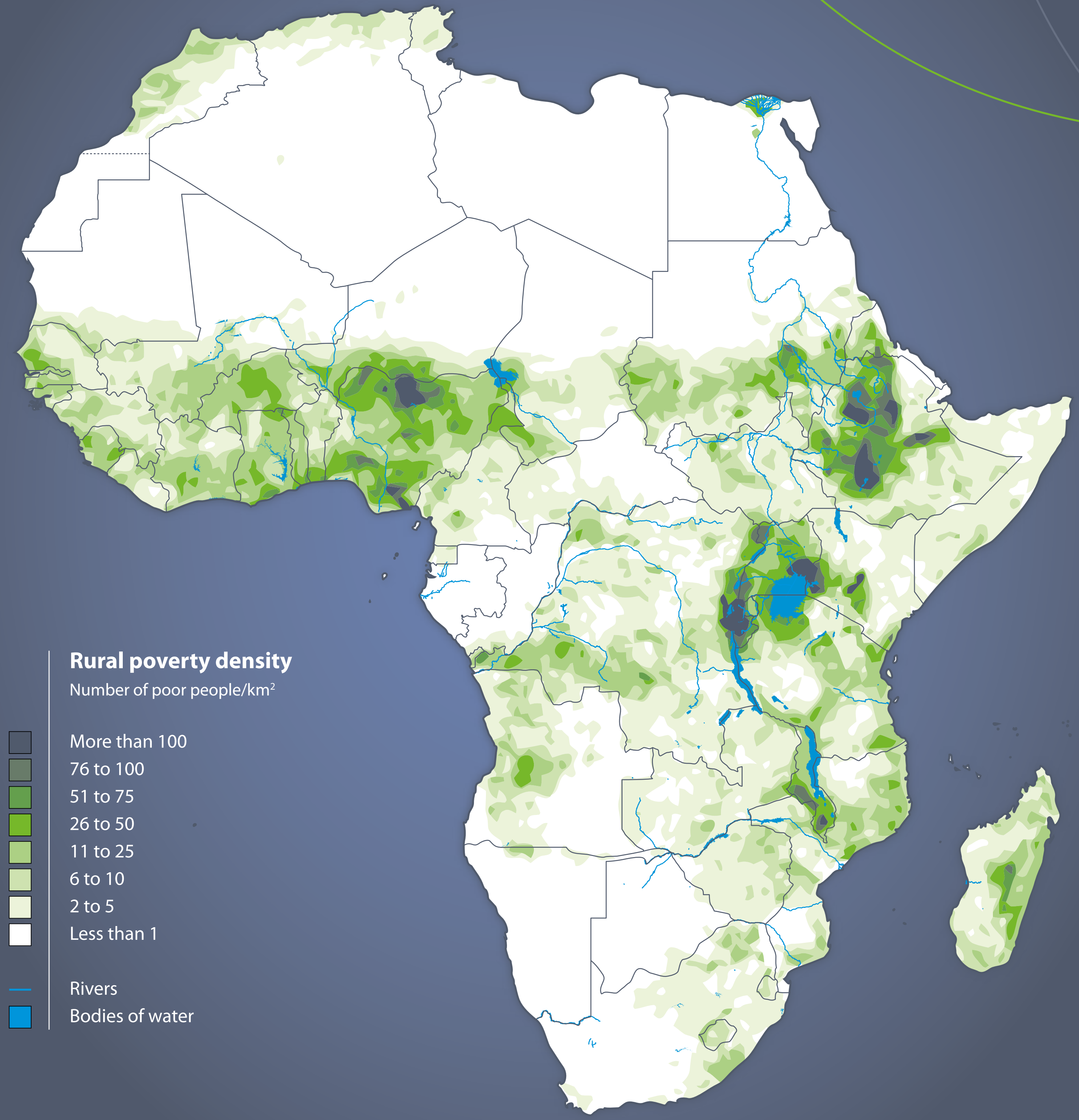
Level 1
What development progress is Africa making?

Level 2
How well is AfDB contributing to development in Africa?

Level 3
Is AfDB managing its operations effectively?

Level 4
Is AfDB managing itself efficiently?

Distribution of rural poverty in Africa



Source: FAO 2010

Level 1: Development in Africa

Africa is going through its most dynamic growth period in recent times. The continent has achieved growth rates above 6% for most of the past decade and, despite continuing global financial turmoil, we expect a return to these levels of growth in the coming years. This makes Africa one of the fastest-growing regions in the world today, with notable progress in nearly all dimensions of development.

Without economic growth, sustainable poverty reduction could not be achieved. However, Africa's growth is still often concentrated in a few sectors and areas. It is not delivering jobs and economic opportunities on the scale required to lift more Africans out of poverty. Recent political upheavals in North Africa have highlighted in particular the plight of Africa's youth. Despite rapid expansion in education across the continent, young people remain largely excluded from the formal economy, creating a clash between expectations and reality that could threaten social and political stability.

This chapter reviews the current state of development in Africa. Taking "inclusive growth" as its theme, it examines the role of inclusion in Africa's development across nine areas. For each of the indicators in this first level of our Results Measurement Framework, we assign a "traffic light" score indicating Africa's progress relative to other developing regions. Where Africa's progress is higher than its peers, it scores green; where it is on a par, it scores amber; and where it is falling behind, it scores red. Given the outstanding performance on poverty reduction in some parts of the developing world, this is a demanding standard to meet. We note that some of the indicators scored red in this chapter are in fact improving in Africa, although not as fast as elsewhere.

Economic growth and poverty reduction

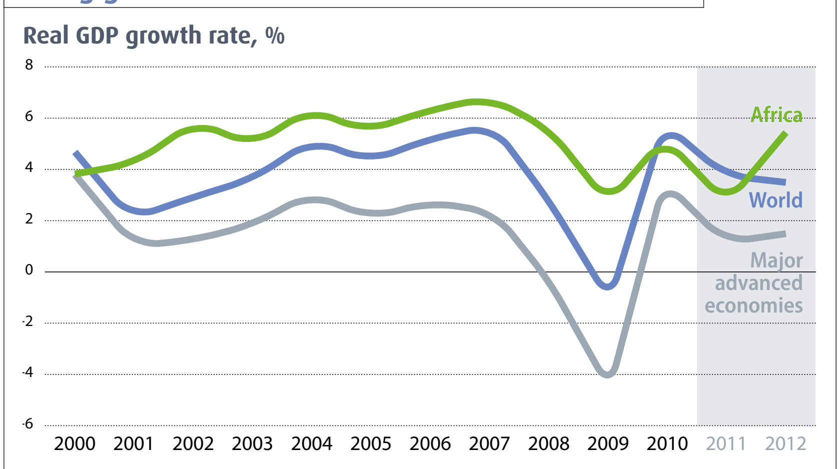
Throughout the past decade, Africa has grown faster that the global average to reach **GDP per capita**[1] of $945 in 2011. Between 2000 and 2010, six of the world's ten fastest growing economies were in sub-Saharan Africa. A number of states consistently managed growth rates above 7%, which is widely seen as the threshold for sustainable poverty reduction. This outstanding growth performance reflects significant improvements in macroeconomic management across the continent.

The global financial crisis put a dent in Africa's growth figures for 2009. While less exposed to international financial markets than other regions, Africa suffered a reduction in capital flows and a sharp decline in trade. However, with the help of anti-crisis measures taken by African governments and a rapid mobilisation of international support, sub-Saharan Africa, in particular, was able to return relatively quickly to its pre-crisis growth path (see Figure 1.1).

Africa continues to be vulnerable to shocks, both external and internal. With macroeconomic buffers yet to be rebuilt, Africa is particularly exposed to the Eurozone crisis. We estimate that every 1% drop in growth in OECD countries results in a 10% fall in demand for Africa's exports. Political crises in Côte d'Ivoire and North Africa, the spike in global food and fuel prices and the humanitarian crisis in the Horn of Africa have also affected growth.

Africa is one of the fastest growing regions in the world, but many Africans are yet to see the benefits.

Figure 1.1 **Africa has rebounded quickly and with strong growth**



Source: African Development Bank, IMF, World Economic Outlook database

1 A yellow bullet indicates that Africa's progress matches those of its peers in low- and middle-income countries.

Table 1: **Development in Africa (Level 1)**

This table summarises the continent's development progress between 2005 and 2011. The indicators are those that were adopted in the Bank's Results Measurement Framework and cover areas where the Bank provides support and advice: economic growth, regional integration etc. For each indicator progress is measured in two ways:

Relative performance—Africa's relative performance is measured by comparing its progress with progress in Africa's peer group (low-and middle-income countries across the world):

🟢 Africa's progress is higher than its peers in low- and middle-income countries; 🟡 Africa's progress matches those of its peers in low- and middle-income countries;

🔴 Africa's progress is not as high as its peers in low- and middle-income countries; ⚪ Data are not available to measure progress.

Direction of change—The direction of change tells us whether the situation has improved or worsened for each indicator:

→ Progress has been made since 2005; ← No progress has been made or situation has worsened since 2005.

INDICATOR		ALL AFRICAN COUNTRIES			OF WHICH ADF COUNTRIES		
		Baseline 2005		Latest 2011	Baseline 2005		Latest 2011
ECONOMIC GROWTH AND POVERTY REDUCTION							
🟡 GDP per capita	(2000 constant USD)	833	→	945[C]	370	→	442[C]
🟢 Population living below USD 1.25/day at PPP	(%)	51	→	39[B]	54	→	43[B]
🟡 Income inequality as reflected by the Gini Index	(%)	42	←	46[B]	42	←	45[B]
PRIVATE-SECTOR DEVELOPMENT AND INVESTMENT CLIMATE							
🟢 Global Competitiveness Index ranking[1]	(1 to 7)	3.4	→	3.6	3.1	→	3.5
🟢 Cost of business start-up	(% GNI per capita)	217	→	77	218	→	93
🟡 Time required for business start-up	(days)	58	→	35	58	→	32
REGIONAL INTEGRATION AND TRADE							
🔴 Africa's share of global trade	(%)	2.5	→	3.1	1.0	→	1.5
🔴 Intra-African trade	(billion USD)	47.4	→	108.4	31.3	→	68.7
INFRASTRUCTURE							
🟡 Access to an improved water source	(% population)	64	→	65[A]	56	→	57[A]
🟢 Access to improved sanitation facilities	(% population)	40	→	41[A]	27	→	28[A]
⚪ Access to an all-season road[1]	(% of rural population)	43		..	35		..
⚪ Household electrification rate	(% of households)	..		41.8[B]	..		30.5[B]
🟢 Fixed lines and mobile phone subscribers	(per 1000)	183	→	559[C]	86	→	415[C]
🟡 Internet users	(per 1000)	38	→	131[C]	19	→	99[C]
AGRICULTURE AND FOOD SECURITY							
🟢 Agriculture, value added	(% of GDP)	16.7	→	17.4[C]	30.5	←	30.3[C]
🟢 Staple crops yield index	(2002 value = 100)	110	→	115[B]	109	→	113[B]
🟡 Fertiliser consumption	(kilograms per hectare of arable land)	42.5	←	35.1[A]	9.2	←	8.6[A]
GENDER AND HUMAN DEVELOPMENT							
🔴 Under-five child mortality	(per 1000 live births)	140	→	128[C]	157	→	143[C]
🟡 Maternal mortality	(per 100 000 live births)	569	→	531[A]	690	→	653[A]
🟢 Ratio of girls to boys in primary and secondary school	(%)	87	→	91[B]	85	→	88[B]
🟢 Primary school completion rate	(%)	63	→	73[B]	53	→	67[B]
🟡 Employment-to-population gender ratio	(index)	0.66	→	0.67[A]	0.74	←	0.74[A]
GOVERNANCE AND TRANSPARENCY							
⚪ Public Expenditure and Financial Accountability score	(1 to 7)	..		3.2[A]	..		3.1[A]
🟡 Worldwide Governance Indicators avg. score	(-2.5 to 2.5)	-0.69	→	-0.66[C]	-0.84	→	-0.80[C]
⚪ Extractive Industries Transparency Initiative score	(% compliance)	..		33.3[B]	..		40[B]
FRAGILE AND CONFLICT-AFFECTED COUNTRIES							
🟢 Country Policy and Institutional Assessment (CPIA) score[1]	(average)	3.3	→	3.5	3.2	→	3.4
🟢 Number of fragile countries[2]	(number)	20	→	17	20	→	16
ENVIRONMENT AND CLEAN ENERGY							
🟡 Combustible renewables and waste	(% of total energy)	46	←	43[B]	79	→	81[B]

.. = data not available; AfDB = African Development Bank; ADF = African Development Fund; GDP = gross domestic product; GNI = gross national income; PPP = purchasing power parity; USD = United States dollars.

Available baseline year is [1] 2006, [2] 2007. Latest data available is for [A] 2008, [B] 2009, [C] 2010.

Notes: ADF countries are the 38 lower-income AfDB member countries that qualify for concessional funding. They are Benin, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Comoros, Congo Republic, Democratic Republic of the Congo, Côte d'Ivoire, Djibouti, Eritrea, Ethiopia, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Nigeria, Rwanda, Sao Tomé and Principe, Senegal, Sierra Leone, Somalia, Sudan, Tanzania, Togo, Uganda, Zambia, and Zimbabwe. Cape-Verde and Angola are in transition. South Sudan is pending approval of membership.

Source: African Development Bank, Food and Agriculture Organization of the United Nations, International Monetary Fund, Organisation for Economic Co-operation and Development, United Nations Educational, Scientific and Cultural Organization, World Bank Group, and International Energy Agency.

Box 1.1 What does inclusive growth mean?

The challenge of promoting inclusive growth in Africa can be broken down into where, what and who—namely, addressing the spatial, sectoral and social dimensions of exclusion.

- **Where do those most vulnerable live?** Between 15% and 20% of inequality in Africa is due to differences between economic regions. Urban centres and coastal zones are moving ahead, while rural areas lag behind, held back by poor infrastructure, limited access to markets and low agricultural productivity. At the same time, rapid urbanisation is creating a new, urban face of poverty with attendant social problems.
- **What economic sectors best support inclusion?** If growth is concentrated in a limited number of sectors, such as the extractive industries or a dominant agricultural commodity, its benefits tend to be concentrated in a few hands. For example, in 2009 Angola's exports were 97% crude oil, Burkina Faso's almost 80% raw cotton and gold, and Zambia's 74% copper. Diversifying the economy creates more opportunities for people to participate, leading to more robust and inclusive growth.
- **Who is vulnerable and disenfranchised?** Women make up 70% of agricultural labour and produce around 90% of the food. However, these are low-paid and low-status jobs. Outside agriculture, only 8.5% of jobs are held by women. Inequality also has an important intergenerational dimension, with young people making up 72% of Africa's poor. Africa's youth bulge is growing dramatically; by 2050 almost 400 million Africans will be between 15 and 24 years old. But youth unemployment already stands at 35%. While education levels are improving, the economic opportunities available to educated young people are no better than for those with no education.

Overall, however, we remain confident that Africa can continue its outstanding growth performance, for a number of reasons. A decade of reform has given rise to improved macroeconomic management and a more attractive business climate. The rise of China and other emerging economies is helping to sustain high commodity prices, to the benefit of the resource-rich African continent. Another key factor is the rise of Africa's middle class, now thought to number between 300 and 500 million people. With more Africans in a position to make consumer choices, Africa is becoming an increasingly attractive market for both domestic and foreign investors.

However, Africa's growth tends to be concentrated on a limited range of commodities and the extractive industries. These sectors are not generating the employment opportunities that would allow the majority of the population to share in the benefits. This is in marked contrast to the Asian experience, where the growth of labour-intensive manufacturing has helped lift millions of people out of poverty. This unequal pattern of growth is exacerbated by poor infrastructure and chronic underinvestment in agriculture, which prevent the rural population from sharing in the new urban prosperity.

As a result, Africa remains one of the most unequal regions in the world. Income inequality, as measured by the **Gini index**, has widened over the past six years, as it has in other developing regions, and has barely improved since 1980. Of the ten most unequal countries in the world in 2010, six were in sub-Saharan Africa.

One of the consequences of high inequality is that economic growth has less of an impact on poverty reduction. Growth is not reaching many of those in dire poverty. Since 2005, **the proportion of Africa's population living on less than $1.25 per day**[2] decreased from 51% to 39% — a very creditable performance by international standards, but still short of the rate of poverty reduction needed to achieve the first Millennium Development Goal (MDG). Had the pattern of growth been more inclusive, the decline in poverty would have been more dramatic.

"The lesson is that Africa has to diversify its economic base... Our economic strategy going forward is to diversify. This should really be a challenge to all of us in Africa."

Minister Timothy Tahane, Lesotho

Private-sector development and investment climate

The private sector is Africa's primary engine of growth. It generates 70% of Africa's output, two-thirds of its investment and 90% of employment. Creating private-sector jobs is the most effective and sustainable strategy for lifting more Africans out of poverty.

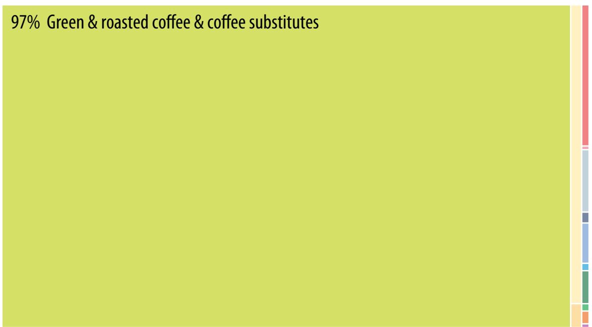
Private sector growth is also key to financing Africa's future development. A dynamic private sector enables domestic revenues to grow, reducing dependence on aid. Combined domestic revenues across Africa are now more than ten times the value of aid flows. Financing development from private-sector growth creates a

2 A green bullet indicates that Africa's progress is higher than its peers in low- and middle-income countries.

Figure 1.2 Uganda's economy has diversified significantly since 1980

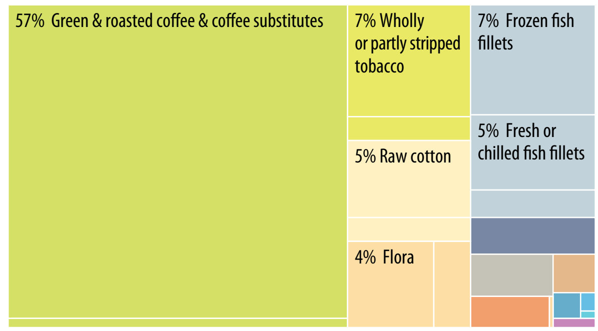
Economic diversification and sustained growth go hand in hand. The figure below maps Uganda's export diversification over the past 30 years. It shows that Uganda's exports have diversified significantly since 1980. Each box represents a product. The size of the box shows its share of Uganda's exports. The larger the size of the box, the larger the share of exports.

