Executive summary

The Annual Development Effectiveness Review (ADER), now in its fifth year, is a key product in the annual calendar of publications of the African Development Bank (AfDB, or the Bank). The ADER examines Africa’s overall development performance across a range of sectors and thematic areas, and assesses how effectively the Bank has contributed through its lending operations and other activities. It also assesses the health of the AfDB portfolio and how well we are developing as an organisation. Besides serving as an important management tool for the Bank, the ADER is written in an accessible style for a broad readership, as part of our commitment to transparency and accountability.

The ADER presents the Bank’s performance against the targets and milestones set out in our One Bank Results Measurement Framework. Like the Framework itself, it is organised into four levels or chapters. The first examines contemporary trends in Africa’s development, presenting an overall picture of the continent’s progress towards the objectives of inclusive and sustainable growth. The second level presents the aggregate results of the Bank’s portfolio of operations over recent years, showing where we have met or fallen short of our targets. The third level measures the health of our portfolio and the systems we use to manage it, and the fourth level looks at our internal capacities and the progress of our organisational reforms.

This year, we explore the theme of innovation in Africa’s development. While Africa today is celebrating unprecedented levels of economic growth, we recognise that the African economy still needs to undergo a profound structural transformation, if it is to deliver jobs and livelihood opportunities for the population at large. We need to find ways to promote innovation and accelerate the pace of change. We explore some of the innovations that are occurring across Africa today and consider how the Bank’s work is helping to unlock Africa’s creative potential.

Innovation and transformation in Africa

Development has long been recognised as a process of creative destruction, in which old ways of working are abandoned in favour of new and more productive activities, at the household, firm and societal levels. Africa today is in a very dynamic period in its history, driven by large-scale demographic shifts, rapid urbanisation, natural resource discoveries, changing global patterns of trade and investment and a changing climate. This dynamism creates both challenges and opportunities, making innovation imperative.

Africa has already begun to leapfrog over old technologies and adapt new ones to the African context. This is especially true in the communications field, as the spread of mobile telephony opens up new ways of delivering financial and other services. We can also see it happening in the energy sector, as small-scale, renewable technologies begin to offer affordable solutions for remote communities. But innovation is also broader than technology. It means developing products and business models that can succeed in the African context, and finding new ways to organise public institutions and deliver services at the regional, national and local levels.

The need for innovation is now widely recognised, and policy-makers have committed to promoting knowledge-based solutions to Africa’s development challenges. Yet there are still basic conditions that need to be put in place to encourage innovation and change.

Inclusive growth — Africa’s economic dynamism is by now a familiar story. The continent is enjoying its most sustained period of high growth in 40 years. Six African countries are among the top 10 global performers, and most African countries are sustaining growth rates of over 5%. This strong performance is tied to natural resource wealth, high commodity prices and new trade and investment links. It also rests on greatly improved economic management and a more favourable business climate. Over the longer term, urbanisation and the rise of the African middle class are helping to make Africa an increasingly attractive destination for investment.

Most African countries are sustaining growth rates of over 5%

Yet despite the strong growth performance, poverty rates have fallen relatively slowly. The proportion of the population living below the poverty line reached 42.4% in 2014, an improvement of just 0.1% over 2010. While Africa’s low-income countries are making faster progress, it is clear that the benefits of growth are still concentrated in particular areas or social groups. Africa has yet to see the kind of mass creation of low-skilled employment that enabled large-scale poverty reduction in Asia. A few African countries are beginning to make the shift from traditional, low-value-added agriculture into commercial farming and more productive manufacturing and services, but the pace of change remains slow.

Spatial inclusion — One of the main constraints on structural economic change is Africa’s huge infrastructure deficit, which keeps the growth in Africa’s cities and coastal areas from spreading out into the
## Executive summary

### Summary performance scorecard 2014

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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 around 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 Levels 3 and 4 the Bank’s progress is measured against its progress in achieving its 2014 targets set out in the Bank’s Results Measurement Framework.

- **Good progress:** On average the group improved over baselines or reference groups.
- **Moderate progress:** Results are mixed: on average the group of indicators show moderate improvement.
- **Progress stalled or regressed:** On average the group of indicators stalled or regressed.
- **Progress could not be measured.**
hinterland. With electrification rates at just 42.5%, African businesses and households face high energy costs and unreliable supply. Firms are forced to rely on back-up generators, at an estimated total fuel cost of $5 billion per year. Yet Africa has huge potential for clean energy, particularly hydropower. As the cost of alternative power technologies falls, the scope for innovative off-grid and mini-grid solutions is increasing rapidly. Transport is another key bottleneck. High transport costs add 75% to the price of goods. Yet countries like Ethiopia, through a long-term investment programme, have succeeded in extending access to road transport, with immediate impact on poverty and food security. Meanwhile, the spread of mobile telephone services — which are growing at 4.2% annually — is opening new ways of delivering financial and other services.

