Opening up access to global markets

Regional hubs have a lot to gain from investing in infrastructure to boost economic growth and open up access to regional and global markets. The Bank has helped consolidate Djibouti's reputation as a global shipping hub with financial support for the Doraleh Container Terminal.

Executive summary

The **Annual Development Effectiveness Review** (ADER) examines development trends in Africa, assesses the impact of the African Development Bank (AfDB, or the Bank) and outlines opportunities and risks that lie ahead. The ADER enables us to measure our performance and identify areas where we need to enhance our efforts.

Drawing on data from a wide range of sources, the ADER reports on progress in achieving the Bank's Ten-Year Strategy. It evaluates the Bank's past results and performance according to our four-level Results Measurement Framework (RMF).

This year's ADER marks the beginning of a new era for the Bank, with a new president and a sharpened focus on an interlocking set of critical priorities within the Bank's Ten-Year Strategy. We call them the "High 5s": Light up and power Africa, Feed Africa, Industrialise Africa, Integrate Africa, and Improve the quality of life for the people of Africa. These priorities are crucial for advancing Africa's development, accelerating the structural transformation that Africa needs, and meeting the objectives of our Ten-Year Strategy.

ADER 2016 is structured around these vital issues, while maintaining the indicators and targets of the existing RMF. In **Part 1** of the report, each chapter focuses on one of the High 5s, examining Africa's progress and challenges (Level 1 of the RMF) and weighing the contribution that the Bank is making (Level 2). In **Part 2** of the report, Chapter 6 focuses on the Bank's performance in managing its portfolio (Level 3 of the RMF) and Chapter 7 on the Bank's organisational efficiency (Level 4).

> *These energy-sector bottlenecks cost 2–4 percent of GDP annually, undermining job creation and investment*

As well as using the indicators and targets of the existing RMF to gauge the Bank's impact, ADER 2016 examines the immediate prospects for African development. By combining Level 1 and Level 2 of the RMF within each chapter in Part 1, we can better explain the connections between Africa's key developmental challenges and the action the Bank is taking to address them.

Light up and Power Africa

To grow and prosper, Africa needs modern energy systems that provide an adequate, affordable supply of power to every home, business and service provider. Energy is also crucial for achieving the AfDB's other development objectives. But despite 15 years of economic growth, Africa's energy systems are still grossly inadequate.

Access to electricity rose from 40% in 2010 to 43% in 2013, but about 635 million people still live without electricity. Access to clean, non-polluting cooking facilities is even more restricted. Almost four in five people rely for cooking on solid biomass. These energy-sector bottlenecks and power shortages have a deep economic impact on the region. They cost 2–4 percent of GDP annually, undermining job creation and investment.

Africa's energy opportunity — Africa's energy deficits stand in stark contrast to the region's potential. Africa has abundant reserves of fossil fuels and an even greater abundance of renewable energy assets. The continent has more than half of the world's renewable energy potential. Rising demand for energy makes it imperative for policymakers to develop Africa's resources for Africa's needs. Over the next 20 years, renewable energy generation should rise to account for nearly 49% of total energy generation in Africa, up from just 17% in 2013. Developing this potential requires a strong package of policy measures, including active government support for energy efficiency and the elimination of fossil fuel subsidies.

The challenge is not predominantly the technical one of greatly expanding the generation capacity; it is orienting policy to deliver electricity to those who need it most. Ambition is not merely about the number of megawatts installed, but the number of people reached. Distributed, clean energy interventions are best suited to tackling energy poverty — and poverty more generally.

The Bank's contribution — We are demonstrating our commitment to increasing energy production and access through our support for construction and rehabilitation of power generation plants. In the period 2013–2015, the Bank's investments provided almost 4 million people with improved access to electricity. We helped install 1422 MW of new electricity capacity, of which 72 MW was renewable.

The New Deal on Energy for Africa underpins all the other High 5s. Through this initiative, the AfDB is working in partnership with all

Summary performance scorecard 2015

LEVEL 1: IS AFRICA MAKING DEVELOPMENT PROGRESS?