1980



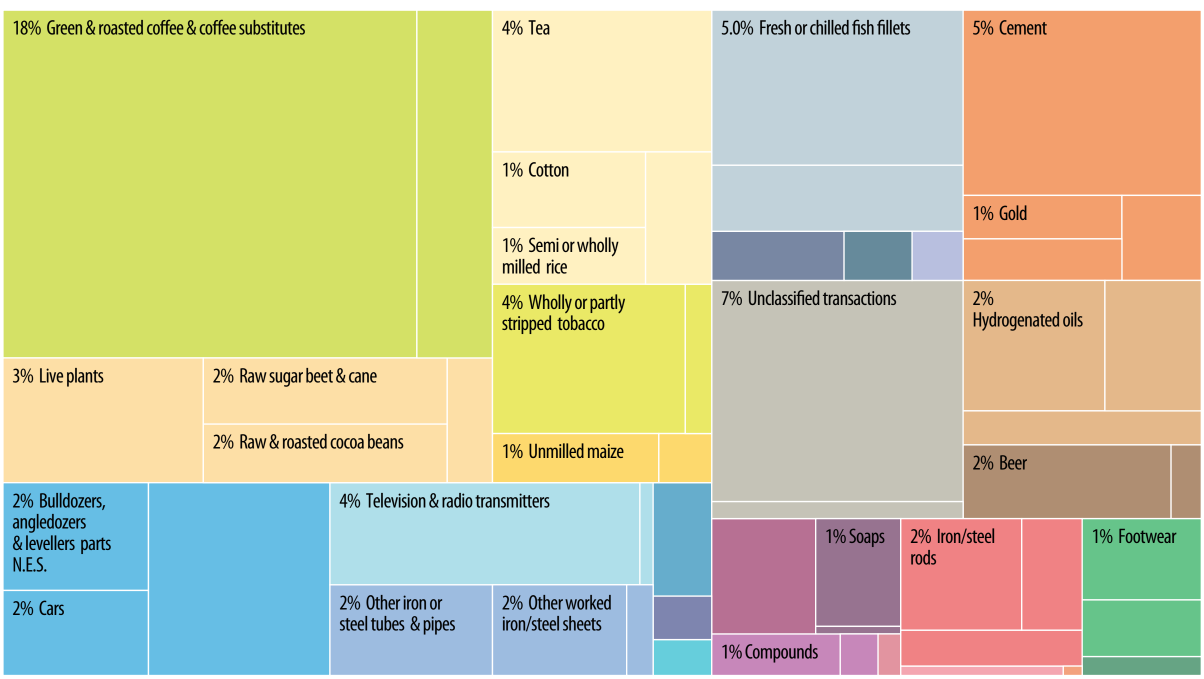
In 1980 almost all of Uganda's exports were coffee.

2000



By 2000 Uganda started to diversify into tobacco, cotton, sesame, flowers and frozen fish.

2009



Today Uganda's exports are well diversified, with coffee only making up 18% of exports.

Uganda: Diversification as the basis of robust and inclusive growth

The case of Uganda is a prime example. In the 1980s, Uganda's exports consisted almost exclusively —96%— of coffee. By 2000, it had diversified into tobacco, cotton, sesame, flowers and frozen fish. Today, it has added more diverse and higher value production to its exports, such as cement, transistors, soap, beer, bulldozers and footwear. While coffee is still the largest single export, its share of the total is down to 18%. This has made the economy more resilient to external shocks, including global economic crises, unfavourable weather and commodity-price fluctuations. GDP growth has increased steadily from an average of 6.5% in the 1990s to over 7% in the past decade. As a consequence, since 1990 poverty has been more than halved to below 25%.

Source: MIT Media Lab/Harvard Center for International Development (atlas.media.mit.edu)/IMF virtuous circle of increased public expectations and improved government performance.

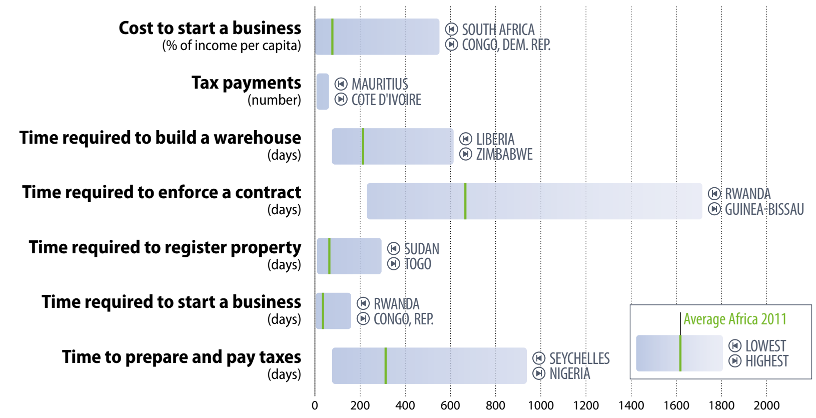
African countries have made significant progress in improving the regulatory environment for business and promoting competition, trade and investment. In 2011, 36 of 48 sub-Saharan African countries improved their business regulations. Rwanda has been an outstanding performer, demonstrating the value of sustained reform efforts. From ranking 58th in the world for ease of starting a business in 2006, it reached 8th place in 2011 and has been named several times among the top global reformers. Other strong performers include Burkina Faso, Mali and Ghana. The **average cost of starting a business** in Africa fell dramatically from $217 in 2006 to $77 in 2011, while the **average time for business start-up** declined from 58 to 35 days (Figure 1.3).

Africa's competitiveness has begun to improve, although from a low base. Only three African countries (South Africa, Tunisia and Mauritius) feature in the top half of global rankings, but a number of others have begun to improve their positions. Costly red tape, however, continues to be a widespread concern, encouraging businesses to remain in the informal sector.

Another constraint to private-sector development in Africa is access to finance. A third of large companies and half of small enterprises struggle to secure finance on suitable terms. But there are some encouraging signs. Over the past decade, there has been an explosion in financial-service providers, including micro-finance institutions. The spread of mobile telephones has opened up exciting new opportunities for financial services. The number of stock markets covering the region has doubled since the 1990s, with 2,000 companies now listed. This paves the way for African companies to mobilise the capital they need to invest in improving productivity and competitiveness.

Africa's private sector development is held back by a range of other factors, including inadequate infrastructure and education systems poorly suited to the needs of the labour market (discussed below). Of particular concern is Africa's lack of economic diversification. The typical African country is dependent on a handful of primary products (e.g., oil, minerals, cotton or cocoa) for the bulk of its economic activity, with little value added. This means that economic opportunities are geographically concentrated, leading to wide regional disparities. Evidence from household surveys suggests that between 15% and 20% of income inequality stems from differences among geographical areas. Economic concentration also increases vulnerability to changes in commodity prices and climate variability. A key priority for the future is therefore diversifying Africa's economic base to create opportunities for a larger share of the population, while creating more robust growth and reducing vulnerability. Figure 1.2 provides an account of successful diversification in Uganda.

Figure 1.3 **Doing business in Africa**



Source: World Bank, Doing Business

Regional integration and trade

History has bequeathed the African continent a legacy of fragmentation. Africa is divided into 54 countries, 28 of which have a GDP under $10 billion, 26 have populations under 10 million, and 16 are landlocked. This fragmentation is a significant constraint on Africa's development, making it very difficult to build the economies of scale required for the continent to become internationally competitive.

"The growth path we envision is not measurable by GDP alone. It must be an inclusive growth, which benefits the many South Africans who have been left behind."

Pravin Gordhan, Finance Minister of South Africa

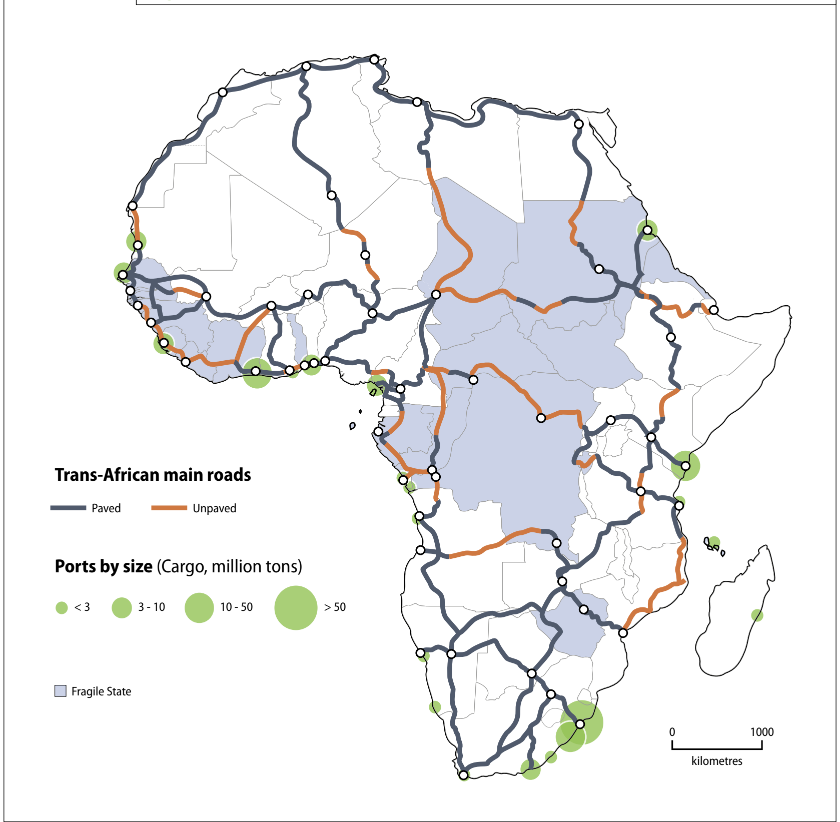
Nonetheless, Africa's trade is growing, although less rapidly than in other regions. **Intra-African trade**[3] has more than doubled, from $47 billion to $108 billion. Half of this trade is within the Southern African Development Community (SADC), where South Africa trades with its neighbours. Only 10%–12% of Africa's exports remain on the continent. However, there is evidence of substantial levels of unrecorded cross-border trade in the informal sector. For example, the Uganda Bureau of Statistics estimated that informal trade could account for 25% of exports. This suggests significant potential gains from greater integration of regional markets.

Africa's inter-continental trade has also more than doubled, with imports and exports totaling close to a trillion dollars. As a result, Africa's **share of global trade** recovered from 2.5% in 2005 to 3.1% in 2011. This impressive performance, however, is masked by Asia's rapid expansion and growth in other developing countries. Most of the new trade is with Asia. While exports to advanced economies have shrunk from 75% to a little more than half of African exports, exports to Asia have grown to five times the previous level.

3 A red bullet indicates that Africa's progress is not as high as its peers in low- and middle-income countries.

1

Figure 1.4 **Trade and infrastructure in Africa**



Source: Based on Mundy and Penfold 2008; African Development Bank

Yet the regional integration agenda remands a demanding one. Africa's deficits in "hard" infrastructure—particularly poor transport connections and costly and unreliable power supply—remain one of the major constraints on trade and regional integration. Figure 1.4 shows Africa's major regional transport connections. A significant proportion of the road network is unpaved, and many routes pass through fragile or conflict-affected states where basic maintenance is often neglected. We estimate that an investment of $32 billion in upgrading and maintaining Africa's major road network would lead to a $250 billion increase in trade over a 15-year period, with the biggest gains going to the most isolated regions. Since its creation in 2005, the Infrastructure Consortium for Africa has helped to increase the level of investment in regional infrastructure.

"Investing in infrastructure in developing countries will unlock new sources of growth, contribute to the achievement of the Millennium Development Goals and sustainable development."

G20 Cannes Summit Final Declaration 2011

There are also issues with the "soft", or institutional, infrastructure for regional trade, including non-tariff barriers, restrictive rules of origin, poor legal and regulatory environments and a lack of trade facilitation. These have to be addressed if Africa is to become competitive in the global marketplace.

Africa's leaders are committed to creating a single African market. Over the years, however, a proliferation of parallel initiatives has led to a complex architecture of overlapping Regional Economic Communities (RECs), making progress more difficult. There are some useful initiatives now underway to rationalise this architecture. For example, the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC) and SADC have launched a single free-trade area. In Central Africa, two resource-rich RECs (the Economic Community of Central African States and the Economic and Monetary Community of Central Africa) are planning a merger, while in West Africa there are plans to establish a single monetary union by 2020. To effectively support these initiatives, there is a need for fewer, more specialized regional institutions operating with improved governance arrangements and a higher level of transparency, so that their progress can be monitored.

Infrastructure: Sanitation, transport, energy and telecommunications

Africa still has some way to go to improve its infrastructure. Gaps in infrastructure provision between rural and urban areas and between different countries and regions are one of the reasons that the benefits of growth are not shared more equitably. A fifth of Africans live in small, scattered communities, where the costs of providing infrastructure can be prohibitive. But even in urban centres, population growth has outstripped the development of infrastructure, and basic services are twice as expensive as in other developing regions.

The precarious state of infrastructure has a major impact on Africa's development. Businesses are isolated from potential markets and unable to grow and diversify. Rural communities are unable to improve their livelihoods by capturing more value from their output. And the delivery of basic services like health and education is constrained, inhibiting achievement of the Millennium Development Goals.

One major challenge is transport. Although accurate data is scarce, it appears that less than half of the **rural population has access to all-season roads**. The density of the road network still lags far behind other regions, at 204 km of road per 1000 km^2 of land area compared to a world average of 944 km. There are also wide variations between countries, ranging from 0.5 km rural roads per 1000 people in Malawi to 35.5 km in Namibia. Africa's reliance on bulky primary produce means it would benefit from rail transport. However, the rail network is severely underdeveloped, ranging from 30 to 50 km of rail per million people compared to Europe's range of 200 to 1000 km.

Another constraint on business is the lack of electric power. With a combined population of 800 million people, the 48 countries of sub-Saharan Africa generate roughly the same power output as Spain, a country of 45 million. Africa's 124-kilowatt average annual power consumption is only 10% of that in other developing regions —barely enough to run a single light bulb per person for 3 hours a day — and is decreasing with population growth. The **household electrification rate** in ADF countries stands at 30%, but this falls to just 10% in rural areas compared to 70% in the towns — a major driver of inequality. Thirty African countries face regular energy shortages, costing firms around 5% of their sales. Energy costs are also extremely high, particular in rural areas relying on off-grid solutions.

Access to improved water and sanitation is improving, but still has a long way to go. In sub-Saharan Africa, 57% of the population have **access to an improved water source** and only 28% have **access to improved sanitation facilities** — an increase of just 1% on both figures, although progress has been on a par with or better than other developing regions. Only 17 countries are on track to achieve the Millennium Development Goal on water and only four for sanitation. Despite a series of high-level political commitments to tackling this issue, access to water is in fact declining as a result of population growth and urbanisation. Figure 1.5 shows the enormous potential for investments in water to reduce poverty.

Africa's information and communications infrastructure is expanding more rapidly. **Access to fixed line and mobile phone subscriptions** in sub-Saharan Africa has leapt from 86 per 1000 people in 2005 to 415 in 2011, with 735 million mobile phone subscribers across the continent expected by the end of 2012. **Internet use** increased from 19 to 99 people per 1000. This is an encouraging development, with the potential to deliver important services (e.g. mobile banking and market information) to rural and isolated communities.

These are urgent challenges. With its rapidly growing population, Africa needs to scale up its investments in infrastructure just to prevent existing access levels from declining. Overall, we estimate total investment needs at around $93 billion (one third of which is for operations and maintenance) to meet population pressures and prevent infrastructure from remaining a constraint on inclusive growth.

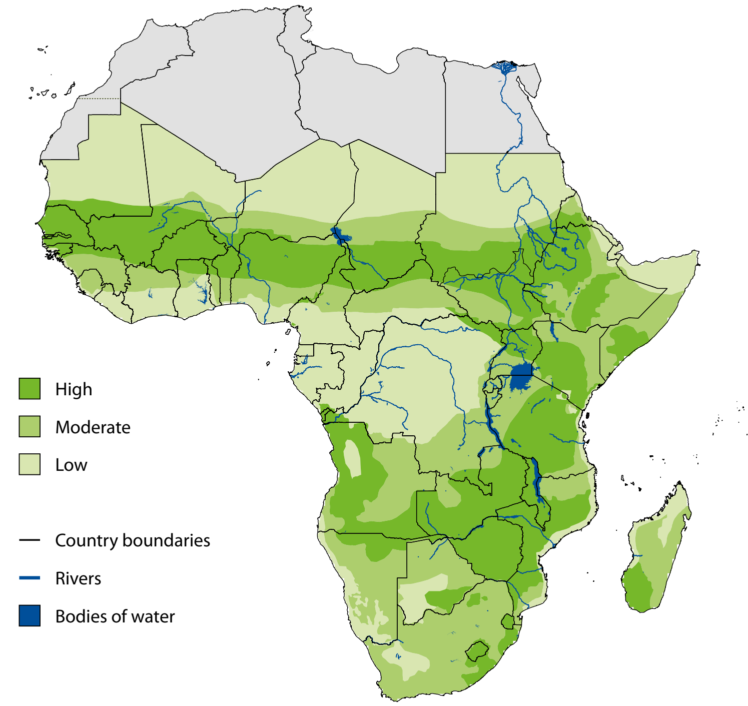
Agriculture and food security

Agriculture is the foundation of Africa's economy, employing 60% of the population and **contributing 30% of GDP**. But with population growth outstripping agriculture production, food prices have been rising rapidly, with profound economic, social and political implications.