**High transport costs add 75% to the price of goods**

**Social inclusion** — 2015 marks the end date for the Millennium Development Goals (MDGs). It is clear that the 15-year-old targets have accelerated progress on social inclusion across Africa, particularly in health and education. In the health area, maternal and child mortality have both been substantially reduced, though by less than the MDG targets, through the spread of basic health services and appropriate care for mothers and babies. HIV-AIDS prevalence has fallen from 5.8% in 2000 to 4.7% in 2012, and malaria prevention and treatment campaigns have had a significant effect. However, the Ebola epidemic in Guinea, Liberia and Sierra Leone was a serious setback. The tragic loss of nearly 10,000 lives, including those of 500 health workers, has exposed some sharp deficiencies in national health systems. With support from development partners, the affected countries have now begun to put in place long-term programmes to boost their health infrastructure and increase the numbers of health workers.

In education, Africa is on track to achieve its MDG on primary enrolment, thanks to aggressive national enrolment campaigns. However, many countries are struggling to achieve acceptable learning outcomes, and too many African children are leaving school without basic competencies in reading and mathematics. With half the African population now under 25 years old, youth unemployment has become one of the most pressing social challenges of our time. Formal employment accounts for just 16% of jobs in sub-Saharan Africa and is not expanding at anywhere near the rate needed to absorb new labour market entrants. The great majority of young people therefore work on family farms or in other household enterprises, which offer few opportunities for advancement. Young women are particularly disadvantaged in the search for gainful employment.

**Political inclusion** — Africa’s recent strong growth performance rests on a foundation of significantly improved economic governance. Across Africa, macroeconomic management and the business environment have improved dramatically. Yet overall performance on governance remains mixed and punctuated by setbacks. In 2014 tax collection as a share of GDP remained stable compared to 2010, at 22.3%, reflecting the difficulties that resource-rich countries face in taxing the extractive industries. Surveys suggest that a large majority of Africans would be willing to pay higher taxes in return for better public services, but most do not trust government to use the resources appropriately. Overall, there is growing concern as to whether African democracy is robust enough to manage the pressures associated with a rapidly growing population and the lack of economic opportunity for young people.

**Towards green growth**

Africa is blessed with abundant natural resources, which could help to lift much of the continent out of poverty. Yet Africa is also acutely vulnerable to the effects of environmental degradation and climate change. It needs to begin to move towards a green growth pathway, managing both renewable and non-renewable resources sustainably and in the interests of future generations.

**Building resilience** — In a changing climate, Africa’s water resources will come under increasing stress, and rates of soil degradation and desertification will increase. A key priority will be building resilience to water shocks. Currently, sub-Saharan Africa withdraws just 3% of its renewable water resources. Given the diversity of local ecosystems, African countries need to find innovative local solutions for water harvesting and storage, based on better management of...
soil moisture and community-based irrigation. A growing population will also place pressure on food security. The proportion of Africans who are food-insecure has slowly declined, to 27.6% in 2014, but the picture varies substantially across countries, with fragile states particularly vulnerable. Africa still has much to do to put in place the institutional capacity for environmental sustainability and adaptation to climate change.

Managing resources sustainably — As new mineral resource discoveries are made across Africa each year, the management of the extractive industries and their revenues has become a key policy priority. There is a need for more robust governance arrangements, so that decision-making is transparent and revenues are used in the public interest. Agriculture continues to generate 57% of all employment in Africa and provides the main source of income for 90% of the rural population. Boosting agriculture incomes through better farming and agro-processing is therefore key to defeating poverty. Currently, Africa imports $25 billion in foodstuffs. If more of this could be supplied by African agriculture, it would help to drive inclusive growth. Unfortunately, agriculture remains a relatively neglected sector, and agricultural productivity has improved little in recent decades. Africa’s smallholders are caught in a vicious circle; isolated from their markets, they depend on middlemen, which denies them the returns needed to invest in greater productivity. Breaking this cycle calls for innovative business models, which are beginning to emerge in a number of countries through partnerships between agri-businesses and smallholders.

