Strengthening the business environment

African governments have an important role to play in supporting and creating an environment that fosters the development of the private sector. The Bank is supporting African countries as they improve public sector management, build an enabling environment for business, and reinforce open and accountable institutions.
Chapter 6

Cross-cutting and strategic issues

A key consideration when we design our operations is to integrate our cross-cutting and strategic objectives wherever possible: governance and institution-building, fragility, climate change, and gender equality. Our cross-cutting objectives are critical to our High 5s, the sustainable development goals, and our objective of promoting inclusive green growth in Africa.

Economic growth on the continent

Africa’s average real GDP growth was 3.4% in 2018 (latest data available) and is estimated to reach 3.2% in 2019. Its GDP per capita (constant 2010 $) rose to $2026, marginally above its level of $1941 in 2015. Growth fundamentals in Africa have also improved: in 2019, for the first time in a decade, investment spending accounted for a larger share of GDP growth than did consumption.

Growth fundamentals in Africa improved last year, but Covid-19 has put many gains at risk. We project that GDP will fall by between 1.7% and 3.4% in 2020

Average growth in low-income ADF countries was 5.3%, led by six economies that are amongst the world’s fastest growers: Benin, Côte d’Ivoire, Ethiopia, Ghana, Rwanda, and Tanzania. In low-income ADF countries, GDP per capita increased to $918 in 2019, a rise of 16% since 2015. In countries in transition, GDP per capita was only $759, having increased by just 3.5% since 2015.

Despite this progress and the expectation that 2020 would be another year of growth, the Covid-19 pandemic will put many of Africa’s recent development gains at risk. The Bank now projects a sharp decline in Africa’s GDP of 1.7% in 2020 in the baseline scenario and 3.4% in the worst-case scenario. Emergency measures to curb the pandemic, such as border closures and lockdowns, will disrupt trade and businesses, leaving many Africans unable to pursue their livelihood. The wider economic impact of the global pandemic will affect Africa through multiple channels, including reduced trade, tourism, remittances, and commodity prices. The Bank’s Covid-19 Response Facility is supporting African countries’ response to the pandemic and helping maintain essential government services through the crisis. The facility also supports the private sector, a key driver of Africa’s economic growth.

An important and long-standing challenge to Africa’s economic growth is its degree of inclusivity, i.e. how widely the benefits of growth are shared. In 2019, only about a third of African countries experienced growth alongside a reduction in poverty and inequality. In other cases, mainly in countries affected by conflict or other crises, growth in consumption per capita was negative, was lower than the population increase, or did not create enough secure and decent jobs to benefit the poor. Promoting inclusive growth is therefore a key element of the Bank’s Ten-Year Strategy.

Economic growth must also be sustainable, a goal that the Bank is pursuing by addressing governance and institution-building, fragility, climate change, and gender equality, across its operations.

Governance and institution-strengthening

Africa is progressing on governance. The Mo Ibrahim Index of African Governance measures outcomes for citizens in key governance areas such as safety and the rule of law, participation and human rights,

Figure 7 Increasing the capacity to raise and manage revenues is essential

Tax revenue as a percentage of GDP in select countries, 2018

<table>
<thead>
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<th>Country</th>
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<th>20</th>
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<td>27.00</td>
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<td>33.30</td>
</tr>
<tr>
<td>Egypt</td>
<td>14.30</td>
<td>18.70</td>
<td>23.10</td>
<td>27.50</td>
</tr>
<tr>
<td>Ghana</td>
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<td>23.80</td>
<td>28.20</td>
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<tr>
<td>Côte d’Ivoire</td>
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<td>19.90</td>
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<td>9.90</td>
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<tr>
<td>Nigeria</td>
<td>5.30</td>
<td>9.70</td>
<td>14.10</td>
<td>18.50</td>
</tr>
</tbody>
</table>

Source: African Development Bank
sustainable economic opportunities, and human development. It ranks each country from 0 to 100.

African countries averaged 50 in 2019, the same level as in 2015. Low-income ADF countries averaged marginally lower (48) and transition states averaged significantly lower (41). Both increased marginally since 2015. The index also demonstrated that three of every four African citizens live in a country where public governance improved over the past decade. Côte d’Ivoire, Kenya, and Morocco showed the most progress.

Improvements notwithstanding, the continent still faces challenges in governance. One challenge is to meet the rising expectations of Africa’s growing youth population. According to the African Youth Survey 2020, youth are optimistic about Africa’s future and their ability to shape Africa’s fortunes through channels such as technological advances and entrepreneurship.

The quality of public services depends upon states’ capacity to raise public revenues (Figure 7). It is therefore of concern that although revenue-to-GDP ratios have risen slowly in recent years, tax and non-tax fiscal revenues fell from 16.5% of GDP in 2018 to 15.8% of GDP in 2019. Revenues are lower in low-income ADF and transition countries, at 12.6% of GDP and 9.2% of GDP, respectively. Neither country grouping improved its collection of fiscal revenues in 2019.