Food production in Africa has been gradually increasing. The **staple crops yield index** increased from 110 in 2005 to 115 in 2011, with maize production up by 151%, wheat by 143% and rice by 132%. Meat and dairy production have remained the same, while fish catches have collapsed over the past 12 years in the face of poor fisheries management and large-scale illegal fishing. Overall, with 3% population growth, Africa is the only continent in the world where food production per head has declined over the past 30 years.

Figure 1.5 **Water and poverty reduction: areas of greatest need**

Potential for poverty reduction through water interventions



Source: FAO, Water and the Rural Poor 2008

As a result, agriculture has contributed less than 10% to Africa's economic growth over the past decade, leaving rural incomes to stagnate or decline in most countries. While output per farmer has been growing at 2% per annum in Asia and 3% in Latin America, farm productivity in Africa has not improved. In Africa's poorest countries **fertiliser consumption** remains very low at just 8.6 kg per hectare.

With population growth outstripping agriculture production, food prices are rising at an ever-faster rate, with profound economic, social and political implications.

High food prices now appear to be a long-term problem for Africa, affecting an ever-wider range of products. Over the past ten years, the price of rice has risen by 204%, wheat by 167% and maize by 165%. This has implications for macroeconomic stability, contributing to a spike in inflation in East Africa. But its most serious impact is on the poor, who spend most of their money on food and have no cushion against rising prices. The urban poor, who buy all their food, are particularly vulnerable. But even subsistence farmers tend to be net food buyers. Food security therefore remains a major problem and Africa's prospects of reaching the Millennium Development Goal on hunger are remote. The current humanitarian crisis in the Horn of Africa demonstrates the gravity of the situation.

1

Yet Africa has huge agricultural potential. Some 16% of its land is arable—the highest proportion of any continent—and agricultural labour is plentiful. With 79% of this land still uncultivated, a more efficient agricultural sector could become a major driver of inclusive growth. At present, agricultural growth is held back by a shortage of water, with 82% of Africa classed as arid or semi-arid. Soil degradation is another serious problem. Agricultural land also remains highly fragmented: 90% of production is at subsistence level and 80% of smallholders have less than two hectares of land. Other constraints include poor infrastructure, limited access to finance, inputs and markets, weak institutional supports, and limited uptake of new technology.

"We must include women because when you educate a woman, you educate a village, a society, a country and, ultimately, a continent."

Linah K. Mohohlo, Governor of the Bank of Botswana

But these problems are not insoluble. Rwanda has demonstrated that intensive investment in agricultural productivity can be a major driver of poverty reduction (see Box 1.2). To replicate this success story, Africa needs to boost its investment in agriculture substantially to address bottlenecks across the entire value chain. Increasing food security also requires investing in storage, processing and distribution, and overcoming decades of neglect in government policy and expenditure.

Gender and human development

Africa is the youngest continent in the world, with around two-thirds of its population under 25. By 2050, the number of Africans between 15 and 24 years of age will almost double to nearly 400 million. If the energy and creativity of young Africans can be harnessed, this demographic dynamism may prove to be Africa's greatest asset. But the challenge is urgent. The "youth bulge" is already generating increasing demands for economic opportunities and political voice. If these demands cannot be met, they could become a source of social and political instability.

Human development is the key to unlocking this potential. Proper nutrition, better health and a basic education are the foundations that will give African children the best opportunities in life. The equitable delivery of basic services like health and education is fundamental to ensuring inclusive growth.

There has been a huge increase in financing for education in sub-Saharan Africa in recent years, with some impressive results. Over the course of a decade, net enrolment rates in primary education have increased from 58% to 76%, while **primary completion rates** are up from 53% in 2005 to 67% in 2011. But while access to education has increased, learning outcomes have lagged behind. One-third of young Africans still lack basic literacy and numeracy. Without those foundation skills, their life prospects are severely limited.

Despite the improvements in education, young people across the continent are struggling to obtain gainful employment. Youth unemployment is close to 50% in South Africa—more than double the adult unemployment figure—and above 25% in a number of other countries. Even these figures hide the true extent of the problem. In sub-Saharan Africa, young workers are heavily concentrated in the informal sector where productivity is low and opportunities for advancement limited. They constitute the "working poor"—a category that in many countries is both more widespread and more difficult to tackle than formal unemployment.

Africa can reap significant dividends from investing in the potential of its youth. This means ensuring that education and training are matched to the needs of the labour market. Between 1999 and 2009, the number of university graduates in sub-Saharan Africa more than tripled. However, in 2008

Box 1.2 A Rwandan success story

Rwanda has achieved some of the most impressive growth and poverty-reduction figures in Africa. National poverty rates have declined from 57% in 2005 to 45% in 2011, lifting one million people out of poverty. Unusually, rapid economic growth has been accompanied by a reduction in income inequality, allowing growth to be more inclusive. One of the drivers of inclusive growth has been intensive government programmes to boost agricultural productivity, through land reform and crop intensification. Rwanda is one of the few countries to reach NEPAD's recommendation of devoting 10% of national expenditure to agriculture. Increases in agricultural production have led to a growth in farm wage employment, making a major contribution to poverty reduction in rural areas. In the social sectors, primary school enrolment has risen by 20% since 2005, putting Rwanda very close to the Millennium Development Goal on universal primary enrolment, while primary completion rates have increased from around 50% to nearly 75%. Maternal and under-5 mortality have dropped dramatically since 2005.

		2005	2011
Poverty rate	(%)	**56.7**	**44.9**
Gini coefficient	(%)	0.522	0.49
GDP per Capita	($)	333	540
Net primary enrollment	(%)	86.6	91.7
% with safe drinking water	(%)	70.3	74.2
% with access to electricity	(%)	4.3	10.8
Ownership of mobile phones	(%)	6.2	45.2
Maternal mortality	(number)	750	487
Infant mortality	(number)	86	50
Under 5 mortality	(number)	152	76

Source: National Institute of Statistics of Rwanda (NISR), EICV 2,3 only 27% of students were enrolled in science, engineering or technology subjects, compared to more than half of students in East Asia. Unemployment rates among those with tertiary education are higher than among those with no education at all. This results in a dangerous clash between expectations and reality. Africa's young people are all too aware of how their counterparts on other continents are living. Their growing frustration became clearly apparent during the Arab Spring.

Health outcomes in sub-Saharan Africa have been gradually improving from a low level. **Under-five child mortality** is down from 157 per 1000 births in 2005 to 143 in 2011, while **maternal mortality** is down from 690 per 100 000 births to 653. But inequality still persists. Women from the poorest 20% of households are three times less likely to receive skilled assistance in childbirth than those from the richest 20%. To deal with the continuing challenge of HIV and other infectious diseases and the emerging public health threats associated with rapid urbanisation and climate change, Africa urgently needs to strengthen its domestic health systems and policies.

African women and girls still face a range of additional barriers to their participation in economic and social life. Most African countries have achieved gender parity in primary school, but there has been less progress at secondary and tertiary levels. Overall, the **percentage of girls in primary and secondary school** across Africa has increased from 87% in 2005 to 91% in 2011—good progress by international standards. Women's participation in government remains limited. There has been a proliferation of women's ministries and focal points, but these institutions remain on the margins of government decision-making, lacking both resources and capacity. While women predominate in unpaid agricultural work, their access to formal employment has not improved. The **employment-to-population gender ratio** indicating the proportion of a country's working-age women who are employed, remains static at 0.74.

Governance and transparency

The quality of a country's institutions is a major factor not just in its rate of economic growth, but also in how inclusive that growth is likely to be. More effective and accountable states are better placed to mobilise the resources they need to tackle poverty and deliver development programmes and public services efficiently. Around the world, countries with better governance also tend to have less inequality.

Africa performs poorly on standard governance indicators, scoring 30% lower than the Asian average and 60% lower than industrialised countries. Across the continent, the average **Worldwide Governance Indicator score** has improved only marginally over the past five years, and some individual indicators have slipped backwards. According to the Mo Ibrahim index, most African states have improved their ability to create sustainable economic opportunity and promote human development. On the other hand, most have seen a deterioration in their ability to ensure the rule of law, democratic participation and human rights (See Figure 1.6).

Figure 1.6 **Governance in Africa**

Number of countries with improved scores

Source: 2011 Ibrahim index of African governance

But the picture is by no means static. The unprecedented economic growth that Africa has enjoyed over the past decade has been in large part a result of improvements in some basic governance areas. Macroeconomic management has improved significantly while regulatory reforms have contributed to an improved business environment. Domestic revenue collection has increased, reducing aid dependence and enabling the expansion of basic services.

The unprecedented economic growth that Africa has enjoyed over the past decade has been a result of improvements in some basic governance areas.

Public financial management has been a subject of sustained attention over the past decade. Many African countries have developed new legal frameworks for financial governance, resulting in more credible budgets and more reliable expenditure management. However, according to the Collaborative Africa Budget Reform Initiative (CABRI), in many instances this represents isolated pockets of achievement rather than systemic improvement. The average **Public Expenditure and Financial Accountability score** still stands at only 3.2 out of a possible 7. In particular, transparency and accountability remain inadequate, with external auditors and parliamentary committees struggling to establish their independence and authority.

Fighting corruption remains one of Africa's biggest challenges. Despite some modest improvement in recent years, the 2011 Transparency International Corruption Perceptions Index ranks the majority of African states at less than 3 out of 10, indicating that corruption remains entrenched. The poor bear the costs of corruption disproportionately, as they are often forced to pay to access basic services.

Corruption around the extractive industries is a major issue for Africa. Many African countries have significant natural resources that, if managed properly, represent an extraordinary opportunity to close the development gap. However, experience shows that natural resources can be as much a curse as a blessing, fueling corruption and conflict. The Extractive Industries Transparency Initiative (EITI) is therefore a key policy initiative for Africa. In 2011, six Africa countries (Liberia, Central African Republic, Mali, Niger, Nigeria and Ghana) were fully EITI-compliant and 15 others were candidates, leading to an overall **EITI score** of 33.3% compliance.

Fragile and conflict-affected countries

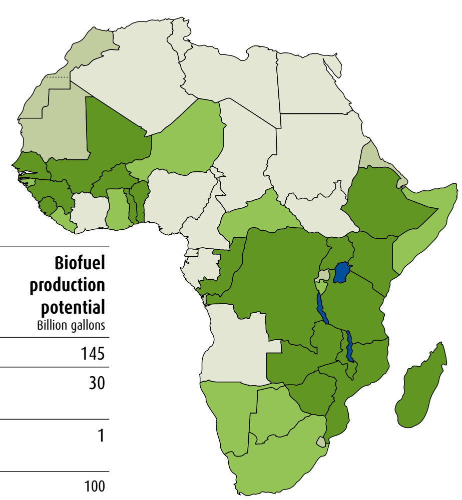
Conflict and political fragility are among the most serious constraints on Africa's development. Around one third of African states—home to over 200 million people—can be classed as fragile. With 50% higher rates of malnutrition, 20% higher child mortality rates and 18% lower primary completion rates, they lag behind on almost all development indicators. No fragile state has yet achieved even a single Millennium Development Goal.

"Green, sustainable development may be an option for others, but for us, it's the only alternative we have."

Meles Zenawi, Prime Minister of Ethiopia

Africa remains one of the most conflict-ridden regions in the world, with the number of conflicts increasing in recent years, although they are of lesser intensity than in the past. According to figures produced by the Heidelberg Institute for Conflict Research, there were 40 violent conflicts in 2010, compared to only 29 in 2005, as well as four attempted *coups d'état*. Yet a number of states—for example, São Tomé and Principe, Djibouti and The Gambia—have successfully emerged from conflict and fragility: in 2011, the **number of African fragile states** was 17, down from 20 in 2007.

Figure 1.7 **Biofuel production potential**



Segments	2009 local gasoline demand (Billion gallons)	Biofuel production potential (Billion gallons)
Biofuel primary candidates	1	145
Biofuel second-wave candidates	3	30
Potential biofuel import markets	0.5	1
Oil exporters	5	100

Source: McKinsey Global Oil & Gas Analyzer; JODI World Database

The most intractable conflicts have effects that spill over national borders—for example, refugee movements and the proliferation of small arms—creating a regional complex of interconnected violence. There are two such complexes in Africa, one stretching from Nigeria across Chad and Sudan to the Horn of Africa and the other in the Great Lakes region.

While elections are now ubiquitous across Africa—there were 17 presidential elections in 2011—democratic norms are only weakly rooted. Only a handful of African countries have reached the point where the peaceful transfer of power through elections is now routine. Elections can be a trigger of conflict, as happened tragically in Côte d'Ivoire in 2010-11. And in too many countries, the electoral deck is still stacked firmly in favour of the incumbent. The Arab Spring brought home the dangers of legitimacy gaps. The resulting democratic deficit leaves countries poorly equipped to handle the tensions that are an inevitable aspect of growth and development.

Conflict and political instability are among the most important causes of exclusion in Africa. Conflict discourages trade and investment, erodes institutional capacity and disrupts public services. In times of instability, basic maintenance is neglected and infrastructure degrades rapidly. Africa's fragile states generate barely 20% of their energy needs, and their dilapidated road networks increase the isolation of the population. In Africa's fragile states, some 51% of the people live below the international poverty line of $1.25, compared to 39% across Africa as a whole.

Populations in fragile states are also acutely vulnerable to shocks, including rising food prices and climate variability. In the Horn of Africa, drought has left 12 million people in need of humanitarian assistance. Thirty years after Amartya Sen pointed out that famines are first and foremost political failures, this human catastrophe demonstrates the high cost Africans pay for conflict and instability. Girls and women suffer disproportionately from the effects—not only are they vulnerable to victimisation during conflict, but personal insecurity can keep women out of the workforce and girls out of the education system.

Environment and clean energy

With 40% of the world's biodiversity, 20% of its forest reserves and more than half of its renewable energy potential, Africa has abundant natural capital. But it also faces environmental challenges that threaten to reverse its development achievements to date.

Environmental degradation in Africa is a serious and growing problem. Parts of the continent are losing 50 tonnes of soil per hectare each year, resulting in stagnating agricultural yields and loss of rural livelihoods. As much as 22% of the population in sub-Saharan Africa live on degraded land. Some 319 million hectares of land are vulnerable to desertification; in parts of West Africa, the desert is advancing at a rate of 5 km a year. While this is partly a natural phenomenon, it is being accelerated by the growth in numbers of people and livestock in arid and semi-arid areas.

Africa has only 9% of global freshwater resources, distributed very unevenly, while its water-storage capacity is 30 times lower than North America's. Rain-fed agriculture provides 30% of GDP and employs 70% of the population. But annual rainfall is highly unpredictable, varying by 30%–40% in the Sahel. In East Africa, periodic drought and flood years can cost 10% or more of GDP. As climate change increases this unpredictability, water scarcity is likely to become an increasing challenge, both for agriculture and for political stability.

Environmental degradation affects poor people inordinately and is becoming a significant source of inequality. The poor bear the consequences not just of changes in their wider environment, but also of immediate environmental threats, such as indoor air pollution, dirty water and inadequate sanitation. They are at greater risk of death or injury from extreme weather events. Subsistence-farming communities have no cushion against climate variability and are forced into depleting their natural resources. Nomadic herders are particularly vulnerable to the effects of drought, which can rapidly deprive them of their assets.

Paradoxically, Africa's low level of infrastructure development puts it in a unique position to pursue a green development path. Its wind, geothermal and hydropower potential has barely been tapped. The lack of grid coverage means that 90% of the rural population in sub-Saharan Africa has no electricity, and those who depend on diesel generators pay around $1 per kilowatt-hour. In contrast, photovoltaic solar energy production could cost less than 20 cents.

Small-scale, off-grid clean-energy solutions offer the best potential for bringing electricity to the most deprived areas, with no adverse impact on the environment. However, developing them requires major investment, as well as ways of overcoming such obstacles as insecure property rights, unclear regulatory frameworks and unfavourable tariff structures. At present, **combustible renewables and waste** make up 81% of energy needs in sub-Saharan Africa—far above the global average—but needs to expand rapidly in absolute terms (see Figure 1.8 for Africa's biofuel production potential).

While Africa has contributed little to the causes of climate change, it is disproportionately vulnerable to its effects. But climate change is also an opportunity to set Africa on a development pathway that is climate resilient, rather than carbon intensive, and that builds adaptive capacity. To this end, the Bank has been supporting African leaders' efforts to mobilise more resources for green development in international forums—and encouraging them to pay more attention to climate issues in national development planning.

Conclusion

This overview of Africa's economic performance contains many positive elements. The rise of China and other emerging economies, strong commodity prices, the burgeoning African middle class and the continent's growing appeal to private investors all suggest that the strong growth performance of recent years is likely to continue.