Inclusive growth
- Economic inclusion
- Spatial inclusion
- Social inclusion
- Political inclusion
- Sustaining growth

Transition towards green growth
- Building resilience
- Managing natural assets
- Reducing waste and pollution

LEVEL 2: ARE AfDB OPERATIONS MAKING AN IMPACT?

Regional integration
- Cross-border transport
- Cross-border energy

Private sector development
- Private sector
- Agriculture

Infrastructure development
- Transport
- Water
- Energy
- ICT

Skills & technology
- Vocational training
- Education
- Health

Governance & accountability
- Financial management
- Public sector transparency
- Competitive environment

LEVEL 3: ARE AfDB OPERATIONS MANAGED EFFECTIVELY?

Country-level results
- Country engagement
- Aid effectiveness

Effective & timely operations
- Quality of operations
- Portfolio performance
- Learning from operations

Gender & climate change
- Gender-informed operations
- Climate-informed operations

LEVEL 4: IS AfDB AN EFFICIENT ORGANISATION?

Moving closer to our clients
- Decentralisation
- Connectivity

Engaging & mobilising staff
- Human resources
- Gender

Value for money
- Cost-efficiency
- IT services

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 2015 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.**

stakeholders to unify efforts to achieve universal access to energy in Africa. Our new Energy Strategy sets out the priorities for the Bank's interventions in the energy sector from 2016 to 2025. The strategy aims to help transform Africa's energy sector by increasing energy production, scaling up energy access, improving affordability, reliability and energy efficiency, and improving the sustainability of energy systems.

> *In 2015, 24.6% of the population was at risk of food insecurity*

Feed Africa

More than 70% of Africans depend for their livelihoods on agriculture, which contributes 15 percent of GDP. If its full potential were unlocked, agriculture could vastly improve the lives of millions of Africans — creating jobs, increasing prosperity and reducing hunger. Much of this potential remains untapped, however, and productivity is low, contributing to persistent poverty and deteriorating food security.

Africa has more undeveloped arable land than any other region, equivalent to 25% of the world's fertile land, yet food insecurity and malnutrition are persistent. In 2015, 24.6% of the population was at risk of food insecurity. While this is an improvement on 33% in 2000, in the face of a growing population the rate of progress is not enough.

Low levels of agricultural productivity trap millions of farmers in poverty and act as a brake on growth. Between 2001 and 2008, overall GDP in Africa grew 6% annually but agricultural GDP grew by only 3.4% a year. Principal challenges to agricultural transformation in Africa include: limited use of modern agro-inputs and mechanisation; limited access to credit; poor access to markets; and a lack of gender inclusiveness.

AfDB support for African agriculture — The Bank is committed to improving food security and rural livelihoods by tackling the most important constraints on agricultural productivity. Our projects are demonstrating the potential of agriculture to create decent jobs. We are also helping to promote more sophisticated value chains by linking farmers to agri-businesses.

We have supported African governments in integrating climate resilience into their plans and policies. Climate-smart approaches preserve soil fertility and strengthen the climate resilience of the agriculture sector, including crop production, livestock, aquaculture and fisheries.

Since 2013, 17.4 million people have benefited from improvements in agriculture supported by the Bank. Our projects have enhanced water management across 137 000 hectares of land, and 1.2 million people in rural areas used improved technology in agriculture.

Although the Bank has made some substantial investment in this sector, we recognise that this has not been enough to achieve the substantial transformation required for a strong, sophisticated agricultural sector. Our agricultural operations will now be framed within a more business-oriented approach, based on a deeper understanding of the obstacles, potential and investment opportunities right across the sector, from the supply of inputs to the final point of retail.

The Bank demonstrated its commitment to agriculture at the Feeding Africa conference held in October 2015 in Dakar. The conference led to an 18-point action plan to accelerate investment in agribusiness, including a new facility at the Bank to provide funding and guarantees to African women in agribusiness, as well as projects tackling youth unemployment.

> *Since 2013, 18 million people have benefited from improvements in agriculture supported by the Bank*

Industrialise Africa

Africa's recent growth has been strong, but a persistent lack of industrialisation is holding back Africa's economies, which remain largely dependent on sectors like agriculture and unprocessed commodities that add relatively little value.