Agriculture continues to generate 57% of all employment in Africa and provides the main source of income for 90% of the rural population

Sustainable infrastructure — While Africa has made a negligible contribution to the global production of greenhouse gases, its ecological footprint is nonetheless growing fast. In particular, its rapidly growing cities pose serious environmental challenges and are in urgent need of sustainable infrastructure. Africa has half of the world’s clean energy potential, particularly in hydropower, barely 10% of which is currently tapped. Pipeline projects in DRC have the potential to transform Africa’s power supply. Africa is also beginning to innovate with mini-grid or off-grid clean energy solutions. With the cost of solar power falling rapidly, sales of solar-powered mobile phone charging devices are doubling annually, while companies are beginning to develop household appliances able to run on the low-voltage direct current produced by solar power systems.

AfDB’s contribution to Africa’s transformation
As Africa’s premier development finance institution, the AfDB has a portfolio of operations valued at more than $31.7 billion. Through our lending, our technical expertise and our policy advocacy, we support Africa’s development in five priority areas: infrastructure, regional integration, private sector development, skills and technology, and governance and accountability. Our support helps to create the conditions in which Africans can identify and implement innovative solutions to their development challenges.

Infrastructure — Infrastructure remains our highest priority, absorbing the lion’s share of our resources. We invest heavily in transport infrastructure, helping to put in place the backbone highway network to link African countries to each other and the feeder roads that link business and households to markets and services. Over the past two years, we have built or rehabilitated over 6000 km of road and provided 32 million people with improved access to transport. Projects like the 175 km road between Wacha and Maji in Ethiopia have dramatically reduced transportation costs for farmers, raising rural incomes. We are also investing in railways, airports and port facilities. In the energy sector, we have funded over 1.3 GW of new power generation capacity, while providing 10 million people with electricity connections. We are making substantial investments in renewable energy, such as Africa’s largest wind power project in Lake Turkana in Kenya, and we are helping African countries to access international climate funds and leverage private-sector finance for clean energy projects. Our investments in water and sanitation have benefited more than 4 million people, and we have a strong focus on the management of water resources, so as to boost water security.

Regional integration — We believe that regional integration is the foundation for economic transformation in Africa, helping to connect producers into more productive value chains and achieve economies of scale. Under our new Strategy for Regional Integration 2014–2023, we are prioritising the development of regional infrastructure (along with the institutions required to manage it) and the promotion of industrialisation and trade. In the past two years, we have built 680 km of cross-border roads, together with improved border infrastructure. We have ongoing investments in cross-border power transmission lines, helping to join national power grids into more efficient regional power pools. Many of our regional initiatives have an explicit focus on promoting peace and security, such as our support for the International Conference on the Great Lakes Region.

Private sector development — We aim to build an environment in which African business can innovate and flourish. Our Private Sector Strategy 2013–2017 focuses on improving Africa’s business climate and promoting enterprise development. Through our budget support operations and technical assistance, we are helping African countries to modernise their business regulations and make their tax systems more effective. We are also helping to create a sustainable market in micro-finance for household enterprises and small business. Over the past two years, we have provided 17 900 microcredits and created 1.2 million jobs, of which 340 000 were for women. Our private sector window is providing finance for more established businesses, with a focus on public-private partnerships, particularly in the infrastructure sector.

Skills and technology — We are investing in the technical and vocational skills of young Africans, to equip them for gainful
employment and successful entrepreneurship. Our support has a strong focus on science and technology, to promote more innovative, knowledge-based economies. Over the past two years, we have provided vocational training to 5430 young people and constructed over 1480 classrooms and educational support facilities. We are rapidly expanding our investments in this area, with projects to transform systems of vocational training in Congo, Mauritania, Morocco, Rwanda, Tanzania and Zimbabwe. We are also supporting a network of centres of excellence in biomedical science, to help address the skills gap.

Governance and accountability — Our new Governance Strategic Framework and Action Plan 2014–2018 sets out how we will help to tackle Africa’s governance deficits. Our main focus is on economic governance. We are helping to strengthen the business environment through improved regulation. For example, we helped Mozambique establish a one-stop shop for business registration. We are investing in more inclusive and sustainable financial systems. We support many African countries on budgeting and financial management, helping them to raise revenues and target their spending to development priorities, guided by the principles of transparency and accountability. In Comoros, for example, we have helped to strengthen the management of the energy sector, while supporting the work of anti-corruption agencies. In Sierra Leone, we are supporting wide-ranging public financial management reforms, including improved governance of the energy and extractive sectors. Our projects are promoting innovations in governance, such as the use of e-governance and improved engagement with civil society and communities.