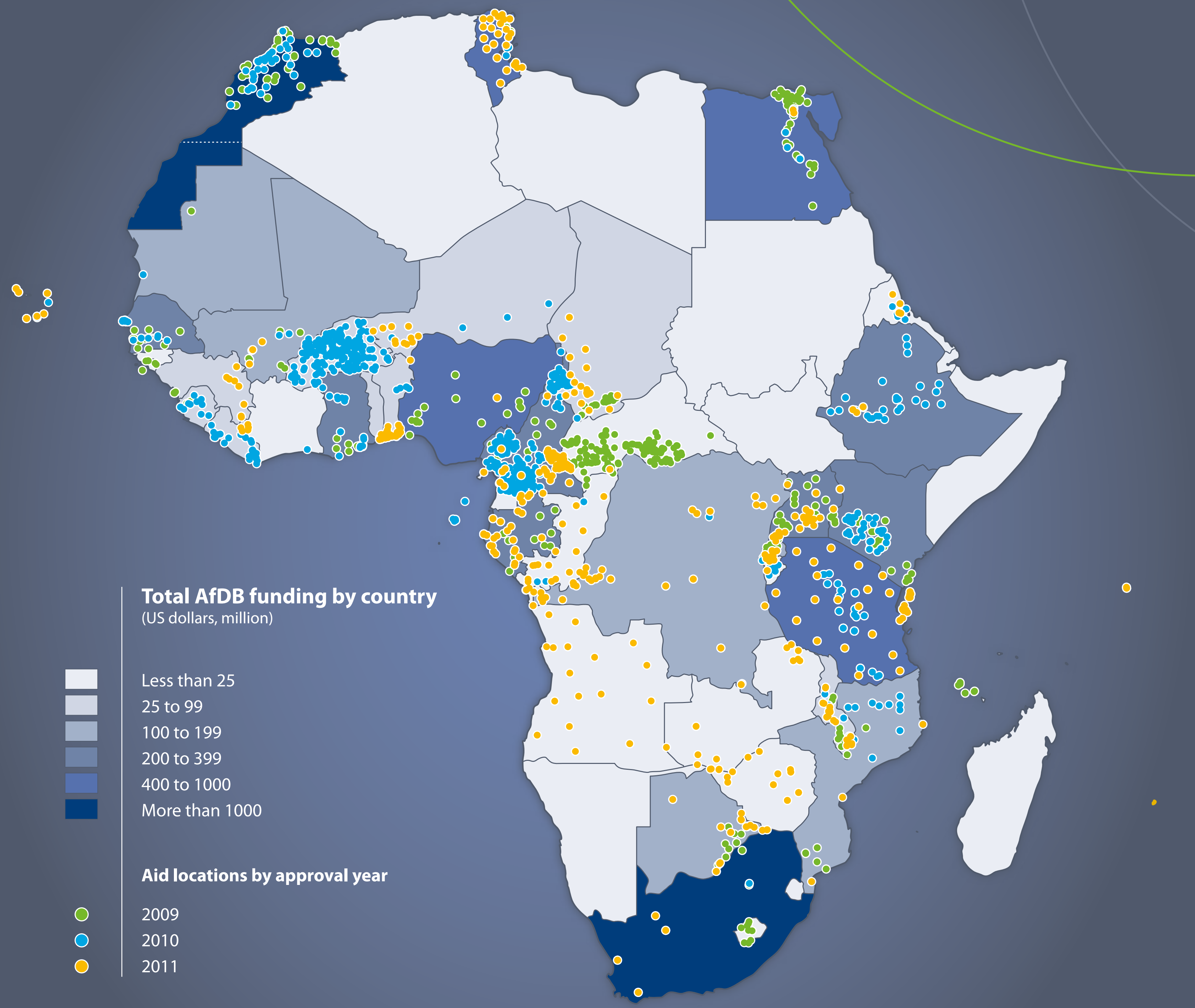
It also clear, however, that the nature of growth in Africa needs to change. The current pattern of growth excludes large sections of the population. Unless growth is more inclusive, it will not deliver the level of poverty reduction that Africa requires.

Promoting inclusive growth means finding solutions to some deep structural problems. It means broadening the economic base beyond the extractive industries and a handful of primary commodities. It means promoting labour-intensive industries, so that creating employment becomes an engine for poverty reduction. It means overcoming Africa's vast infrastructure deficit, to link rural areas to the more dynamic cities and coastal areas and to foster greater economic integration. It calls for a reversal to decades of underinvestment in agriculture, to boost farm productivity and reduce food insecurity. And it means generating real opportunities for Africa's young people, so that the youth bulge becomes a source of dynamism rather than instability.

In the next chapter, we turn to what the Bank is doing to meet these challenges ■

AfDB operations in Africa

Operations approved in 2009-2011



The African Development Bank approved almost $25 billion in loans and grants between 2009 and 2011. To increase the transparency of its operations and better allocate its resources across the continent, the Bank is geo-coding its entire portfolio. This map plots the geographic location of the 263 Bank operations that were approved between 2009 and 2011. Projects that can be pinned to a geographic location are signalled by the symbol ●.

Level 2: How AfDB contributes to Africa's development

This chapter reviews the African Development Bank's contribution to addressing the many pressing development challenges outlined in Chapter 1. As the continent's premier development bank, we invest some $9 billion each year in Africa's development and provide a broad range of knowledge products and technical advice. In accordance with our Medium-Term Strategy, reducing Africa's vast deficit in infrastructure—a major bottleneck to the continent's development—is our highest priority, absorbing the lion's share of our resources. Other priority areas include governance, private-sector development and higher education. This chapter presents the results of the Bank's operations across each of the nine areas discussed in the previous chapter. We also explore how our investments in these areas contribute to the overarching goal of promoting inclusive growth in Africa.

Measuring the Bank's contribution to development

As we saw in the previous chapter, development in Africa is unfolding in an extremely dynamic environment. Africa's economic performance is strongly influenced by such global trends as the rise of the middle-income countries and their demand for raw materials, and by internal dynamics, like the youth bulge and the pace of urbanisation. Shocks—from shifts in food and energy prices to climate variability to political crises—can bring about sudden changes in economic fortunes. Across Africa's 54 states, development is a result of the combination of countless decisions made by governments, firms and households.

Given this dynamism, it is very difficult to attribute overall development results to the work of a single institution. To assess our contribution, we build up our results from the project level. The 51 indicators in Level 2 of our Results Measurement Framework capture aggregate outputs from Bank projects that were completed between 2009 and 2011 and for which we have Project Completion Reports. The indicators provide a picture of our progress in delivering our Medium-Term Strategy.

But these indicators capture only selected highlights of our work. In this chapter we also present examples of Bank support in operation to illustrate some of the more innovative aspects of our work.

Inclusive growth

The political upheavals in North Africa that began in Tunisia in December 2010 were a wake-up call. The countries that suffered instability were some of Africa's leading performers in economic growth; yet by failing to deliver opportunities for the majority, they were creating dangerous levels of frustration. Despite a decade of unprecedented growth, the same conditions are present across much of Africa.

The Bank's Medium-Term Strategy 2008-2012 focuses on addressing the bottlenecks to growth in Africa. It sets out a framework of themes and priorities — centred on infrastructure, governance, the private sector and higher education — to guide our efforts to promote growth, based on our comparative advantage as Africa's leading development finance institution.

All of these areas are essential for creating opportunities for Africa's poor. But we also recognise that we need a more explicit focus on ensuring that growth is broad-based and inclusive. We try to ensure

Box 2.1 Mali-Senegal Road Project: An award-winning infrastructure project

In 2011 the Bank received an award from the US Treasury for its Mali-Senegal road project, which was recognised for "exceptional impact, best practice and innovation." In collaboration with the European Union, Germany, Japan, the Islamic Development Bank and the West African Development Bank, this $320 million project built almost 400 km of road and three major bridges. The route between Bamako and Dakar was shortened by some 200 km, and illicit fees and charges were reduced considerably. The project also provided local communities with various infrastructure improvements, including boreholes, animal rest areas, health clinics and schools. These associated investments had a major impact on the rural population of the area. Before the project, women walked an average of 5 km to fetch drinking water; after the project, the average walking distance dropped to 1 km.

Table 2: **How AfDB contributes to Africa's development (Level 2)**

This table presents the contribution the Bank is making to development through its operations in Africa. The Bank's performance is measured by comparing expected and actual achievements for all operations that have been completed:

- Bank operations achieved 95% or more of what was expected at the beginning;
- Bank operations achieved 60%–94% of what was expected at the beginning;
- Bank operations achieved less than 60% of what was expected at the beginning;
- Data are not available to measure performance.

INDICATOR		2009-2011			2012-2014
		Expected	Delivered	Percentage delivered	Expected
ENERGY					
Length of transmission and distribution lines rehabilitated or installed	(km)	13 839	14 985	108%	14 902
Distribution substations and transformers constructed or rehabilitated	(number)	978	1 968	201%	2 572
Power capacity installed	(MW)	2 950	2 960	100%	18 826
Staff trained/recruited in the maintenance of energy facilities	(number)	1 678	1 690	101%	1 200
People with a new electricity connection	(number)	33 271	19 811	60%	275 088
People benefiting from new electricity connections	(number)	6 647 000	6 657 000	100%	10 680 000
TRANSPORT					
Roads constructed, rehabilitated or maintained	(km)	12 960	9 478	73%	10 878
Feeder roads constructed or rehabilitated	(km)	17 233	15 474	90%	30 123
Staff trained/recruited for road maintenance	(number)	34 169	33 397	98%	1 492
People educated in road safety and HIV transmission	(number)	100 020	184 020	184%	25 000
People with improved access to transport	(number)	10 800 000	10 805 000	100%	17 190 000
WATER AND SANITATION					
Boreholes and wells drilled/rehabilitated and equipped	(number)	23 720	24 360	103%	20 831
Drinking water transmission and distribution pipes constructed	(km)	2 471	2 544	103%	1 037
Drinking water capacity created	(service reservoirs m^3/day)	316 173	342 800	108%	..
Latrines constructed or rehabilitated	(number)	32 822	38 614	118%	93 924
Workers trained in the maintenance of water facilities	(number)	22 229	32 197	145%	20 726
People with new or improved access to water and sanitation	(number)	12 047 000	12 483 000	104%	18 481 000
EDUCATION					
Classrooms and educational support facilities constructed/rehabilitated	(number)	7 106	6 079	86%	4 586
Textbooks and teaching materials supplied	(number)	13 887 922	13 882 887	100%	451 554
Teachers and other educational staff recruited/trained	(number)	97 693	107 728	110%	68 901
Students newly enrolled	(number)	227 683	228 770	100%	161 465
Students and scholars reached	(number)	3 320 000	3 076 000	93%	1 754 000
HEALTH					
Primary, secondary and tertiary health centres constructed/equipped	(number)	1 627	1 652	102%	1 366
Health workers trained	(number)	32 149	32 785	102%	43 035
Health training and education sessions	(number)	19 382	18 813	97%	2 134
People with access to better health services	(number)	11 538 000	11 263 000	98%	13 056 000
MICROFINANCE AND SOCIAL SECTOR					
Social facilities, community centres constructed and equipped	(number)	14 350	14 604	102%	1 120
Jobs created	(number)	62 581	67 990	109%	234 625
Government/NGO staff trained in microfinance management	(number)	7 808	7 803	100%	21 443
Microcredits granted	(number)	382 279	330 660	86%	..
Microenterprises created	(number)	58 000	24 668	43%	10 610
Microfinance clients trained in business management	(number)	15 010	14 500	97%	81 025
People benefiting from microfinance and social activities	(number)	12 884 000	12 829 000	100%	8 402 000
AGRICULTURE					
Rural marketing and production facilities constructed or rehabilitated	(number)	5 983	5 023	84%	3 931
Land with improved water management developed or rehabilitated	(ha)	166 495	174 650	105%	192 704
Land whose use has been improved: replanted, reforested, landscaped, etc.	(ha)	749 417	890 345	119%	539 410
Heads of livestock provided/vaccinated	(number)	1 595 878	1 653 853	104%	..
Plants introduced: seedlings, trees, etc.	(number)	4 806 283	4 403 879	92%	990 659

Table 2: How AfDB contributes to Africa's development (Level 2)

INDICATOR		2009-2011			2012-2014
		Expected	Delivered	Percentage delivered	Expected
Social facilities established or rehabilitated	(number)	7 260	7 229	100%	1 913
Agricultural inputs provided: fertiliser, seeds, etc.	(tons)	442 489	467 196	106%	147 640
Agricultural community-based projects executed	(number)	1 031	685	66%	1 306
Rural population trained/recruited/using improved technology	(people)	799 029	1 065 963	133%	774 786
Rural households reached	(number)	347 972	427 509	123%	247 302
Total people benefited	(number)	10 853 000	10 823 000	100%	27 363 000
REGIONAL INTEGRATION					
Cross-border roads constructed or rehabilitated	(km)	471	467	99%	1 021
Cross-border transmission lines constructed or rehabilitated	(km)	667	665	100%	769
PRIVATE-SECTOR AND TRADE[1]					
Foreign exchange saved	($ million)	..	2 841	..	7 340
Government revenue from investee projects and sub-projects	($ million)	..	1 906	..	26 157
SME effect (turnover from investments)	($ million)	..	650	..	15 333
Total jobs created for investee projects and sub-projects	(number)	..	349 886	..	4 202 258
Total jobs created for women	(number)	..	28 664	..	858 205

.. = data not available; ha = hectares; km = kilometres; MW = megawatts ; m³ = cubic metres; NGO = non-governmental organisation; SME = small and medium-sized enterprise.

[1] Results expected come from private-sector operations approved only in or after 2009, when the ex-ante assessment of development outcomes and additionality (ADOA) was launched. The numbers may therefore appear lower than they actually are. Over the next few years the expected results will climb as more operations from 2009 and later begin to reach their full operating maturity. This will also allow for a baseline for closed projects to assess the achievement of targets.

NB: UA figures from material converted at 1 UA = $1.58036

Source: African Development Bank.

that our operations address inclusion across its various dimensions: geographic, economic and social (see Box 1.1). We invest in programmes that directly benefit the poor and excluded, and also create a level playing field so that these people can help themselves.

For example, our support for infrastructure development helps to link farming communities to their markets and reduce disparities between urban and rural areas. Our work on regional integration helps address regional imbalances within countries while linking smaller and more remote economies to regional growth hubs. Our private-sector operations focus on promoting the growth of labour-intensive industries, to address poverty through job creation. Our work on higher education and vocational training helps ensure that Africa's young people are receiving the skills—particularly scientific and technical skills—that they need to succeed in the labour market. Our governance portfolio helps to make African governments more responsive and transparent, and our work with civil society and local communities helps empower poor communities to hold their representatives to account.

We are now reviewing our portfolio to ensure that promoting inclusive growth is integral to all our support. We have also begun public consultations on a Long-Term Strategy (2013–2022) that will have inclusive growth at its heart. In this chapter we look at the contribution our operations are making to inclusive growth and examine how we can strengthen the focus.

Private-sector development and the investment climate

To make lasting inroads into poverty, Africa needs to create jobs in the private sector. It needs to move more of its workforce from low-productivity subsistence agriculture into areas that generate greater value and therefore higher wages. Private-sector development is also key to increasing state revenues, allowing African countries to spend more on services and development programmes.

Our investments are expected to mobilise over $30 billion in investment from other sources, leveraging our investments by a factor of 5 to 7.

The Bank's private-sector work has a number of levels. First, we work with our member states to improve the business environment through market-oriented policies and a fair and effective regulatory

2

Box 2.2 Fishing for jobs

In 2011, the Bank invested in an aquaculture business on the Zimbabwean side of Lake Kariba, to stimulate pro-poor growth and employment in a deprived area. The project is developing a sustainable local fishing industry. It supports the breeding and rearing of fish in land-based ponds and cages in the lake, and a fish-processing factory to capture greater value for the local community. The initiative will create 900 jobs directly and will stimulate the local economy through the purchase of goods and services worth $58 million over the next ten years. The innovative aspect of this project is the way in which it simultaneously addresses deprivation and environmental sustainability. Zimbabwe has yet to develop a complete legislative framework for environmental protection; therefore, the Bank's environmental and social safeguards have been a key influence on the design of the initiative.

framework. Over the past two years we have placed particular emphasis on having a business-environment component in our operations, including many of our budget-support operations. The focus has been on reducing the time and costs involved in creating a business, promoting the development of the financial sector, including on a regional level, and establishing a legal framework for public-private partnerships. The Bank contributes to the Investment Climate Facility, an initiative in which government, development partners, businesses and NGOs work together to identify and reduce constraints on business investment.

The Bank is Africa's principal financier of regional projects, helping link economically marginal areas to growth centres.

We also have a range of non-sovereign lending activity, designed to catalyse commercial investment in infrastructure, industry and the financial sector. Our innovative financial instruments, including guarantees and quasi-equity, are designed to lower the cost or risk profile for private investors. From 2009 to 2011, the Bank invested a total value of over $5.2 billion, 61% of which went to low-income countries. With a catalytic multiplier of 5 to 7, these investments are expected to mobilise over $30 billion in investment from other sources. Investment projects completed in the 2009 to 2011 period led to **foreign exchange savings** of $2.8 billion and generated **government revenues** of $1.9 billion.

The development of small and medium-sized enterprises is key to job creation, especially in manufacturing. At present, manufacturing in Africa is dominated by small, informal enterprises that generate little employment. To help them develop, we are increasing access to finance and promoting public-private partnerships. For example, in Kenya, Cameroon, and the Democratic Republic of the Congo, we have helped at least 200 000 microenterprises or individuals to get small loans to support work in the informal sector. Our investments have generated $650 million in **new SME turnover** and **created or maintained** around 350 000 new jobs.

Looking ahead, we still face many challenges in this area. Africa's private sector is vulnerable to external threats, particularly the risk of declining commodity prices through renewed recession in Europe and Asia. Government commitment to regulatory reform tends to be intermittent. Most important, we still have much to learn about how to create the conditions in which informal enterprises move into the formal sectors and begin creating wage employment.

Regional integration and trade

Investment in regional integration and trade has a significant potential for promoting inclusive growth. The Bank adopted a Regional Integration Strategy in 2009 and produced four (East, West, Central and Southern) Regional Integration Strategy Papers to guide its investments in regional integration, focusing both on hard infrastructure connections and the development of "soft" or institutional infrastructure.

The Bank is Africa's principal financier of regional projects, and we have established a framework to prioritise investments with cross-border effects. Most of our financing (57%) went to regional infrastructure (transport and energy), 42% went to the financial sector, and the remainder went to education. A number of projects aim to improve border management, to reduce the high costs of transportation caused by delays at national borders. For example, the $262 million Kazungula Bridge Project (see Box 2.3) is expected to significantly reduce transit time and cost between Botswana and Zambia. Altogether, in the 2009–2011 period we constructed or rehabilitated 467 km of ● **cross-border roads**[1] and 776 km of ● **cross-border transmission lines**.

We try to boost the contribution to inclusive growth of each of our regional investment projects by constructing feeder roads to link rural areas to transport corridors and by creating additional

Box 2.3 Bridging a gap in southern Africa

The Kazangula Bridge project, sponsored by the governments of Botswana and Zambia, is a regional investment in the Southern African Development Community North-South Corridor and an important contribution to the visionary Trans-African Highway. At present, traffic on this vital corridor faces average delays of 30 hours in crossing the Zambezi River and at the border, at a combined opportunity cost to traders of some $48 000 a day. At nearly a kilometre in length, the Kazangula Bridge will include integrated border and trade-management facilities, and it is expected to reduce delays at the crossing by 80%. The resulting increases in trade should bring significant benefits to the agricultural and service sectors on both sides of the border, while creating new job opportunities for local communities.