African countries have significant potential to raise more revenues through taxation—the current tax gap is estimated at 3% to 5% of GDP—but 2020 will be constrained by the economic impacts of the Covid-19 pandemic. The Bank is helping regional member countries strengthen their capacity for tax collection and enforcement and reform the tax system to support inclusive growth. The Bank is also supporting projects aimed at curbing illicit financial flows—for example, flows from money laundering and the financing of terrorism—while helping countries respond to and mitigate economic shocks.

African countries also need to better direct public revenues towards effective and efficient services. In 2019, we helped seven countries improve the quality of budgetary and financial management and six countries improve transparency and accountability in the public sector, comfortably exceeding our targets. We also supported two countries in improving their procurement systems. Most of this work took place in low-income ADF countries, but transition states also benefited significantly.

Three of four Africans live in a country where public governance improved over the past decade. But fiscal revenues fell in 2019 and the continent’s tax gap is estimated at 3% to 5% of GDP. We are advising countries on strengthening their tax systems

An example of our work is the Government of Malawi’s Public Finance and Economic Management Reform Program. This program trained 300 government officials on procurement practices and helped implement a new procurement law, increasing competition and transparency. We also supported Mali in restoring public finance management capacity and creating an enabling environment for speedy economic recovery in response to its crisis. This program led to the development of Mali’s first multi-year expenditure framework, the establishment of internal audit units in various ministries, and timelier independent audits with greater coverage.

A key economic governance challenge facing Africa at the moment relates to the management of public debt, which in many African economies is high and rising. Rising debt underscores the need to mobilise more domestic revenue and improve public expenditure and investment management. In Zimbabwe, the Bank helped train over 400 government officials in debt management and supported...
the installation of new debt recording software that enabled the full reconciliation of debt statistics. The Bank also promoted transparency by supporting 30 countries to disseminate debt statistics on their National Summary Data Page, a statistical data hub for leading macroeconomic indicators. This program was implemented in partnership with the International Monetary Fund under the Bank’s Africa Information Highway initiative.

Governments also have an important role to play in supporting and creating an environment that fosters the development of the private sector. In 2019, we met our target to support three countries in improving their competitive environment. In Egypt, we supported efforts to put in place a streamlined and transparent industrial licensing regime, a new competition framework, and an SME investment regime. This reduced the average number of days required to comply with industrial licensing requirements from 634 in 2015 to just 7 for low-risk industries and 30 for high-risk industries in 2017. In Mauritania, we supported the reform of property rights, which, amongst other things, lowered the costs of land titling for women’s cooperatives and increased the number of women’s cooperatives with land titles from 52 to 80 between 2016 and 2018. Finally, in Cabo Verde, we supported reforms to promote private sector-led growth, which, amongst other policy actions, simplified and automated tax registration and custom clearance procedures, helping to reduce the average customs clearance time from 20 days in 2014 to 6 days by 2017. The Bank is enhancing its development impact through program-based operations, which are a crucial platform for dialogue with our client countries (Box 9).

The Bank supported other initiatives to improve governance and institution-building in Africa. In 2019, we partnered with the United Nations Global Working Group on Big Data to organise the 5th International Conference on Big Data for Official Statistics. The conference issued a call for timelier statistics that are more relevant, granular, and frequent, amongst other things by using new data sources and technologies such as big data. The Bank’s Africa Information Highway platform is also assisting 17 African countries to better disseminate data on their sustainable development goals and data exchange processes. Finally, with support from the Bill & Melinda Gates Foundation, in 2019 the Bank implemented the Strategy for the Harmonisation of Statistics in Africa and supported the African Statistical System to generate timely, reliable, and harmonised statistics covering all aspects of political, economic, social, and cultural integration in Africa.

Addressing fragility and building resilience in Africa
Conflict and collective violence are amongst the principal drivers of poverty and fragility in Africa. Over 250 million Africans are affected by conflict. In several parts of Africa—the Sahel, the Lake Chad Basin, the Horn of Africa, some Maghreb countries, and the Great Lakes region—conflict and violent extremism have had devastating consequences on security, social cohesion, and the livelihoods of local communities, often with spill-over effects across borders.

The lack of economic opportunity for the most vulnerable populations, such as women, youth, and marginal communities, increases countries’ vulnerability to criminality, extremism, and irregular migration. In 2019, the number of refugees and internally displaced people in Africa was 29 million (up from 28.5 million in 2018), with 72% from/in low-income ADF countries and 40% from/in countries experiencing fragility. Emerging threats and shocks such as the Covid-19 crisis could rapidly generate more conflict and inequality.