Africa's share of global manufacturing exports remains less than 1%, compared with over 16% for East Asia. From 1975 to 2014, the African manufacturing sector's contribution to the continent's total economy actually declined from 18% to 11%, leaving it with the smallest share of any developing region. However, in absolute terms industrialisation is growing. Manufacturing production has increased, from $73 billion in 2005 to $98 billion in 2005 prices in 2013, due to strong growth in parts of Africa, domestic policy and institutional improvements, and rising wages in China.

> *Although Africa's share of global manufacturing exports remains less than 1%, industrialisation is growing in absolute terms*

If Africans are to enjoy a higher standard of living, Africa needs to improve its economic performance. Today, the economies of African countries are facing several structural challenges: they rely on low value-adding activities; investment in education and skills development is insufficient; they import far more manufactured goods than they export; they remain dependent on limited value-added commodities; and their trade balance in manufactured goods is deeply negative.

Africa also desperately needs more infrastructure investments in order to support industrialisation. We need roads, rail and ports to open up access to regional and global markets. Access to finance, currently one of the main obstacles to doing business in Africa, needs to be improved to enable enterprises to move up value chains. Only 31% of adults have access to an account at a bank or other financial institution.

The Bank's role in Africa's industrial transformation — In the period 2013–2015, the AfDB's support to private sector development has created more than 3 million jobs, of which almost 812 000 were for women. A total of 153 000 microcredits were granted, while 5.7 million people benefited from investee projects and microfinance. Our support was focused on promoting enterprise development and helping to improve the business environment.

The experience of other industrialising economies around the world shows that Africa can realistically more than double its industrial GDP from $751 billion to $1.72 trillion within the next decade. This in turn would enable Africa to raise its continental GDP from $2.6 trillion to $5.62 trillion and its GDP per capita to $3368 by 2025.

For this to happen, Africa needs to implement a comprehensive and resolute industrial policy; one that can be adjusted for each country's context, requirements and development goals. Lessons from countries that have rapidly industrialised their economies highlight five key enablers: supportive policy, legislation and institutions; conducive economic environment and infrastructure; access to capital; access to markets; competitive talents, capabilities, and entrepreneurship.

Industrialising Africa and driving progress on each of the five enablers outlined above will require combined and coordinated efforts by a wide range of stakeholders, both public and private. The Bank, as the premier financing institution on the continent, can and should play a leading role in the "Industrialise Africa" agenda.

While it will intervene along with its partners in all identified programmes, the Bank plans to place a stronger focus on areas where it can best leverage its experience, capabilities and its finances to support countries by championing a subset of these programmes, grouped into the six "Flagship Programmes", which are at the core of the Bank's "Industrialise Africa" priority. Over the next 10 years, the Bank will invest $3.5 billion per year through direct financing and leveraging to implement the six programmes.

Integrate Africa

The Bank is focusing its integration efforts not just on movement of goods and services but also on mobility of people and investment. Enabling people to move freely across borders in Africa will give a powerful boost to economic growth. When capital flows more freely across borders, investment increases, finance is allocated where it can generate the most productivity, and investors get higher returns.

Inter-African trade increased from $145 billion in 2014 to $174 billion in 2015. Yet only 11.3% of trade in Africa is intra-regional and exports remain skewed towards raw minerals. Intra-African imports as a share of the continent's GDP rose from around 2.7% in 1995 to around 4.5% in 2013, but this is low compared with regions such as the Americas (6.7%), Asia (17.9%) and Europe (21%). The cost of trading across borders, measured as the cost of shipping a container, has also increased by 11% since 2010, to $2384.

Numerous initiatives are under way to remedy this situation and unlock the power of regional trade to drive the economic transformation that Africa needs. In June 2015, two key shifts in Africa's trade integration occurred: the Tripartite Free Trade Area Agreement was signed and the Continental Free Trade Area negotiations were formally launched.