1 A green bullet indicates that AfDB achieved 95% or more of its planned target in 2011.

Box 2.4 **Connecting the world to East Africa**

The East African Submarine Cable System (EASSy) is a 10 000 km modern high-speed, high-capacity Internet and telephone cable along the east and south coast of Africa. It connects 21 African countries to each other and the rest of the world. Through EASSy, more than 250 million people can benefit from better-quality services, more reliable international communications, and competitive prices for national and international connectivity. The enhanced communication and global connectivity will stimulate investment and economic growth, increase employment opportunities, and ease access to education and advanced knowledge in areas such as medicine.

opportunities for local communities to benefit. For example, in our Mombasa-Nairobi-Addis Ababa Road Corridor project, we built 438 km of road to link economic centres and boost access to markets, and we provided additional roadside economic opportunities, such as livestock facilities and milk-collection points. We created 2000 jobs during the construction phase, injecting $240 000 in wages into the local economy each month.

The Bank hosts and supports a number of international and continental networks for promoting regional investment. We chair the Infrastructure Consortium for Africa, a continent-wide initiative, launched at the G8 Gleneagles Summit in 2005, that develops strategies and programmes to address regional infrastructure needs. We house NEPAD's Infrastructure Project Preparation Facility, which provides grants to support the design of regional infrastructure initiatives. As part of the Global Aid for Trade Initiative, we are in the final stages of establishing an Africa Trade Fund to finance trade-related activities across the continent, and are working with other multilateral agencies to improve information flows on trade policy and market conditions.

Regional integration in Africa also requires stronger regional institutions. We are supporting the Regional Economic Communities to develop their capacity to promote the free movement of goods, services, capital and labour by dismantling trade barriers, harmonising investment policies and managing regional markets. For example, we are working with the East African Community to promote the development of One-Stop Border Posts. We have also worked with the Common Market for Eastern and Southern Africa to promote regional agricultural trade by developing regional marketing systems and harmonising regulations for food safety. We will continue to look for opportunities to deepen our collaboration with the Regional Economic Communities and mobilise resources for multinational initiatives.

Infrastructure: Sanitation, transport, energy and telecommunications

Overcoming Africa's vast infrastructure deficit is key to improving its economic fortunes on many different levels. Infrastructure investment increases productivity and competitiveness and boosts trade and investment, enabling African business to expand and create jobs. It also has a wide range of direct impacts on communities and households, improving their livelihood opportunities and giving them better access to services.

We constructed, rehabilitated or maintained almost 25 000 km of roads to connect people and countries and provided more than 10 million people with improved access to transport.

The Bank gives high priority—over 40% of its lending—to infrastructure development. We are increasing our focus on inclusive growth by making sure that these investments correct for urban-rural imbalances and that we prioritise small, landlocked and fragile countries. Our infrastructure projects are designed to improve connectivity for poor and marginalised groups, while at the same time providing them with direct economic opportunities through local procurement of labour, inputs and services.

In 2009–11 we constructed, rehabilitated or maintained 9478 km of ● **main roads**[2] and 15 474 km of ● **feeder roads**. Overall, we provided more than 10.8 million people with improved access to transport. Our focus has been on economically deprived areas, and we have sought to distribute the benefits as broadly as possible through complementary facilities such as roadside stations and rural linkages. We also seek to use labour-intensive construction processes to maximise job opportunities.

2 A yellow bullet indicates that AfDB achieved between 60% and 94% of its planned target in 2011.

2

We invest heavily in water and sanitation and work with our member countries to strengthen policies and institutional capacity. Ensuring services to the urban poor in Africa's rapidly expanding cities is one priority. In Mozambique, we are promoting access to clean drinking water and improved sanitation across four urban centres, to the benefit of 280 000 people. In Dar es Salaam, our water and sanitation project provides low-income households with a lifeline tariff, to ensure affordability. Overall, we have constructed 2544 km of **water-transmission pipes**, increasing **drinking water capacity** by 342 800 m³ per day. In the coming period, we will focus on increasing community resilience to adverse climatic conditions and supporting reductions in water stress in fragile and post-conflict states.

Our Rural Electrification Project in Guinea will help increase the country's rural electrification rate from 3% in 2009 to 15% by 2015

The Bank addresses member countries' growing energy needs in an environmentally friendly way. For example, our Eskom Renewable Energy Project incorporates South Africa's first wind-power plant and a solar thermal plant. In Cameroon, the Lom Pangar Hydroelectric Project will provide sustainable electricity to an additional 150 communities. We are also focusing on addressing the energy deficit in rural areas. Our Rural Electrification Project in Guinea will deliver connections to 60 000 households, increasing the country's rural electrification rate from 3% in 2009 to 15% by 2015 while also reducing the pollution caused by household diesel generators. These major investments are accompanied by a range of measures to strengthen the legal and institutional environment to make them more efficient and pro-poor in operation.

Our goals in agriculture are ambitious: by 2014, we hope to reduce Africa's food gap by 20% and its rate of deforestation and land degradation by one-quarter.

Box 2.5 New opportunities for Uganda's farmers

This programme is enhancing farmers' access to markets by making investments in rural infrastructure and facilities and by promoting better management by local communities. Covering 2.6 million people across 26 districts, the investments include rural roads, markets and assorted agro-processing facilities. The project has already had a significant impact. The time and cost of transportation from farms to major population centres has been cut in half. Post-harvest losses of perishables have declined and marketing of produce has improved. As rural incomes increase, the impact on communities is apparent in the form of new and more permanent housing and improvements to schools and health facilities.

We are expanding our portfolio of projects in information and communication technologies (ICT). For example, a $21 million Digital Complex project in Bamako, Mali, involves building and equipping an ICT centre of excellence to provide high-quality technical training to students from across the region. We are also investing in knowledge products designed to capture and share experience in promoting mobile communication technologies, digital broadcasting and e-security.

The challenges remain substantial. With economic and population growth, major increases in the investment rate will be required just to preserve current infrastructure coverage. Africa's integration with the global economy will require a greater diversity of transport options, with an increased focus on rail, air and maritime transport. We also see new challenges arising from rapid urbanisation and the imperative of ensuring a low-carbon development pathway for Africa.

Agriculture and food security

Investing in agriculture is one of the most direct ways in which the Bank promotes inclusive growth. Raising the productivity of agriculture is critical to increasing farm incomes and addressing rural poverty. Strengthening the agriculture sector is also key to achieving food security and reducing Africa's exposure to volatile international food prices. The Bank's investments are also helping African countries preserve their resource base for the future through the sustainable use of resources.

Our Agricultural Sector Strategy 2010–2014 is built on two pillars: rural infrastructure, which comprises 94% of our investments, and natural resources management, with capacity building as a cross-cutting theme. Using a range of instruments and approaches, we will invest over $5 billion in the sector over this period. Our goals are ambitious: we hope to reduce Africa's food gap by 15%–20% and its rate of deforestation and land degradation by one-quarter.

In the period 2009–11, we built or rehabilitated 2000 water facilities for both people and livestock, 45 mini-dams to support irrigation development and 8000 km of rural roads to help farmers reach their markets. We built or repaired over 5000 **rural marketing and production facilities** and 7000 **social facilities**. We provided or vaccinated 1.6 million **head of livestock** and planted over 4.5 million **trees**. We **improved water management** for 174 000 ha and **land-use management** for close to 900 000 ha, benefitting more than 10 million **rural households**. In all, over 1 000 000 ha will be brought into productive use as a result of our investments in irrigation and reforestation.

The environment for rural development continues to be challenging. The agricultural sector faces many threats, including the rising costs of inputs, persistent drought in parts of the continent and the projected increase in extreme weather events as a result of climate change. Despite NEPAD's recommendation that African countries devote 10% of national expenditure to agriculture, the sector continues to suffer from chronic underinvestment. In the coming period, we will need to both scale up our own investments and mobilise new sources of finance.

Gender and human development

The key to inclusive growth is to unlock the potential of Africa's people. Improving educational attainment and lifting the burden of disease will not only have a direct impact on the lives of millions of African men and women, but also empower them to participate more fully in the social and economic lives of their communities.

In response to increased demand from member countries for interventions in education, health and social protection, the Bank has developed a Human Capital Development Strategy 2012–2016. The strategy focuses on creating jobs, building demand for better services, and supporting safety nets to protect communities against economic and social shocks. The focus throughout is on improving access and equity, to ensure that service delivery contributes to social and economic inclusion.

The Bank's education programmes, though only a small proportion of the lending portfolio, have produced some important results. We have built or rehabilitated 6000 **classrooms** and recruited and trained over 100 000 **teachers**. Our efforts have enabled the **enrolment** of an additional 228 000 students. Our investments are targeted so as to reduce unequal access due to geography and socio-economic status.

In the education sector, by specialising in higher education and training, we are well placed to tackle the issue of youth employment. We have been working with African countries to adapt their higher education curricula to emphasise science, technology and entrepreneurship, so as to prepare young people for the needs of the labour market. Our ICT investments are helping bridge the digital divide between rural and urban areas and create more opportunities for girls. Projects such as the regional Centre of Excellence of Carnegie Mellon in Rwanda are helping to put in place a new ICT-based education model for Africa, drawing on knowledge and finance from the private sector. Labour-market programmes are still a novelty in Africa. We are engaging in a series of studies to identify promising interventions to help young people enter the labour market.

In the health sector, we have invested in 1600 **health facilities** and trained 32 000 **health workers**. As a result, 11.2 million people now have **access to improved health services**. We are providing policy advice to African governments on how to develop equitable health insurance schemes. In Uganda, our "Support to the Mulago Hospital" project cuts across the health and education sectors, turning the hospital into a Centre of Excellence for training in health sciences and creating 600 new jobs.

Box 2.6 Women in the African Virtual University

The Bank is supporting the multinational African Virtual University (AVU) to boost access to ICT-assisted education and training. The AVU has established the largest network of Open Distance and e-Learning institutions in over 30 sub-Saharan African countries. We helped the university develop measures to promote the participation of female students in science and math courses. This included developing new teaching materials and teacher-education modules, to make the courses more accessible. Scholarships were provided to 372 women to undertake math, science and ICT programmes. The AVU's Open Education Resources Initiative, which showcases these gender-sensitive materials, won the first People's Choice Award for Best Emerging Initiative and the 2011 "Education-Portal.com" prize.

Gender equality is a theme running across many of our operations. For example, we have worked with the Moroccan government to close the gender gap in enrolment and fight gender-based violence in schools. Our education support to Rwanda helped boost girls' enrolment in secondary school from 20% in 2004 to 54% in 2011. In the health sector, we are promoting women's access to sexual and reproductive health care, including by training female health workers. Our community-based agriculture and microfinance programmes have a strong focus on women, who make up half of all beneficiaries.

Through our health sector operations we helped connect and benefit more than 11 million Africans.

Governance and transparency

Good governance, which is crucial for achieving inclusive growth, is one of the Bank's key areas of focus. Africa needs stronger institutions that can raise revenues, manage their public finances and deliver services efficiently and equitably. African states also need to be responsive and accountable to their populations, to ensure they remain focused on the public good. A key part of the inclusive growth agenda is ensuring that poor and marginalised groups have greater voice in the political sphere.

We place particular emphasis on the integrity and transparency of national budgets and the management of natural resources.

One of our priorities is strengthening public financial management, to help make African states more effective at promoting development. Through our programme-based operations and institutional support projects, we have helped consolidate public-sector spending in Burkina Faso and Malawi, introduced medium-term expenditure frameworks in Cape Verde, boosted revenue collection in Togo and Benin, and strengthened systems for devolved service delivery in Ethiopia. We have worked with a range of governments to improve budget management and public procurement. We place particular emphasis on the integrity and transparency of national budgets, supporting both internal and external audit bodies. We are also working to build demand for increased accountability for public expenditure, working with civil society organisations and parliamentarians in countries such as Sierra Leone, the Gambia and Tunisia. Altogether, between 2009 and 2011 we financed 65 projects across 38 countries to help improve economic and financial management.

By building up opportunities for small business and increasing access to microfinance, we reached around 115 000 people.

The Bank has also concentrated on improving governance and integrity in high-risk areas such as the extractive industries. In Tanzania and Guinea, we have supported reforms in the mining and other natural resource sectors. In Burkina Faso, we support policy reforms aimed at strengthening governance in the infrastructure sector, particularly procurement and contract management. All of these efforts help to reduce opportunities for corruption. The Bank is also promoting the Extractive Industries Transparency Initiative (EITI) in ten African countries, most recently Chad, Ethiopia, Mozambique, Tanzania and Togo. We adhere to EITI principles in every phase of the private-sector mining operations we finance, from the negotiation of concessions through social and environmental safeguards, community rights, mine closure and site reclamation. We are also involved in complementary initiatives, such as the African Legal Support Facility, which helps to modernise the legislation governing natural resource extraction and helps African governments negotiate effectively with international companies.

Fragility and conflict-affected countries

We see the inclusive growth agenda as equally important in Africa's fragile and conflict-affected states. Home to over 200 million people, Africa's fragile states are among the continent's poorest and most deprived. Poor people are most vulnerable both to the direct effects of conflict and instability and to the disruption to basic services and development programmes they cause.

Box 2.7 **Dealing with gender-based violence in Côte d'Ivoire**

Since the onset of political crisis in Côte d'Ivoire in 2001, there has been a dramatic increase in violence against women. Sexual violence has been used as a weapon of war, resulting in widespread physical and psychological trauma. In 2007, the Bank developed an "Emerging from conflict" project to support national reconciliation, including a set of activities to address violence against women. We funded an integrated package of medical, psychosocial, economic and legal services, income-generating projects for women's associations, and training to help civil society organisations provide support to victims of violence against women.

Fragile states are consistently under-aided. Their aid flows are also twice as volatile as those to non-fragile states—both because of the disruptions brought about by conflict and instability and because of donor preferences for short-term aid. To counter this problem, the Bank has created a Fragile States Facility to channel additional resources to fragile states. It is a fast, simple and flexible disbursement mechanism designed to help fragile states consolidate peace, stabilise their economies, and lay the foundation for sustainable poverty reduction. Around 7.5% of Bank resources are channelled to fragile states through the Fragile States Facility, over and above their regular ADF allocation. The Fragile States Facility offers three types of support: additional financing for governance, capacity building and reconstruction of basic infrastructure; clearing debt arrears, to help fragile states normalise relations with international financial institutions; and targeted expert advice and services.

Through the Fragile States Facility and our regular lending operations, we promote job creation by building up opportunities for small business and increasing access to microfinance, reaching around 115 000 people between 2008 and 2010 and helping to create 120 000 microenterprises. We support social development funds, which have proved to be a very effective vehicle for promoting local infrastructure development through participatory planning processes.

For countries transitioning out of conflict, we help restore basic services through quick-disbursing projects that deliver early results and provide a peace dividend to the population. Between 2008 and 2010, we rehabilitated 12 health centres and 174 schools and constructed new water facilities for around half a million people.

The impact of conflict falls disproportionately on women. To help break the cycle of violence, we have a number of innovative projects to educate and empower women. We are providing education for young women in Guinea whose schooling was interrupted by conflict. In the Mano River countries of Guinea, Liberia and Sierra Leone, we are helping to control the HIV-AIDS epidemic that was exacerbated by the use of sexual violence as a weapon of war. Countries emerging from protracted conflict face massive infrastructure deficits as a result of war damage and years of neglect. The Bank is a major investor in infrastructure in fragile states. For example, in Liberia we constructed a new road from Fish Town to the port of Harper, reducing travel time from three days to just five hours.

Environment and clean energy

Over the past few years, the Bank has dramatically expanded its role and vision in the areas of energy, environment and climate change. From 1995 to 2010, the Bank provided around \$2.7 billion in public financing for clean energy. We are now scaling up this support: between 2011 and 2013, we expect to invest an additional \$4.6 billion in improving energy access, with 85% going to clean energy.

Accomplishments from the past year include the Ethiopia-Djibouti connector, which allows Djibouti to draw on Ethiopia's hydropower capacity and therefore reduce its consumption of imported fossil fuels by 70%. In Kenya, we invested in a geothermal steam field development for a new 400 MW power plant in Menengai, while our hydroelectric power project in Lom Pangar in Cameroon will generate 30 MW of clean power by 2015, providing for 10 000 new subscribers across 150 communities

To help Africa rapidly scale up its investments in clean energy, the Bank has been instrumental in increasing Africa's access to new sources of finance. We are channelling up to $900 million of the Climate Investment Funds, and have helped ten countries and one region to develop their investment plans. We have designed and secured financing for the "Sustainable Energy Fund for Africa", to provide know-how and investment capital to renewable energy and energy-efficiency players in Africa, increasing both access to energy and employment. We are developing the "Africa Carbon Facility", a new instrument for injecting public and private finance into projects eligible to be part of the "clean development mechanism. As executing agency for the Global Environment Facility, we have helped eight countries and the Lake Chad Basin Organisation to secure an additional $30 million in resources.

We have made significant progress in mainstreaming environmental concerns and managing the environmental impact of our own operations. Across our projects, we help build the capacity of African governments to conduct environment and social impact assessments and develop mitigation measures. In 2011, we hosted the International Social Expert Meeting to share experience on environmental and social sustainability in private-sector investments with other development partners.

Africa has a unique opportunity to be a global leader in clean energy and green development. To that end, we have invested in building up know-how through knowledge products and advocacy campaigns. Our African Carbon Support Programme provides technical assistance to project developers and to African governments to help make it easier to access carbon finance through the Clean Development Mechanism. We co-hosted the Climate Investment Fund Partnership Forum in Cape Town, the Africa Carbon Forum in Morocco, and the Africa Pavilion at the UN climate-change negotiations in Durban. We have also produced a range of influential reports, including a study of energy markets.

Conclusion

Most of the Bank's activities contribute directly or indirectly to inclusive growth by creating economic opportunities for poor people. Our Medium-Term Strategy 2008–2012 addresses the most important bottlenecks to growth in Africa, focusing on the Bank's areas of comparative advantage, particularly infrastructure. But we recognise that a more explicit focus on inclusion will help ensure that the opportunities we create are as accessible as possible.