Through our support, over 2.3 million people now use improved agricultural technologies

Agriculture and food security — Our work in the agriculture sector focuses on lifting productivity and increasing food security, while conserving the natural resource base. Over the past two years, we have delivered improved water management across 53,000 hectares of land and planted or reforested over 440,000 hectares. Through our support, over 2.3 million people now use improved agricultural technologies. A key objective of our strategy is to link farmers to agri-businesses, to create more sophisticated value chains and increase rural incomes. We are paying close attention to promoting resilience in the face of climate change. For example, we are helping seven West African countries manage their natural resources better through irrigation schemes, pastoral facilities, storage and market infrastructure, and new production facilities for fisheries and aquaculture.

Promoting gender equality — Our Gender Strategy 2014–2018 affirms our commitment to promoting gender equality across our portfolio. We are working to strengthen women’s legal and property rights, promote women’s economic empowerment and make sure that women’s voices are reflected in national development policy. To that end, in 2014 we financed the third Africa Women’s Economic Summit, held in Zambia, which led to concrete commitments from key financial institutions to boost women’s access to finance. We have three flagship initiatives in the pipeline: a fund that will support women-led and managed businesses with high growth potential; a social investment fund to help women affected by the Ebola epidemic; and an interactive platform to link women entrepreneurs across the continent. We are launching the first Africa Gender Equality Index, providing hard data on gender disparities across 52 countries, to inform policy dialogue.

Addressing fragility and building resilience — Following the report of the Bank’s High Level Panel on Fragile States, led by Liberian President Ellen Johnson-Sirleaf, the Bank has launched a new strategy for working in situations of conflict and fragility, with a focus on building resilience. We now apply a “fragility lens” to all our country programmes, to help identify risks and opportunities. In 2014, the Ebola epidemic showed Africa’s vulnerability to shocks. The AfDB moved quickly to mobilise support for the affected countries. Our emergency response enabled doctors from other African countries to deploy quickly to the affected zones. We then approved a total of $210 million to address some of the deficits that had been exposed in national health systems.

How well the Bank manages its operations

2014 proved to be a challenging year, both for the Bank and several of our partner countries. The Ebola epidemic caused widespread disruption in Guinea, Liberia and Sierra Leone, while other countries faced difficult social and political conditions. For the Bank, our successful return to our statutory headquarters in Abidjan, Côte d’Ivoire, absorbed a great deal of management effort. Despite these challenges, we achieved many of our targets for portfolio management.

Stronger country programmes — Our Country Strategy Papers (CSPs) are the foundation of our support, identifying how the Bank can best respond to each country’s needs. We have developed new guidance and formats to drive improvements in quality. We have also incorporated fragility assessments to identify opportunities to help build resilience. In 2014, our CSPs scored an average of 5 on a scale of 1–6, showing steady improvement. Our Country Portfolio Performance Reviews were expanded in coverage, generating many useful insights on how to improve quality. We have strengthened learning across the Bank through the introduction of an Evaluation Results and Lessons Learned database, which is searchable by sector and theme. We have continued to press ahead with our aid effectiveness commitments, increasing our use of country systems, and the predictability of our disbursements. In 2014, we produced
32 major pieces of research and analysis, covering a wide range of sectors and issues. This knowledge work helps to inform our policy dialogue with our partner countries.

We approved a total of $210 million to address some of the health system deficits in Ebola-affected countries

Timely and effective delivery — While project performance in 2014 remained solid, the twin impact of Ebola and our return to Abidjan presented new challenges in meeting our targets. Our quality-at-entry systems continue to function well, with rigorous processes for checking the quality of project designs. In 2014, all of our new projects were rated satisfactory, while the time required to approve of new operations and to reach first disbursement continued to decrease. We introduced a new quality assurance dashboard to help senior management monitor portfolio quality. We have continued to strengthen our portfolio supervision, with staff in country offices increasingly taking the lead role. As a result, we have been able to reduce the proportion of operations at risk. Overall, however, our disbursement ratio across the portfolio slipped, showing that projects are taking longer to complete. In addition, the average time for procurement of goods and works slipped back to 9 months, against a target of 8. These missed targets are of concern to management, and the Bank is taking remedial action, including by updating our procurement practices. On a more positive note, the proportion of completed operations rated satisfactory increased from 75% in 2010 to 94% in 2014 — a very strong result.