"Enabling people to move freely across borders in Africa will give a powerful boost to economic growth

Africa is employing innovative methods to raise infrastructure finance and to drive forward strategic infrastructure projects, including cross-border transport, communications and pipeline projects. Africa's road density (length of road per square kilometre) has increased since 2010 from 7.9 km to 8.2 km, but this only represents 30% of Asia's road density. Telephone communication is growing much faster: more than 76% of Africans now have access to telephone services, the majority are mobile connections.

Regional hubs, as well as small or landlocked countries, have a lot to gain from promoting infrastructure to boost economic growth. Both traditional and new funding partners are continuing to invest in Africa's infrastructure at regional level. To power the continent's energy needs and build first-class networks, regions and countries need to encourage stronger ownership and involve the private sector.

To promote the goal of the African Union's Agenda 2063 to abolish visa requirements for all African citizens in all African countries, the Bank has developed the Africa Visa Openness Index.

The Bank's approach to fostering free movement of people focuses on economic and sector work on migration and remittances; leveraging remittances for development; initiatives to reduce the cost of remittance services; supporting mutual recognition of skills and qualifications; and supporting mechanisms to facilitate movement of business people.

The Bank's Regional Integration Policy and Strategy (2014–2023) acknowledges the opportunities provided by regional integration in boosting infrastructure, trade, industrialisation and movement of people. Overall, as a result of our projects, 1281 km of cross-border roads were constructed or rehabilitated between 2013 and 2015, close to our target.

As part of the "Integrate Africa" priority, the Bank will foster regional integration through the Programme for Infrastructure Development in Africa. This includes developing regional energy markets, transnational railways and highways to link countries' economic activities.

Improve the quality of life for the people of Africa

While economic growth has been relatively strong, it has not been rapid or inclusive enough to create jobs and improve quality of life. By some estimates, more than half of Africa's youth are unemployed, underemployed or inactive. Health and education outcomes are among the lowest in the world and the continent's population has insufficient access to sanitation and safe drinking water.

The AfDB is focusing its investments on education, vocational training and skills development. We will also continue to invest in improving access to basic services such as water and sanitation. The Ebola crisis was a wake-up call for the continent and the Bank: we must invest heavily in public health care systems in order to build Africa's resilience in the face of health epidemics and emergencies.

We are committed to building up the availability of technical skills so that African economies can realise their full potential in high-technology sectors. Through our work in education, science and technology, 18 000 teachers and other educational staff were recruited or trained. Overall, more than 1.1 million people benefited from better access to education.

Expanding access to clean water and better sanitation is a strategic priority for the Bank. Overall, our projects created 116 000 m^3 of drinking water capacity. During 2013–2015 more than 6.1 million people benefited from improved access to water and sanitation as a result of our projects. And overall, during the last three years, we provided 44 million people with access to better health services.

> *More than 1.1 million people benefited from better access to education*

Strategic cross-cutting issues — Scaling up implementation in the five priority areas of the Ten-Year Strategy will be possible only if critical cross-cutting areas such as gender, governance, fragility and climate change are brought fully into the mainstream of the Bank's operations to achieve greater impact creating jobs and reducing poverty.

Equality for women is progress for all. Better inclusion of women in institutional, social and economic matters is an important goal in its own right. It is also a key driver of economic competitiveness. In Africa, women's participation in the labour market has remained stagnant for several years at 42.5%, indicating that much more needs to be done to improve the participation of women.

Governance progress has been slow, except in political participation. We have achieved our strongest results recently in quality of public administration, and budgeting and financial management. Of countries in which the Bank has supported relevant reforms, 100% improved their public administration and 94% their financial management.

More than 250 million people in Africa live in countries that are affected by conflict and fragility. The Bank approaches fragility by applying a "fragility lens" to guide its strategic and operational engagement. In implementing the five high-priority areas, the Bank continues to champion interventions that are fragility-proofed.

> *In implementing the five high-priority areas, the Bank continues to champion interventions that are fragility-proofed*

To make sure all our investments support climate change objectives, we screen our projects for climate risk and build resilience into project design through the Climate Safeguards System. Our work in this area covers agriculture, water, transport and energy.