Among our success stories in recent years have been our investments in financial inclusion and small and medium-sized enterprises, which have generated around 350 000 jobs. We are the principal financier of regional infrastructure projects, helping to link economically deprived areas with growth poles and rural areas with markets. We have provided more than 10 million people with improved access to transport. Our investment in agricultural productivity, including improved water and land management, has benefited more than 10 million rural households. We have helped improve the transparency of Africa's extractive industries, so that the benefits of natural resources are shared more widely. We have been helping countries emerging from protracted conflict to consolidate and catch up. And we have become a leading promoter of green development in Africa, helping to place Africa on a more sustainable development path.

Overall, a large majority of our projects achieved or surpassed their expected outputs. While we cannot put a figure on our overall impact, we are confident that this adds up to a major contribution to Africa's development. But we also recognise that we need to continue our efforts to target our investments to where they are needed the most.

The next chapter looks at some of the management tools we use to ensure that our portfolio is effective and to track our results ■

3

The availability of electricity is spurring economic activity in Aguégués, Benin. Villagers can now engage in buying and selling activities at local markets long after dusk. With improved access to reliable power, locals are investing in their own businesses and improving their families' living conditions.

6° 27′ 47″ N — 2° 36′ 8″ E

Level 3: How well AfDB manages its operations

The third level of our Results Measurement Framework contains 21 indicators that help us to measure the performance of our portfolio. We need to ensure that our operations are well designed and regularly supervised. We track our disbursement rates to see whether operations are moving forward as planned, and we keep a close eye on underperforming projects. We monitor several of the commitments we made under the Paris Declaration on Aid Effectiveness. We also look at a number of thematic areas — knowledge management, gender mainstreaming and climate change — for which we have set management targets for ourselves.

Performance of the Bank's portfolio

At the end of 2011, the Bank's portfolio consisted of 769 operations with a combined value of $34 billion. At the 12th replenishment of the African Development Fund in 2010, 26 donor countries made a record contribution of $9.5 billion over three years to the Bank's resources. This has enabled the portfolio to expand rapidly in recent years. At the same time, we have been "cleaning up" the portfolio. To maximise development, we have eliminated smaller and underperforming operations while becoming more selective in our investments, prioritising strategic projects that leverage funding from the private sector and boost growth and employment creation. As a result, the number of our public-sector operations has declined over the past year while their average size has increased.

We use a number of management tools to improve the performance of our portfolio. First, we are committed to increasing the level of supervision of our operations, identifying problems early and ensuring that corrective actions are taken. The proportion of **operations formally supervised twice a year**[1] remains close to target at 57% in 2011. At the same time the number of **problem projects** declined from 5% of the portfolio in 2010 to 4.8% in 2011. We have been working to reduce the level of non-performing projects by terminating those eligible for cancellation and reallocating the resources to more productive uses. While the proportion of **operations eligible for cancellation** increased slightly in the past year, to 7.3%, we are still well ahead of our 2012 target of 9%. Overall, these indicators suggest good progress in improving the health of our portfolio.

We track our disbursement rate as a measure of overall resource use across our investments. Over time, we aim to achieve a disbursement ratio of 32% — indicating that we expect our projects to reach completion in an average of about four years. At present, our **disbursement ratio**[2] remains at just 18%, which is slightly lower than in 2010. This is because a number of large new projects approved in recent years are still at an early stage of implementation. Early data from 2012 already show improvement.

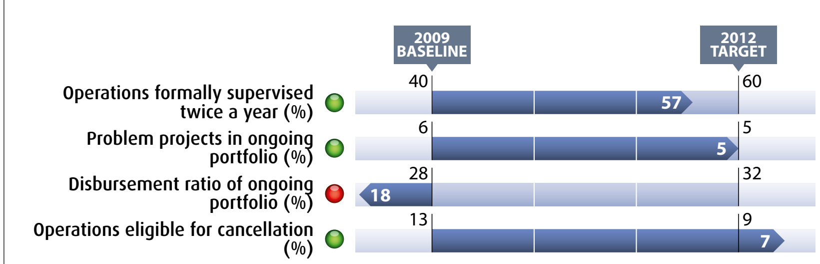
We have eliminated smaller and underperforming operations while becoming more selective in our investments.

This disbursement ratio does not mean we are not delivering on schedule. Our disbursements do occur as planned: 99.2% of ADF disbursements were on track in 2011.

Quality-at-entry of Bank operations

"Quality-at-entry" is our term for whether our projects are technically sound and designed to maximise development impact. Quality-at-entry is extremely important to our overall effectiveness, as errors in design are generally difficult to

Figure 3.1 **Portfolio performance**



1 A green bullet indicates that AfDB has made good progress and is on track to achieving its target.
2 A red bullet indicates that AfDB has not made progress or has regressed with regard to its target.

3

Table 3: **How well AfDB manages its operations (Level 3)**

This table presents the Bank's progress in achieving its 2012 targets for portfolio management:

- (green) Good progress has been made, and we are on track to achieve our target;
- (yellow) Little progress has been made and we are at risk of not achieving our target;
- (red) No progress has been made, or we have moved even further away from our target;
- (grey) Data are not available to measure performance.

INDICATOR		ALL AFRICAN COUNTRIES			OF WHICH ADF COUNTRIES		
		Baseline 2009	Latest 2011	Target 2012	Baseline 2009	Latest 2011	Target 2012
PORTFOLIO PERFORMANCE							
(green) Operations formally supervised twice a year	(%)	40	57	60	61	63	65
(green) Problem projects in ongoing portfolio	(%)	6	5	5	6	5	5
(red) Disbursement ratio of ongoing portfolio	(%)	28	18	32	18	18	20
(green) Operations eligible for cancellation	(%)	13	7	9	20	8	10
QUALITY-AT-ENTRY							
(green) Budget support disbursed on schedule	(%)	70	92	81	60	92	75
(red) Time elapsed from approval to first disbursement	(months)	12	13	10	13	13	11
(green) Operations that disclose ESIAs on time	(%)	85	95	90	82	95	90
(grey) CSPs rated satisfactory	(%)	..	94	95	..	92	95
(green) Operations rated satisfactory[1]	(%)	77	93	95	78	93	95
(green) Regional operations rated satisfactory[1]	(%)	75	100	90	75	100	90
PARIS DECLARATION INDICATORS OF EFFECTIVE AID							
(yellow) Development resources recorded on budget	(%)	57	70	85	57	70	85
(yellow) Predictable disbursements	(%)	54	61	80	54	61	80
(green) Use of country systems	(%)	39	50	53	39	50	53
(green) Parallel project implementation units	(number)	113	38	40	113	38	40
KNOWLEDGE MANAGEMENT							
(green) Exiting projects with a timely PCR	(%)	90	91	90	92	92	90
(green) PCRs rated satisfactory	(%)	75	78	80	72	76	80
(yellow) New ESW and related papers	(number)	60	75	112	52	55	73
GENDER MAINSTREAMING							
(yellow) PCRs with gender-disaggregated data	(%)	54	64	75	56	68	75
(green) New projects with at least one gender indicator	(%)	59	74	70	61	75	70
(grey) New CSPs with at least one gender indicator	(%)	..	44	70	..	42	70
CLIMATE CHANGE							
(green) Climate-proofed projects	(%)	0	60	15	0	60	15

.. = data not available; AfDB = African Development Bank; ADF = African Development Fund; CSP = Country Strategy Paper; ESIA = Environmental and Social Impact Assessment; ESW = economic and sector work; PCR = Project Completion Report.

[1] Baseline is 2010.

Notes: ADF countries are the 38 lower-income AfDB member countries that qualify for concessional funding: Benin, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Comoros, Congo Republic, Democratic Republic of the Congo, Côte d'Ivoire, Djibouti, Eritrea, Ethiopia, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Nigeria, Rwanda, Sao Tomé and Principe, Senegal, Sierra Leone, Somalia, Sudan, Tanzania, Togo, Uganda, Zambia, and Zimbabwe. Cape-Verde and Angola are in transition. South Sudan's membership is pending approval. Government data for Paris Declaration indicators "Development resources recorded on budget" and "Predictable disbursements" could be collected for only 10 countries from the baseline group in 2011, with historical measures available from 2005.

Source: African Development Bank.

We have found that using larger design teams with a broader range of skills leads to stronger designs and more efficient implementation.

correct once implementation is under way. We have found that using larger design teams with a broader range of skills leads to higher quality-at-entry scores and to more efficient implementation.

In recent years, we have introduced a Readiness Review process to enhance the quality-at-entry of both public-sector operations and Country Strategy Papers. This involves a desk review by our Quality Assurance and Results Department at two points: at the beginning of the design phase, when a Project Concept Note is prepared, and when the completed design is appraised. During 2011, we carried out Readiness Reviews for 82 Project Concept Notes, 68 Project Appraisal Reports and 16 Country Strategy Papers. The number of Project Concept Notes rated satisfactory jumped from 79% in 2010 to 96% in 2011. The rating of project designs improved from an average of 3.8 out of a possible 6 in 2010 to 4.4 in 2011. The **overall proportion of operations rated satisfactory**[1] reached 93%, a major improvement over 2010 and only just short of our target of 95%. Looking across our seven review criteria, "alignment and strategic fit" and "design rationale and ownership" both scored well, while "financial management and procurement" continued to lag slightly behind. In another strong result, 94% of our **Country Strategy Papers were rated satisfactory**.

A recent success has been the dramatic improvement in the treatment of environmental and social safeguards in the design of Bank operations. For projects likely to have a significant effect on the social and natural environment, we require our borrower countries to prepare Environmental and Social Impact Assessments (ESIAs), to help ensure that they minimise any unintended harm. ESIAs give beneficiary communities and other stakeholders the opportunity to provide input into project design. ESIA summaries should be disclosed at the Bank's Public Information Centre and on our website before the project is presented to the Board of Directors for approval. In 2011, 95% of our **ESIAs were disclosed on time** — above our target of 90%.

By strengthening our design processes, we hope to ensure that Bank investments can proceed more swiftly and effectively. The average **time elapsed from project approval to first disbursement** increased slightly from 12 to 13 months over the year, taking us further from our target of 10 months. We are analysing this issue to identify its causes, both Bank- and client-related, and develop measures to address them. Among several measures already under way, we have introduced fiduciary clinics to better train our own country teams and our partners. We have had more success in ensuring that our **budget support is disbursed on schedule**, at 92% in 2011 compared to only 75% the previous year.

Performance on the Paris Declaration indicators of effective aid

IIn November 2011, the Busan High-Level Forum opened a new era for development cooperation. The new global partnership includes China and other emerging economic powers. Forum participants also initiated a shift in the development paradigm, moving from making ***aid delivery*** effective to making ***development*** more effective. The Bank has framed the debate in this way since November 2010 around such issues as transparency of development financing and accountability to citizens, regional dimensions of effectiveness, and ending aid dependency by mobilising a country's own resources. It is already integrating this shift in its new strategy, with a focus on inclusive growth.

At the same time, the Bank remains committed to progress in effectively delivering development financing, especially in areas where it believes change can drive the most development impact: (a) providing predictable resources aligned to the national budget, to help governments manage their development resources more effectively and make them more accountable to parliament and the general public; and (b) using national institutions and systems to develop sustainable capacities.

Monitoring of related Paris indicators shows that our performance in 2011 remains very much dependent on the country context. While the overall proportion of our **development resources recorded in partner countries' budgets**[3] measured 70% in 2011, in Rwanda, the combination of the country's leadership and effective partnership allowed our financing on budget to reach 99% in 2011.

Figure 3.2 **Scores of Project Appraisal Reports reviewed in 2011**

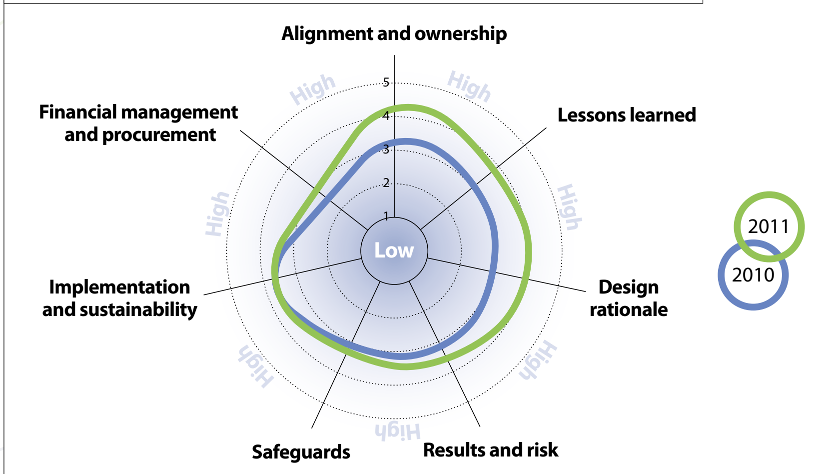


Figure 3.3 **The Bank's performance on quality-at-entry**

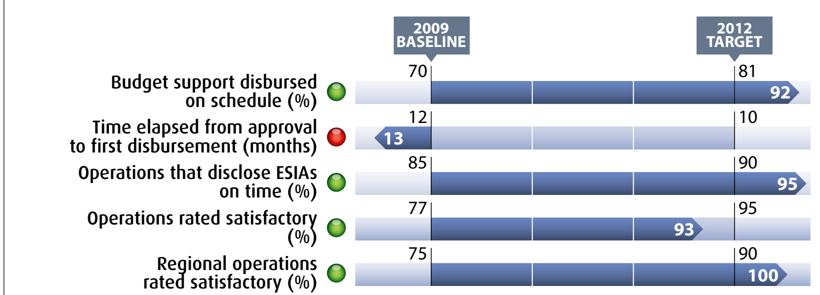
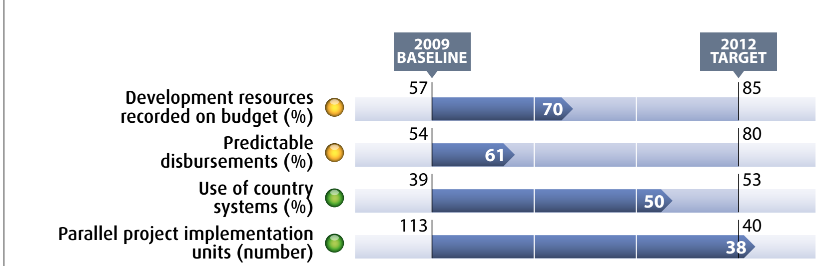


Figure 3.4 **Paris Declaration indicators**



3 A yellow bullet indicates that AfDB has made little progress toward its target.

Box 3.1 From the Tunis Consensus to the Busan High-Level Forum

The Bank played an active role in preparing the Fourth High-Level Forum on Aid Effectiveness, held in Busan, Korea, from 29 November to 1 December 2011. The Busan Outcome document draws substantially from ideas and language included in the "Tunis Consensus: Targeting Effective Development," which was the outcome of the Second Regional Meeting on Aid Effectiveness, South–South Cooperation, and Capacity Development, held in Tunis in November 2010. Organised in collaboration with the African Union and the New Partnership for Africa's Development, the Tunis event brought together representatives of African governments, parliaments and civil society. The Tunis Consensus strongly advocated the need to shift the paradigm from aid to development effectiveness, proposing six key priorities for making this shift concrete—from recognising the importance of emerging economies (e.g., Brazil, Russia, India and China) as development partners to thinking strategically about ending aid dependency.

Similarly, the **use of country public financial management systems** reached 74% in Ethiopia, while our overall performance for 2011 was 50%. **Predictability of financing** reached 61% in 2011, and the stock of **parallel project implementation units** — initially measured at 113 in 2007— fell to 38, below the target. Overall, the Bank's performance is improving slowly, but focused efforts should still allow us to achieve 2012 targets. The Bank will adapt its indicators and targets after 2012 to the new post-Busan monitoring framework.

We need to ensure that the rich experience from our operations is collected and made systematically available across the Bank.

Establishing good partnership at country level remains key to success. The Bank is working on documenting and disseminating good practice so that both its own operations and those of its partner produce greater results on the ground.

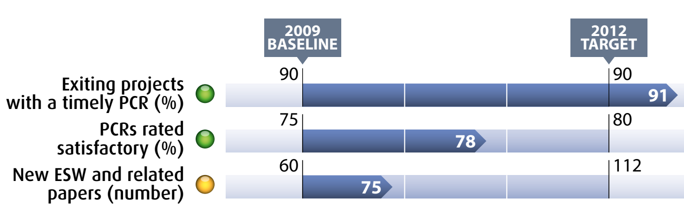
Knowledge management

In the field of development assistance, knowledge is constantly evolving as part of the search for better results. To be most effective, we need to invest in knowledge management, to ensure that the rich experience that emerges from our operations is collected and made systematically available across the Bank. We also need to draw from, as well as contribute to, the learning of our peer and partner organisations around the world.

The Project Completion Report (PCR) is one of the tools through which we capture lessons from completed operations. We have made major efforts in recent years to improve both the quality and timeliness of our PCRs. In 2011, the **proportion of exiting projects with a timely PCR** remained at 91%, above our target, while the **proportion of PCRs rated satisfactory** reached 78%, only just short of our 80% target. Given that the preparation of PCRs has been progressively decentralised to field offices, this is an encouraging result. Our assessments showed that PCRs scored well on objectivity, but needed more work on ensuring sound results data.

We have continued to invest in reports and studies to build and share knowledge about Africa's development challenges. Our economic and sector work (ESW) at regional, country and sector level continues to be highly valued by our member countries. Our flagship knowledge products — the *African Economic Outlook*, the *African Development Report* and the *African Competitiveness Report* — offer a compilation of statistics and high-quality analysis across the economic, social and governance fields. We have also produced a range of timely analysis on contemporary policy issues, including youth unemployment, job creation, inclusive growth, economic diversification and private capital flows to Africa. In 2011, we produced 75 **new ESW and related papers**, a step up from 62 the previous year but well short of our target of 112.