Gender and climate change — In accordance with our new Gender Strategy, 90% of new CSPs and 90% of new projects now have gender-informed design, while 78% of our projects aim for specific gender-equality outcomes. While this is good progress, we still have some way to go to ensure a consistent focus on gender equality across the portfolio. To that end, we are planning to introduce a gender “marker” to identify projects with significant potential for promoting gender equality and ensure that they receive specialist attention. Under our Climate Change Action Plan, we have provided support to eight countries on climate-related initiatives and have co-financed 20 projects with international climate funds. Three-quarters of our new projects have climate-informed designs, although this is short of our target of 90%. We are active in international climate-change negotiations, providing technical and other support to the African Group of Negotiators, and we have produced 59 climate-related knowledge products to deepen the understanding of climate change across Africa.

How well the Bank manages its own organisation

Decentralisation — Moving staff and functions closer to our partner countries has been a long-term objective of the Bank. Between 2001 and 2014, our network of country and regional offices expanded from 4 to 38. A 2014 mid-term review of our Decentralisation Roadmap identified many benefits from this stronger country presence, including improved policy dialogue and donor coordination. In 2014, more than 50% of our projects were managed from field offices, and the proportion of professional staff based in the field reached 50% — both well above our targets. We have a strong communications and IT infrastructure in place to support our decentralised operations.

Human resources — The AfDB aims to be the employer of choice for Africans working in development. Our People Strategy sets out our approach to developing leadership, strengthening employee engagement, improving performance and accountability and creating the workforce of the future. We have introduced a new approach to learning and professional development, to ensure that staff are highly motivated and able to remain at the cutting edge of their disciplines. We have introduced a range of measures to embed a high-quality performance management culture throughout the Bank, based on stronger dialogue between staff and supervisors. We successfully supported more than 1000 staff members and their families through the relocation to Abidjan, minimising disruption to our operations. While recruitment was frozen during this period, we have continued to increase the proportion of women in professional and managerial roles.

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Value for money — The AfDB is committed to maximising value for money across all aspects of its operations, with a range of recent reforms to streamline our business processes and contain our overheads. We have implemented such cost rationalisation measures as tightening up on travel costs and ensuring more efficient use of office space. We have introduced better cost accounting to strengthen the link between resource use and results. As a result of these measures, we have made good progress in keeping our costs at reasonable levels, achieving our targets for three of our four value-for-money indicators. We are also leading the work with other multilateral development banks to introduce a new conceptual framework on value for money, which will help us to benchmark our performance.
Conclusions and way forward

Africa’s growth prospects remain positive for the coming years, driven by a rapidly growing and urbanising population, shifting patterns of trade and investment and improvements in economic management. But we have yet to see a change to the structure of African economies. We need to accelerate the pace of innovation, turning agriculture into an occupation of opportunity, rather than necessity, and creating new jobs and business opportunities in manufacturing.

Our Bank Strategy 2013–2022 gives us a clear direction for our support of economic change over the coming years. Infrastructure remains our highest priority. We will help to finance transport, power, water and communications infrastructure, to put in place the conditions for inclusive and green growth. We will continue to search for innovative solutions to Africa’s infrastructure deficits, including through new, clean energy technologies. We will work with African countries to help boost their competitiveness and accelerate investment flows. We will help to develop innovative models for increasing access to microfinance and for public-private partnerships. We will help to link up African businesses across national boundaries, so that they can create new value chains and achieve economies of scale. We will continue to pilot innovative solutions to border management and trade promotion, and we will continue to invest in regional power pools to lower the cost of energy.

Building skills and promoting technology is central to our vision for Africa’s development. Africa has shown its capacity to take new ideas and apply them in creative ways to its unique development challenges. New technologies need to be accompanied by innovative business models. At present, the lack of technical skills across Africa remains a critical constraint on economic change. We will therefore intensify our efforts to equip young Africans with the skills they need to succeed in a knowledge-based economy.

Finally, we recognise that Africa’s changing climate will have a major impact in the coming years on agricultural productivity, food and water security and vulnerability to extreme weather. We will help African countries put in place the policies and institutional capacity to adapt to these challenges, with a strong focus on sustainable management of natural resources.

Looking ahead, 2015 promises to be a landmark year for the international development community. We hope to see the adoption of new Sustainable Development Goals at the UN Summit in September, alongside new international commitments on financing for development in Addis Ababa in July and on climate change in Paris in December. As usual, the AfDB will be at the centre of these events, helping to ensure that the African voice is heard.