At the UN climate change conference in Paris in December 2015, the AfDB provided support to the African Group of Negotiators, the African Ministerial Conference of the Environment, and the Committee of African Heads of State and Government. The African Group of Negotiators went to Paris with two initiatives that would contribute to achieving the expected outcomes of the Paris Agreement: the Africa Renewable Energy Initiative and the Africa Adaptation Initiative.

In Paris, the AfDB and other multilateral development banks pledged to increase our climate finance and to support the outcomes of the conference through 2020. The Bank will nearly triple its annual climate financing to reach $5 billion a year by 2020. This will represent an increase to 40% of our total new investments by 2020.

> *The Bank will nearly triple its annual climate financing to reach $5 billion a year by 2020*

Quality of Bank operations

We strive to continually improve the design and supervision of our projects, so that they make the best possible contribution to our goals of promoting inclusive and green growth. We want our projects to deliver better results and to deliver them more quickly.

During 2015, 99% of our new operations were rated satisfactory, above our target of 95%. The time taken to approve our operations remained stable at 6.3 months in 2015, close to our target of 6 months. In recent years, the Bank has made considerable progress in reducing delays for first disbursements — from an average of 21 months in 2007 to 10.6 months in 2014. However, in 2015 the Bank regressed in the time to first disbursement for new projects, which increased to 12 months, above our target of 11 months.

By measuring the pace at which the Bank makes resources available to clients, we monitor the speed with which the Bank implements its portfolio of projects. In 2015 our overall disbursement ratio stood at 21% — just below our target of 23%. Another measure of efficiency is the average time for procurement of goods and services, from bid reception to contract signature. During 2015, it improved from 9 to 7.9 months, slightly above the target.

However, the share of operations eligible for cancellation has increased to 19% from 13% in 2014, well above the target of 7%. These are operations that have lapsed or are not performing; they should be either redesigned or cancelled, and the resources reallocated to more productive operations. The Bank has begun implementing measures to ensure that loans and grants are signed in a timely manner and that non-disbursing projects are cancelled within reasonable periods in line with new guidelines.

The Bank is committed to minimising any negative social or environmental impacts of its projects by ensuring that the risks are carefully assessed and measures put in place to mitigate them. In 2015, 87% of our operations had satisfactory mitigation measures, an improvement on 2014 and above our target of 72%.

In 2015, 83% of completed operations were rated satisfactory — well above the target of 78% — and we achieved 90% of completed operations with sustainable outcomes, which was above our target.

Promoting gender equality and responding to climate change are among our cross-cutting priorities, which we aim to integrate into the design of operations wherever possible. Thus we assess all new projects for their contribution to gender equality and their response to climate change.

> *We are implementing a new business model that will expand the Bank's business by moving it closer to its clients*

In 2015, the proportion of new projects with gender-informed design was 75%, compared with a target of 87%, while 61% of our projects had satisfactory gender-equality outcomes, below our target of 73%. We expect these results to improve. The Bank is introducing gender-marking to differentiate projects in terms of their likely contribution to gender equality goals.

In 2015, we delivered 75% of new projects with climate-informed design, below our target of 95%. While 90% of new projects are climate-proofed in of our ADF countries, our average including middle income countries is below our target of 95%. This is due to lower coverage of our private sector operations.

We are implementing a new business model that will expand the Bank's business by moving it closer to its clients. This will improve the way the Bank delivers its services and increase the health of the organisation, guaranteeing its long-term performance and providing meaningful development impact for regional member countries. The objective is to improve service delivery by increasing responsiveness and client orientation, and shortening the project cycle.

The organisation's efficiency

The Bank Group's priority in 2015 was to sustain the gains from implementation of the 2011-2015 Decentralisation Roadmap. Critical activities included learning lessons from a review of the two pilot Regional Resource Centres established in 2012 in Eastern and Southern Africa, and deciding on a third Regional Resource Centre in in North Africa.

During 2015, the Bank maintained its presence in 38 regional member countries while working on enhancing the delegation of authority to the offices in these countries. In term of performance, the share of projects managed from field offices increased from 51% in 2014 to 60% in 2015.

There was, however, a decrease in the share of operational staff based in field offices, from 50% in 2014 to 40.6% in 2015. The Bank is reviewing its decentralisation action plan to align it with the new business delivery model.