Figure 3.5 Knowledge management



Gender mainstreaming in the Bank

Promoting inclusive growth means ensuring that our activities benefit all social groups, including women and girls. The Bank's Medium-Term Strategy stresses that gender equality should be a guiding principle for all our activities. Our Gender Policy and action plans provide guidance on how to operationalise

Box 3.2 Strengthening results management

In 2011, our Quality Assurance and Results Department surveyed task managers on their experience in preparing Project Completion Reports. The survey revealed that the main challenge was assessing achievement of project outputs and outcomes, indicating that projects have not always been designed so as to facilitate results management. In 2010, the Bank approved a new Results-Based Logical Framework to encourage greater clarity in formulating intended results. In 2011, we also introduced a new supervision format (Implementation and Progress Results Report). These tools are expected to improve the quality of project design and facilitate reporting on results. We continue to strengthen our results management. In 2012, we will revise our PCR format in line with standards recently agreed among the multilateral development banks to ensure that our PCRs rigorously assess relevance, effectiveness, efficiency and sustainability, and highlight lessons learned.

this principle. This includes having gender-specific goals in our operations and disaggregating results data to identify different impacts on women and men. In 2011, 74% of **new projects contained at least one gender indicator** and 64% of our **PCRs included gender-disaggregated data**. These figures are steadily improving as older projects reach completion and new designs are adopted. However, the proportion of **new Country Strategy Papers with at least one gender indicator** remained low at only 44%.

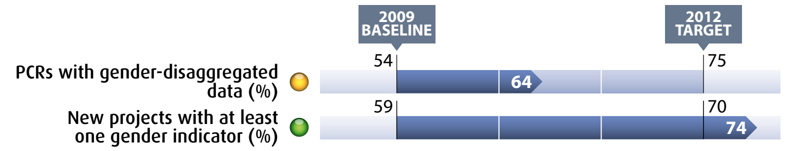
To strengthen gender mainstreaming, we will introduce a gender dimension into our quality-at-entry for new projects (see Box 3.3). We are also continuing to build capacity and awareness on gender issues among our staff. In November 2011, we organised our first-ever training for Bank staff at field-office level on gender mainstreaming, and in 2012 this will be extended across the sub-regions.

Overall, gender mainstreaming remains a challenging area. The most recent review of our gender action plan found that only 39% of public-sector projects approved in 2009 and 2010 were rated satisfactory for gender mainstreaming. Operations in the human development and water and sanitation sectors scored relatively well. Other sectors, particularly infrastructure, have proved to be more difficult. In March 2011, we organised a joint workshop on gender and infrastructure with other development banks. Held in Addis Ababa, the workshop brought together staff and practitioners from around the world to exchange experiences. Policy-based operations are another area resistant to gender mainstreaming, but we have started to work with the Bank's Governance Department on how to use budget support as an entry point to promote gender equality.

Climate change and clean energy

Climate change is one of the most serious challenges to development in Africa, threatening to undermine many of the gains of the past decade. As Africa's premier finance institution, the Bank must take account of the threat of climate change, to ensure that our results are sustainable and that we do not cause unintended harm.

Figure 3.6 **Gender mainstreaming**

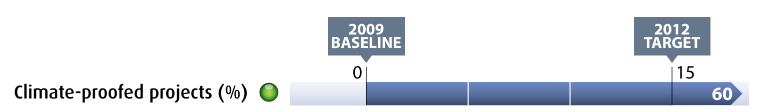


To that end, we are progressively "climate-proofing" our portfolio. This means taking steps to protect our investments from the negative impacts of climate change, climate variability and extreme weather, or introducing measures to delay or reduce the harm caused by climate change. This can include building the capacity of institutions and communities to absorb stress and change. It can also include introducing new and innovative technologies and approaches, such as better natural resources management facilities and drought-resistant crop varieties. Under our 2009 Strategy for Climate Risk Management and Adaptation, climate proofing is now fully integrated into all stages of the project cycle, from planning and design through construction, operation and decommissioning, at each stage striking an appropriate balance between benefits and risk.

We are progressively "climate-proofing" our portfolio against the negative impacts of climate change and climate variability.

Climate proofing of new operations is now assessed regularly through our quality-at-entry process. In 2011, 60% of our **new projects were climate proofed** — well above our target.

Figure 3.7 **Climate change and clean energy**



Box 3.3 **Mainstreaming gender in project design**

In 2010 a Bank review of gender mainstreaming in Bank projects revealed weaknesses in the way project designs addressed gender, particularly in the transport, energy and agriculture sectors. While a number of positive examples were identified, many of the operations reviewed failed to conduct gender analysis or, where gender gaps were identified, failed to introduce measures to remedy them. Many project designs also failed to provide gender-responsive baselines and indicators.

The Bank is integrating a gender dimension into its Readiness Review to assess the quality of gender mainstreaming at design stage. Five criteria have been introduced to assess the quality of gender mainstreaming: sector-specific gender analysis; a gender equality-related outcomes statement; a gender equality-related baseline; specific activities to address gender gaps; and adequate budgets and human resources to implement the activities. This approach was piloted in 2010 and 2011, sending a strong message that all Bank operations should promote gender equality.

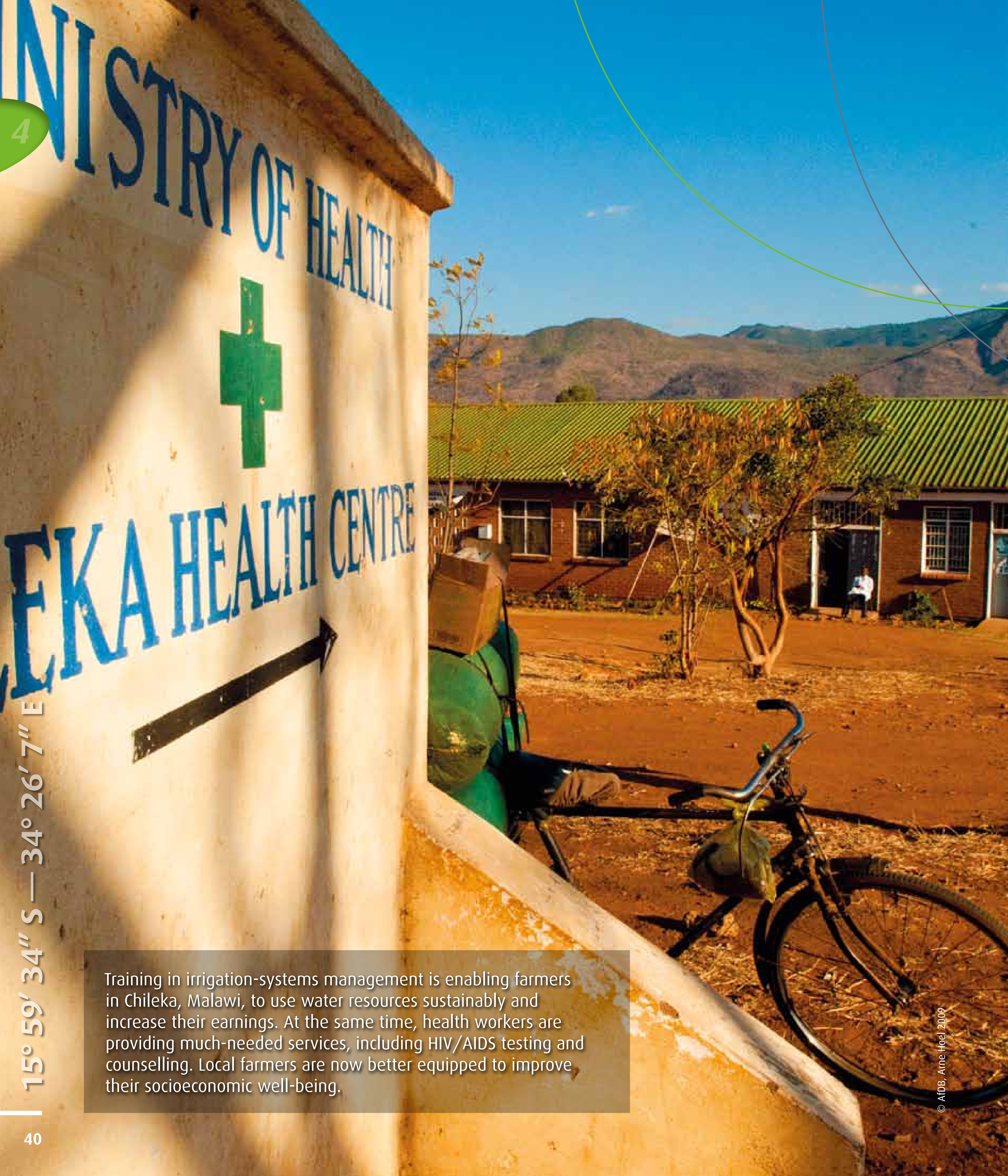
3

Conclusion

In recent years, we have introduced a range of measures to improve the effectiveness and efficiency of our portfolio. Given the lengthy time frames involved in developing new operations, it can be some years before these initiatives take effect. But we are already seeing some promising results.

Our new quality-at-entry processes have succeeded in boosting the quality of our project designs, resulting in fewer implementation problems. Our portfolio displays some encouraging improvements in efficiency, particularly for new budget-support operations. Aspects of the Paris Declaration on Aid Effectiveness commitments continue to pose a challenge, particularly those that depend on bringing partner country systems up to international fiduciary standards, but there has been good progress on reducing parallel project implementation units. The Bank also helped to ensure that African views were voiced at the Fourth High-Level Forum in Busan, leading to a shift in emphasis towards development effectiveness. Knowledge management is improving with time, with the quality and timeliness of PCRs reaching their targets. We have also made good progress on "climate-proofing" our operations.

But this is a continuing process, with plenty of scope for improvement. Reviews have indicated weaknesses in the way gender-equity goals are incorporated into project designs, so gender mainstreaming is one area where we clearly need to do more. We are therefore focusing on this area in our quality-at-entry process ■



4

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Training in irrigation-systems management is enabling farmers in Chileka, Malawi, to use water resources sustainably and increase their earnings. At the same time, health workers are providing much-needed services, including HIV/AIDS testing and counselling. Local farmers are now better equipped to improve their socioeconomic well-being.

Level 4: How efficient AfDB is as an organisation

The final level of our Results Measurement Framework relates to how efficiently we manage our own organisation, to ensure that we are fit for purpose. The Bank is a large and complex structure, with 1900 staff located across the continent. We need to ensure that our staff are well managed and highly motivated. We need to keep our business processes lean and flexible, while meeting exacting fiduciary standards. And we need to provide the management and technical resources to ensure consistently good results across a decentralised organisation. This section of the Annual Development Effectiveness Review presents our progress in these areas.

Human resources

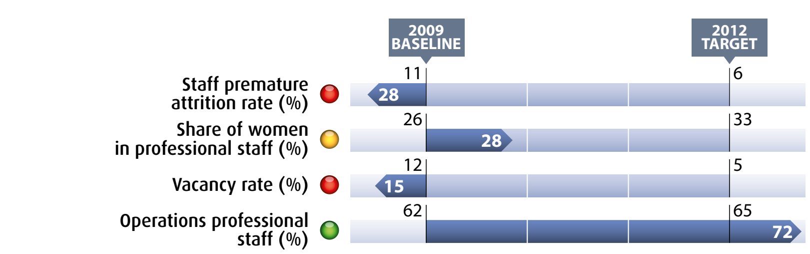
Because we are a development bank, our effectiveness depends as much on our people and their knowledge and skills as it does on our finance. We need to attract the highest calibre of development professionals across a wide range of specialist fields. We need to ensure that staff continuously develop their skills and expertise, and we must offer them rewarding career paths with incentives for continuous improvement.

Attrition of Bank staff remains above desired levels, with the **premature attrition rate**[1]—staff leaving before completion of their first contract, as a share of total departures—at 28% in 2011, well above the ambitious target of 6%. In real terms, professional staff who resigned during their first contract totalled 11 in 2008, 7 in 2009, 16 in 2010, and 17 in 2011. Taken together, this accounted for 1.7% of the average headcount of professional staff during the period. Even if most of these resignations came from junior staff, who are traditionally highly mobile, management takes the issue seriously. Our surveys indicate that staff leave for a range of reasons, including alternative career choices, family circumstances and uncertainty over the future location of the Bank's headquarters.

To strengthen the Bank's position as an employer of choice, management has implemented a range of measures to improve management practices and promote mutual understanding and teamwork among staff. Under a new Management and Leadership Development Program, the performance of managers will be assessed to a large extent (40% weighting) on their people-management skills. We are offering better career-development opportunities through an improved performance assessment and promotions framework, and we are expanding learning opportunities. In 2011, we carried out a review of our compensation policies, benchmarking them against other development institutions to ensure our international competitiveness. We improved our medical plan and introduced a range of measures to improve staff health and well-being, including opening the Bank's own fitness centre in Tunis. As part of measures being taken to address some family issues, the Bank has recently made it possible for spouses to be considered for employment. To help ensure balanced work/family life, the Bank has introduced more flexible working hours, and we are working on a work/life balance policy to provide employees with even greater flexibility.

Some 40% of the rating of managers' performance assessments will be based on their people-management skills.

Figure 4.1 **Human resources**



1 A red bullet indicates that with regard to its target, AfDB has not made progress or has regressed over two or more review periods.

Table 4: **How efficient AfDB is as an organisation (Level 4)**

This table presents the Bank's progress in achieving its 2012 targets for organisational performance:

- Good progress has been made, and we are on track to achieve our target;
- Little progress has been made and we are at risk of not achieving our target;
- No progress has been made, or we have moved even further away from our target;
- Data are not available to measure performance.

INDICATOR		Baseline 2009	2010	2011	Target 2012
DECENTRALISATION					
Operations professional staff based in field offices	(%)	26	26	29	40
Projects task-managed from field offices	(%)	16	19	25	35
HUMAN RESOURCES					
Staff premature attrition rate[1]	(%)	11	28	28	6
Share of women in professional staff	(%)	26	27	28	33
Vacancy rate	(%)	12	13	15	5
Operations professional staff	(%)	62	67	72	65
BUSINESS PROCESSES AND PRACTICES					
Lapse of time for bidding completion	(weeks)	63	60	42	40
Administrative costs per UA 1 million disbursed	(UA thousands)	109	92	79	93
TRANSPARENCY AND TIMELY AUDITING					
Project audits submitted on time	(%)	9	29	59	80
INFORMATION TECHNOLOGY					
Downtime of Wide Area Network in field offices	(hours)	175	108	53	150
Average time to resolve clients' IT requests	(hours)	5	4.3	4	4

.. = data not available, AfDB = African Development Bank, ADF = African Development Fund; IT = information technology; UA = Units of Account.

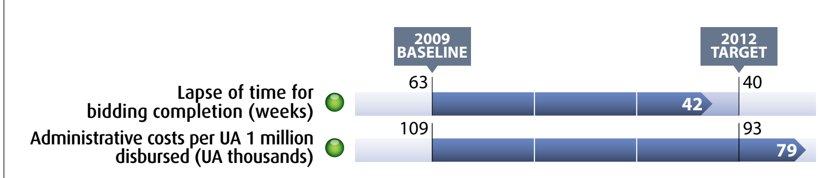
[1] The premature attrition rate can be measured in different ways. The definition used here uses the percentage of professional staff leaving the Bank within the first three years of contract in comparison to total professional staff leaving the Bank in the same period.

Source: African Development Bank.

Over the past few years, we have introduced a number of measures to improve both the speed and quality of our procurement.

To address the **vacancy rate**, which remains high at 15%, the Bank continued its enhanced recruitment programme, taking on 191 new staff in 2011, including 22 young professionals. Going forward, the vacancy rate is expected to be further reduced through the recently introduced mechanism of pooling vacancies Bankwide, the upgraded online-recruitment system, and closer business partnering between the HR department and other organisational units in the Bank. Capacity has also been enhanced through 183 promotions based on internal competition. This brings our total staffing complement to 1902, an increase of 5%. By the end of 2011, the **proportion of operations professional**[2] staff stood at 72%, against a target of 65%. Of these, 28% were **professional women**[3] – a step towards our target of 33%. We have also progressed on age diversity, with nearly half of our professional staff now below the age of 45.

Figure 4.2 **Business processes and practices**



We have continued to press ahead with our learning and development strategy to ensure that staff have up-to-date and relevant knowledge and skills. We continue to broaden our range of training and development services. Our learning and management system has been expanded to include over 2800 different training courses in English and French, 1300 e-book summaries and 700 e-books.

It will take some years for these measures to take effect. Looking ahead, our challenges include managing a higher level of staff mobility across field offices as decentralisation progresses and continuing to build a satisfying career structure for staff.

2 A green bullet indicates that AfDB is on track to achieving its target.

3 A yellow bullet indicates that progress toward this target is starting to stall or regress.

Business processes and practices

The Bank continues to press forward with a range of measures to improve its business processes and practices. A key issue is reducing the length of Bank procedures, which can cause delays in commencing and implementing operations. We are taking a multifaceted approach to identifying and reducing bottlenecks in our processes, with measures to streamline approval processes and accelerate deployment to field offices.

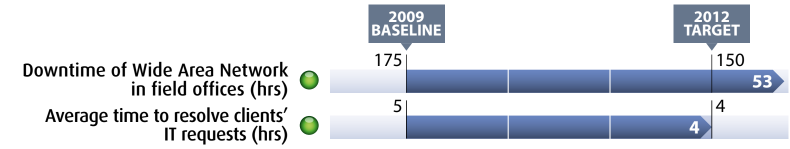
We have introduced accounting practices that allow us to monitor our efficiency by allocating administrative costs to deliverables. This in turn enables us to track **administrative cost per 1 million Units of Account[4] disbursed**—an aggregate indicator of Bank efficiency. These costs were UA 79 000 in 2011, against a target of UA 93 000—a result that suggests that our reforms are paying dividends. This success can be explained by improvements in our disbursement processes and our streamlined preparation of new budget-support operations in Tunisia, Botswana, Egypt and Côte d'Ivoire.

A key element in the efficiency of our operations is procurement. Like any international financial institution, the Bank has to meet strict fiduciary standards, as well as adhere to international principles on transparency, economy, equal opportunity, objectivity and the promotion of local industry. Because meeting these high standards is challenging for many of our member countries, the start of operations may be delayed. Over the past few years, we have introduced a number of measures to improve both the speed and quality of procurement. An indicator on **lapse of time for bidding completion** shows a result of 42 weeks for 2011, a huge improvement over the 2010 figure of 60 weeks. This reflects both more streamlined Bank rules and encouraging progress among our member countries in strengthening procurement systems and capacities.