Box 9 Enhancing our development impact through program-based operations
In 2018, the Bank’s Independent Development Evaluation department assessed the effectiveness of the Bank’s program-based operations (PBOs). The assessment was positive overall, finding that PBOs are relevant and useful for the Bank and its clients, although challenging to design and manage. PBOs are also effective in supporting macro-fiscal stability and advancing wide-ranging policy reforms in regional member countries, and they provide a crucial platform for dialogue with our client countries.

In response to the assessment, the Bank will take action in five key areas:

- **Strengthening alignment and coordination on budget support.** Building on strong coordination with other development partners, the Bank will amongst other things align its approach to partnerships with the 2017 G20 principles on effective coordination between the International Monetary Fund and the multilateral development banks.
- **Paying more attention to policy dialogue.** The Bank will develop guidance for its staff to use knowledge work and policy tools to better exploit the potential of policy dialogue.
- **Making reforms more sustainable.** The assessment found that reforms were sure to be sustainable in only half of PBOs. To increase this figure, the Bank will implement clearly focused multi-year programmatic operations that have tangible results for the medium term.
- **Planning better.** The Bank’s country strategy papers will pay more attention to countries’ eligibility for PBOs, so as to better anticipate risks and design PBOs accordingly.
- **Reinforcing the PBO support environment.** In the past, Bank staff have had less support, guidance, and training in PBOs than staff in similar organisations. The Bank is therefore developing a staff accreditation and training programme, improving quality assurance processes, and investing in more analytical work.
The Bank’s approach for addressing fragility recognises that building resilience is critical to Africa’s development. Guided by the principle of mitigating pressures and strengthening capacities, our approach identifies entry points for addressing structural vulnerabilities and building long-term resilience through direct interventions, partnerships, advocacy, and dialogue.

In 2019, 250 million Africans were affected by conflict and 29 million were refugees or internally displaced. We identify entry points to mitigate fragility and strengthen capacity

Alongside other financing instruments, the Transition Support Facility (TSF) is central to the Bank’s engagement in fragile situations. The TSF’s financing has proven able to respond quickly and flexibly to crises such as pandemics, natural disasters, and severe environmental impacts.

Pillar II of the TSF is dedicated to clearing arrears. It allows the Bank to leverage its convening power and foster dialogue with national authorities around policy reforms, leading to the release of sanctions. For example, in 2019 Pillar II supported Somalia’s debt relief and re-engagement with the international community. This will help reform policy, promote economic recovery, and reduce poverty.

In 2019, 30 Bank projects across 19 countries used the fragility lens and TSF resources. In Eritrea, we supported the Enable Youth Eritrea Programme ($18 million with an Italian TSF contribution of $1.5 million) and the Drought Resilience and Sustainable Livelihood Programme (an additional $3.5 million). To reduce pressures associated with irregular migration, we are implementing a $5.8 million project funded by Italy with targeted interventions in Eritrea, Mali, Niger, and Somalia (Box 10).

The Bank’s Transition States Coordination Office also works closely with sector and regional departments on flagship initiatives, such as the Desert to Power initiative to transform the Sahel-Sahara, the Affirmative Finance Action for Women in Africa programme, the Africa Disaster Risks Financing Initiative (Box 11), and many others.

In 2019, the Bank engaged with a wide range of external actors to address conflict and its effects across Africa. The Bank is a leading voice in policy dialogue and advocacy around rising security expenditure in the Sahel region and its crowding-out of development finance. We worked with the Lake Chad Basin Commission to address the conflict-related humanitarian crisis in the region, and we continue to be one of the biggest contributors to the Sahel Alliance. We also engaged with development, humanitarian, and civil society organisations to promote gender equality in situations of fragility.

Thanks to very strong support from member countries during the ADF-15 replenishment discussions that concluded in December 2019, the TSF will dispose of an additional $1.2 billion to support countries as they deal with fragility over 2020–2022.1 The Bank is also developing a new strategy that will support transition states to accelerate socioeconomic development in an innovative and transformative manner.

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1 The 2020 edition of the ADER is the first edition whose chapters all report results achieved in transition states.
Managing the effects of climate change
Of all the continents, Africa faces the most severe impacts from climate change, including significant challenges in relation to water resources, agricultural systems, ecosystems, and health. In 2019, Africa’s rating on the resilience to water shocks index, which assesses pressure on renewable water sources, was 4, the same level as in 2017–2018. Low-income ADF countries and transition states scored much lower: 2.31 and 2.01, respectively.

Analysis suggests that if action is not taken to reduce greenhouse gas emissions globally and to support Africa to adapt to climate change, an additional 43 million Africans could fall below the poverty line by 2030. Africa’s production efficiency in terms of kg CO₂ emissions per constant 2010 $ of GDP measures emissions from the burning of fossil fuels. In 2019, this figure measured 0.54, down from 0.57 in 2018. It was just 0.28 in low-income ADF countries and transition states. The Bank’s latest assessment estimates the costs of adapting to climate change by 2030 to be in the range of $140–$300 billion per annum.