Ensuring motivated and high-calibre staff — The Bank's return to its Headquarters in Abidjan was a major undertaking, requiring strong change management and business continuity planning. The return was accomplished successfully, with minimal disruption to the Bank's business.

We are determined to increase the proportion of women in professional and management positions. In 2015, the percentage of women professional staff remained stable at about 27% of our professional staff, just below our target of 30%. The share of women management staff also remained stable at 30% in 2015.

Our staff balance is registering steady improvement. The share of our employees who are operations professional staff is already quite high at 67%, but we plan to increase it further. Our net vacancy rate for professional staff has been stable compared with 2014, at 16%, but above our target of 13%, given attrition and a freeze in recruitment during the Bank's return to Headquarters.

After two years of case-by-case recruitment during the return to the Bank's Headquarters, by the end of 2016 we will launch a recruitment plan that will reduce the time required to recruit new staff.

Value for money: improving cost-efficiency — The Bank is committed to maximising the value for money it delivers. We assess the extent to which the Bank has increased efficiency by reducing the administrative costs associated with disbursements. In 2015, because disbursements were below the expected targets, the Bank's administrative costs per UA 1 million disbursed stood at UA 98 000, the same level as last year, well above the UA 85 000 target.

We also measure how well we manage our facilities, calculated as the total rental, maintenance, and utilities costs per seat. Our work environment cost per seat also increased in 2015, from UA 3300 to UA 3600, as result of increased costs related to the preparation for the Bank's move to its Headquarters building.

We continue to focus on cost-effectiveness at the project level, tracking the costs of preparing and implementing our operations. The cost of supporting project implementation has decreased from UA 21 000 to UA19 000 — on target. However, the cost of preparing a lending project has increased from UA 74 000 in 2012 to UA 85 000 in 2015, above our target of UA 71 000.

Conclusion and way forward

The Bank's ambitions and operations are driven by Africa's needs. The greatest need is for a structural transformation that will unlock the potential of the continent's people and resources. Our High 5 priorities are the essential ingredients of that transformation: Light up and power Africa, Feed Africa, Industrialise Africa, Integrate Africa, and Improve the quality of life for the people of Africa.

The New Deal on Energy for Africa underpins all the other High 5s. Our new Energy Strategy aims to help transform Africa's energy sector by increasing energy production, scaling up energy access, improving affordability, reliability and energy efficiency, and improving the sustainability of energy systems.

We are framing our agricultural operations within a business-oriented approach, based on a deeper understanding of the obstacles, potential and investment opportunities right across the sector, from the supply of inputs to the final point of retail.

At the core of the Bank's "Industrialise Africa" priority are six Flagship Programmes, chosen to represent areas where the AfDB can best leverage its experience, capabilities and its finances. Over the next 10 years, the Bank will invest $3.5 billion per year through direct financing and leveraging to implement the six programmes.

The Bank's Regional Integration Policy and Strategy (2014–2023) acknowledges the opportunities provided by regional integration in boosting infrastructure, trade, industrialisation and movement of people.

In terms of lives and livelihoods, we are committed to building up the availability of technical skills so that African economies can realise their full potential in high-technology sectors. Acknowledging the urgent need to address climate change, the Bank will nearly triple its annual climate financing to reach $5 billion a year by 2020.

In scaling up our investments and implementation in the High 5s, we are also aiming to become more agile and responsive to the continent's needs, and therefore have changed our business model. We are undertaking management and organisational changes to ensure closer alignment to these business priorities, enabling us to respond quickly to the needs of our clients, improving selectivity and operational effectiveness.

Overall, we aim to deliver on our commitment to maintain the institution as Africa's premier financial institution and keep the institution relentlessly focused on results. Decentralisation is bringing us closer to our clients and our beneficiaries, making us better at listening and responding to their needs.

Stronger management practices and an increasingly sophisticated communications infrastructure are helping us operate as One Bank, while working with a decentralised structure. Finally, we will continue building on our partnerships and on our role as conveners and facilitators at the continental level. This will ensure that we deliver on our ambitious programme to support Africa's transformation. ■