Information technology

As the Bank moves forward with decentralisation, our information and communications technology (ICT) is critical to ensuring that we are able to operate as "One Bank" across our network of field offices. During 2011, we have been investing in a renewal of our ICT resources, replacing aging equipment to improve reliability and "greening" our operations by bringing down power consumption and cooling requirements. Our new unified communications system will reduce telephone charges by rerouting calls from different devices through lower-cost channels. We have also enhanced our desktop web- and audio-conferencing facilities. Furthermore, several new IT business solutions were implemented in 2011 to support various users, including the Human Resources department, operations complexes, and the financial departments. The Bank's core Enterprise Resource Planning system was also upgraded to a new version.

Figure 4.3 **Information technology**



These investments have already produced important results. The **downtime of the Wide Area Network in our field offices** dropped by more than half, from 108 hours in 2010 to only 53 in 2011—a positive result. To help ensure that our ICT service is continuous, we need to be able to respond rapidly to requests for assistance from staff and field offices. Our help desk facilities continue to improve, with the **average time to resolve IT requests** on target at four hours. In the future, we will also set a target specifically on the Bank's responsiveness in resolving IT issues from the field offices.

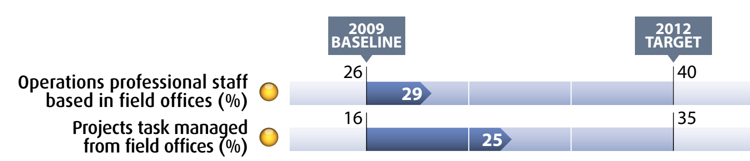
Our information and communications technology is critical to ensuring that we are able to operate as "One Bank" across our network of field offices.

The Bank's Long-Term Strategy identifies ICT as a key business enabler for the coming decade. Our priorities include building a robust and scalable connectivity platform to support decentralisation, giving mobile workers access to information resources wherever they are located. We will be developing more business-focused applications to improve core Bank processes and services, while developing new ICT solutions

Devolving staff and responsibilities to the country level enables us to form stronger partnerships with our member countries and peers.

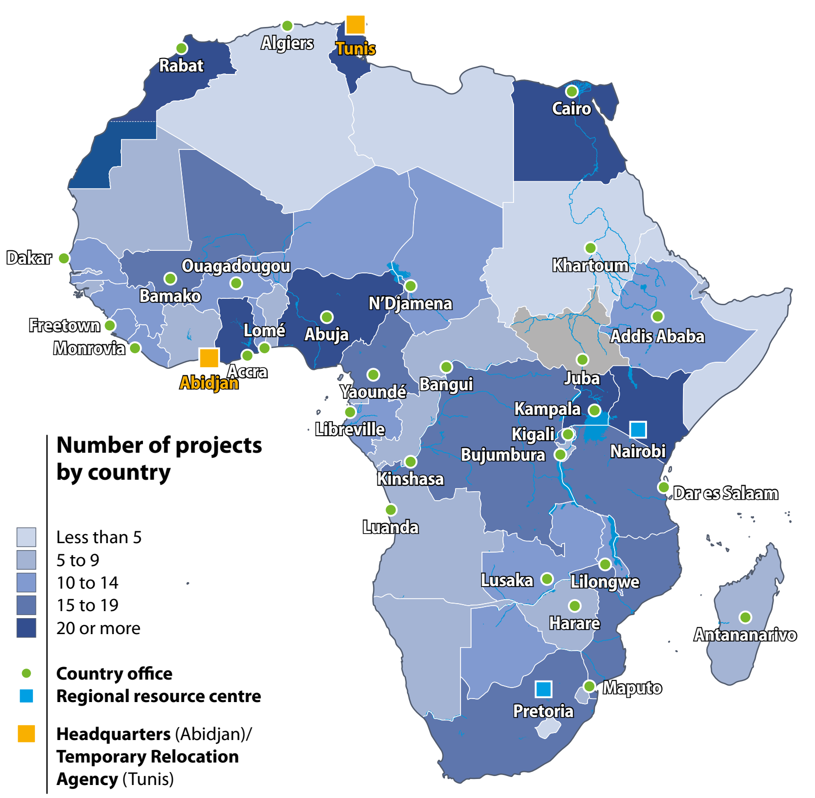
to support decision-making and knowledge management. As the Bank comes to rely more on ICT systems to manage its decentralised operations, we will become more exposed to technology-related risks. We will make sure these are addressed thoroughly within the Bank's risk-management framework.

Figure 4.4 **Decentralisation**



4 Units of Account (UA) are a value that AfDB has defined in terms of a basket of currencies equal to the International Monetary Fund's Special Drawing Rights.

Figure 4.5 **Bringing the Bank to its clients**



Note: 185 projects are considered multinational and are not assigned to any particular country. These are managed from Regional Resource Centres, field offices, or Headquarters/TRA.

Source: AfDB

Decentralisation

In recent years we have been responding to the preferences of our regional member countries and decentralising our operations to country level. Devolving staff and responsibilities to field offices brings us closer to the people we serve and enables us to form stronger relationships with our partner countries and peers.

The Bank fully endorses the international movement to enhance good governance and accountability by increasing the transparency of development assistance.

Our Decentralisation Roadmap 2011–2015 sets targets for the proportion of staff and functions to be located in field offices by 2015. 2011 was mainly a year of planning and preparation, with rollout of the decentralisation process to begin in earnest in 2012. However, there has already been some important progress. In 2011, we expanded our field presence to Burundi, Liberia, Togo and the Central African Republic, and a new field office will open in South Sudan in 2012 (see Figure 4.3). This is a major increase in our capacity to engage with fragile and conflict-affected states, where decentralisation is key to achieving the necessary flexibility of engagement. We now have a total of 31 field offices. The level of staffing in field offices increased by 23.6% in 2011 to 539 persons. In addition, the percentage of **field-based operational professional-level staff** continues to increase and now stands at 29% of the total staff, representing solid progress towards our 2015 Roadmap indicative target of 40%. To support staff in the field, the Bank developed guidelines for staff rotation and mobility, while reviewing the skills mix required for Regional Resource Centres and field offices.

To improve our responsiveness to member countries, we need a detailed review of the level of authority that is delegated to field offices. Therefore, we have commissioned an independent review of our fiduciary safeguards framework. We need to ensure that our field offices have in place the capacity to support the key fiduciary functions of procurement and financial management. The number of field office staff working in these areas has increased from 15 in 2009 to 56 in 2011. As a result, we are in a position to significantly increase our level of delegated authority in 2012. This is also reflected in the proportion of **projects task-managed from field offices** which increased from 16% in 2009 to 25% in 2011.

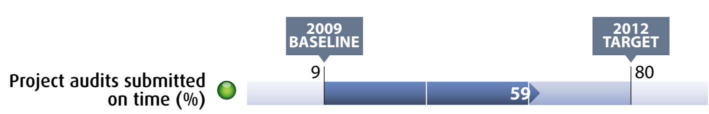
A key element of our decentralised structure will be Regional Resource Centres, established on a pilot basis in 2011 in Nairobi and Pretoria. Regional Directors have been appointed to each. We will decide on establishing further Regional Resource Centres in 2014, following an evaluation of these pilots.

Transparency

There is a strong movement internationally to increase transparency in all aspects of development assistance in order to enhance good governance and accountability. The Bank fully supports this movement. In 2011, we endorsed the International Aid Transparency Initiative, which sets standards on the publication of aid data to make it more accessible and comprehensible to the public. This enables both taxpayers in donor countries and citizens in our regional member countries to track how aid is used and what it achieves. The Bank is finalising its implementation plan and has started collaborating in pilot implementations at the country level.

Recognising the Bank's efforts and progress in openly reporting on its results and operational performance, the Publish What You Fund organisation ranked the Bank third (out of 58 donors) on the 2011 Aid Transparency Index.

Figure 4.6 **Transparency and timely auditing**



The Bank has an obligation to ensure that all our funds are used for their intended purposes. We therefore require our borrowers to submit audited project financial statements after the end of each fiscal year. In 2011, 59% of **project audits were submitted on time**—a huge improvement over our 2009 baseline of just 9%, but still short of our target of 80%. We are currently pursuing 139 overdue audit reports, and as necessary we are taking action for nondelivery, such as withholding special account reimbursements. The quality of audit reports has also improved, with only 10% failing to meet the required standard. This is a result of a number of measures, including improved terms of reference for audit firms, continuing training of project implementation units, and more active involvement by Bank staff in preselecting suitably qualified audit firms.

Conclusion

The Bank is a large and complex entity, and its management challenges are only magnified by decentralisation. To ensure that we remain an efficient, high-performing organisation, we need to be constantly investing in our systems and capacities. In 2011, many of our initiatives of recent years have begun to bear fruit. Decentralisation is moving forward, recruitment is up, and many of our core systems are becoming noticeably more efficient, resulting in a welcome reduction in administrative overheads. Our investments in ICT are making us increasingly well-equipped to handle the challenges of decentralisation. In the coming period, we hope that our continuing investments in human resources will open up increasingly rewarding career opportunities for staff at the Bank

Students in Kiroka, Tanzania, are enthusiastic about learning in renovated classrooms furnished with new tables and desks. The construction of science laboratories equipped with scientific experiment tools also enables teachers to incorporate practical exercises into their lesson plans and provides students with the opportunity to test theoretical subject matter.

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Conclusion and outlook

Africa today presents a far more optimistic picture than it did a decade ago. With growth rates above 6% for most of the past decade, it has established itself as one of the fastest-growing regions in the world today. Despite continuing global financial turmoil, Africa's abundant natural resources and growing middle class make it an increasingly attractive market for both domestic and foreign investors.

But the headline growth figures mask a number of worrying signs. Growth has been concentrated in only a few areas. With economic opportunities so unevenly distributed, many groups—including Africa's growing ranks of young people—are being left behind. Inequality is on the rise and with it an accumulation of social and political pressures. Growth may be a necessary condition for poverty reduction, but it is clearly not sufficient. It is also needs to be inclusive in nature. Inclusive growth is more robust, more sustainable and better suited to lifting more Africans out of poverty.

Promoting inclusiveness through the Bank's operations

As the continent's premier development bank, we are committed to promoting inclusiveness. We are currently undertaking consultations on a Long-Term Strategy (2013–2022) that will have inclusive growth at its heart. Inclusiveness will be mainstreamed into all our activities, including policy dialogue, knowledge generation and lending programmes. In the coming period, we will be looking for more opportunities to strengthen inclusion across its various dimensions. While our approach will continue to grow and develop, a few of the most important opportunities are presented here.

Social inclusion—We will examine the patterns of growth and human development and the delivery of public services and development programmes, to assess which social groups are being left behind. Our objectives will include:

- **Tackling youth unemployment by promoting education and skills and creating jobs and economic opportunities.** Our investments in Higher Education will help to meet Africa's need for skilled workers. Our New Education Model for Africa (NEMA) will help forge an education system that is more relevant to the needs of the private sector, with a particular focus on improving productivity in the informal sector. We will support scientific research and innovation by African Networks of Excellence. Overall, we will invest a further $475 million in human capital development in 2012–13.

- **Mainstreaming gender to provide more and better opportunities for African women.** Our operations will be gender inclusive, designed to deliver specific outcomes for women and girls, such as greater access to education and health services, clean water, improved sanitation, basic infrastructure and finance for entrepreneurial activities.

- **Encouraging African governments to be more responsive to the needs of the poor and disenfranchised.** We will make use of our growing network of field offices to deepen policy dialogue and encourage inclusiveness as an area of focus.

- **Investing directly in economic and social inclusion.** We are exploring options for supporting conditional cash transfer schemes, as has been done successfully in a number of Latin American countries, to provide direct support for poor and marginalised groups.

Geographic inclusion—We will continue to emphasise the geographical dimensions of growth and poverty reduction in our own programming choices. We will direct resources towards marginalised areas, to help them catch up with the growth poles. Our objectives will include:

- **Connecting rural communities to transport networks, to reduce their isolation and create more economic opportunities.** As a leading investor in Africa's infrastructure, we will continue to be a strong advocate for regional integration. We will also focus more on the provision of roadside socio-economic infrastructure and services and the construction of feeder roads into major transport networks, to enhance the inclusiveness of our investments. Over the next three years, we aim to build or rehabilitate over 10 000 km of main roads and more than 30 000 km of feeder roads.

- **Improving access to electricity in rural areas. We will continue to invest in connecting rural areas to energy grids.** In the coming three years, we will help expand Africa's electricity generating capacity by almost 19 000 MW and connect close to 300 000 people. These investments will benefit more than 10 million people. We will also explore innovative and sustainable off-grid energy solutions for rural communities. Altogether, we expect to invest an additional $4.6 billion in improving energy access, with 85% going to clean energy.

- **Promoting resilience to climate change and climate variability.** We will redouble our efforts to promote sustainable land use, agriculture and water-resource management. We will climate-proof key infrastructure and urban systems. We will help African countries access global resources for climate-related investments, while developing our own innovative financing mechanism.

- **Leveraging the potential of information and communication technology.** We will invest in new technologies that allow better connectivity across Africa to bridge the digital divide, and build on the many opportunities it offers to deliver better services, include inclusive financial services, and connect people.

Economic inclusion—We will invest in broadening Africa's economic base by promoting new areas of production, expanding opportunities for business creation and stimulating more employment. Our objectives will include:

- **Promoting Africa's entrepreneurial potential.** We will help promote access to finance, to remove a major constraint on African entrepreneurship. We will promote land registration to enable poor households and micro-enterprises to use their assets as collateral. We will promote new financial services that meet the needs of borrowers without collateral (e.g., leasing and factoring). We will support the poor with programmes to enhance financial literacy and the ability to develop bankable projects.

- **Supporting better use of natural resource incomes to promote development.** In resource rich countries, we will continue to promote fairness and transparency through the Extractive Industries Transparency Initiative. We will help build their capacity to negotiate fair deals for their resources. We will help strengthen policy and regulatory frameworks to fight corruption and help ensure that resource revenues are used for the greater good.

In each of these areas, we will examine past operations to draw out lessons. We will modify existing projects to maximise the benefits for youth and disadvantaged groups. In new operations, we will develop innovative ways of promoting inclusiveness. We must be prepared continually to think outside the box and try new approaches, working closely with our member countries and other development partners.

Strengthening our own effectiveness and efficiency

The inclusive-growth agenda is broad and ambitious, with implications right across our operations. To meet the challenges we have set ourselves, we must continue to strengthen and develop our own organisation, while ensuring it remains nimble and responsive. This is especially true for two persistent challenges highlighted in the ADER, disbursement and human resource management. Management is strongly committed to addressing these issues through a number of measures:

- **Increasing delivery efficiency.** Both the disbursement ratio—representing the overall pace of disbursement—and the average lapse of time between approval and first disbursement remain a cause of concern. We are conducting a detailed study on first disbursement delays including corporate analysis and detailed country case studies to better understand the many causes and formulate appropriate measures to address them. The disbursement ratio remains low, at 18% against a 32% target. The average lapse of time between approval and first disbursement fell short of our 11 months target—a reversal of the positive trend of recent years. This is partly due to capacity constraints in the recipient countries, but also to delays on our side. Management will continue monitoring disbursement performance closely and take appropriate action to improve the readiness of our operations. We have already begun to, reduce the number of ageing operations and clean up the portfolio. We are introducing fiduciary clinics to train our own country teams and our partners. As our presence on the ground increases and our interaction with our clients improves, we expect further improvement on these indicators. Recent provisional data already shows the first signs of improvement.

- **Increasing our investment in people.** As for any development institution, the quality of our support is closely tied to the quality of our people. Management of human resources is a critical component in achieving the Bank's strategy. While we are making progress in a number of areas, the premature attrition and vacancy rates remain a challenge that management is committed to addressing. Through enhanced recruitment processes and a freeze on new positions, we will reduce the vacancy rate to below 10%. We will ensure more efficient recruitment processes through Bank-wide pooling of vacancies, batch interviews, use of recommended lists and enhanced technology, including an upgraded online-recruitment system. We are conducting a detailed analysis of staff departure to inform us on how we can further enhance career prospects and improve the work environment and work/life balance to improve retention. A critical factor here is enhancing people-management skills across the organisation.

To improve in this area, we will place people management at the heart of performance assessment for all our managers.

Managing for better results

The goals we set ourselves in our Medium-Term Strategy run to the end of 2012. Many have already been achieved; we are still working hard on others. In 2012, we will establish a new set of ambitious targets, both to measure our own performance and to help our member countries to hold us to account.

We are constantly improving our focus on development results. The results data presented in this second ADER reflect improvements in a whole series of underlying systems and processes designed to increase our results orientation. As we continue to adapt our operations to Africa's new and emerging development challenges, we need to build on lessons from our own and international experience. This means ensuring that the Bank remains a leader on managing for results. While we have many of the necessary processes and systems in place, results management needs to embedded more deeply into the culture of our organisation, accepted and understood by staff, management, clients and other stakeholders. Changing the "soft" side of an organisation—its behaviours, incentives and culture—is often the most complex challenge. In the coming period, we will:

- **Mainstream results as a management tool.** While we have systems in place to monitor and report on results, it is essential to use this information as a management tool. We are introducing a number of processes—including the ADER series—to improve our results focus. We are developing a dashboard to enhance management for development results at all levels.

- **Foster a results culture at country level.** A strong results focus is especially important at country level. Too often, reporting on results is viewed as a purely formal requirement. A strong results focus at country level is essential to the effective management of our operations. With our increased presence on the ground, we will engage more continuously with our clients. We will better prepare staff in field offices and place increasing emphasis on results in country engagement.

Embedding a results culture is a continuous challenge. Persistence and continuous emphasis on results at all levels will enable us gradually to build stronger ownership of and focus on results throughout the institution ■

About this publication

The 2012 Annual Development Effectiveness Review (ADER) is a comprehensive report on the performance of the African Development Bank (AfDB). The ADER reviews development trends across the continent, and explores how AfDB's operations have contributed to Africa's development results over the past three years. It also looks at how effectively AfDB manages its operations and its own organisation. The ADER is an annual publication, 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 24 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, 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.

African Development Bank

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