If action is not taken on climate change, an additional 43 million Africans could fall below the poverty line by 2030. Climate finance will constitute 40% of our investments by end-2020 and we will double our climate finance to $25 billion over 2020–2025

Recognising the urgency of the climate challenge in Africa, we have committed to climate finance constituting 40% of our investments by the end of 2020 and we will double our climate finance to $25 billion over 2020–2025. The Bank will also distribute its climate finance equally to adaptation and mitigation. In 2019, for instance, more than 55% of the $3.6 billion of climate finance provided by the Bank was allocated to adaptation, far beyond the 15% allocated globally. In addition, our Climate Change Action Plan is addressing climate change across all our programmes. In 2019, 90% of approved projects were screened and reviewed for climate change and green growth considerations and used a climate-informed design. We also screened all country and regional strategy papers for climate risks in 2019. The Bank’s ambition is to screen all projects by the end of 2020.

In 2019, the Bank’s climate finance resources accounted for 36% of our investments, up from 9% in 2016, 28% in 2017, and 32% in 2018. Of the sectors that absorbed our climate-related investments, the most significant were energy and power (33% of investments), agriculture (21%), and transport (15%).

To support African countries to mobilise external climate finance, we are working to establish a Canada-African Development Bank climate finance facility and create a private equity fund (with $25 million from the Bank) to support sustainable commercial forestry in Africa. We are also supporting a number of countries to develop Green Climate Fund proposals. In Senegal, the proposal is to build climate resilience in coastal communities; in Kenya, it is to improve resource efficiency in tea processing; in Ghana, it is to support an electric bus project in the capital.

As part of a joint Africa-wide initiative to strengthen Africa’s weather and climate service capacity, the Bank hosts the ClimDev Special Fund. One of its flagship projects, Satellite and Weather Information for Disaster Resilience in Africa, provided financial and technical assistance to improve the capacity to forecast severe weather and develop numeric weather prediction tools in 25 African countries. This is enhancing countries’ capacity to handle droughts, floods, and cyclones.

Many African countries are facing challenges implementing their commitments to the Paris Climate Agreement and identifying investment opportunities and partners. To support them, the Bank hosts the Africa Nationally Determined Contributions Hub, a platform of 18 institutions that help African countries implement their voluntary commitments with public- and private-sector participation. We also supported the second phase of the African Green Growth Index, an instrument that measures, tracks, and communicates progress on low-carbon development for all 54 countries in Africa.

Other initiatives hosted by the Bank are the African Financial Alliance on Climate Change, which supports Africa’s financial institutions to align financial flows with the goals of the Paris Agreement, and the African Circular Economy Alliance, which is part of the African Circular Economy Support Program. In 2019, we organised a series of strategic events at the 25th Conference of the Parties (COP25) on Climate Change in Madrid, Spain. We also supported key African climate change stakeholders, including the African Group of Negotiators and the African Ministerial Conference on the Environment.

Putting gender at the heart of Africa’s development
Gender equality and women’s empowerment are urgent for Africa. Women and girls are disadvantaged on most development indicators, including indicators related to livelihoods and incomes. In 2019, Africa’s rating on the gender inequality index was 0.52, a marginal improvement from 0.53 in 2015. This index captures gender disparity using three dimensions: reproductive health, empowerment, and labour participation. The scores in low-income ADF countries and transition states were higher, at 0.58 and 0.61 respectively. Africa will not meet its commitments under the sustainable development goals unless more is done to meet the needs of women and girls.

In 2019, the Bank continued to expand gender mainstreaming when designing Bank operations, with 60% of sovereign operations...
using our gender marker system by the end of the year. Our gender specialists increased their participation in project appraisal missions to 52% and the Bank is producing more sex-disaggregated and gender data to inform our country strategy papers and policy dialogues. In 2019, we also worked with the United Nations Economic Commission for Africa to complete and launch the first edition of the Africa Gender Index. Finally, we launched the Gender Data Portal, which will help staff and external users generate data on gender indicators.

Gender equality and women’s empowerment are urgent for Africa. By end-2019, 60% of our sovereign operations had used our gender marker system

In November 2019, in collaboration with the Government of Rwanda and the Multilateral Development Bank Working Group on Gender, we organised the 2019 Global Gender Summit. More than 1400 delegates met in Kigali to discuss regulatory solutions and innovative financing options for strengthening women’s participation and voice. The summit led to the launch of a number of exciting new initiatives, including a risk-sharing facility for the Affirmative Finance Action for Women in Africa initiative; the 50 Million African Women Speak Platform, a new pan-African networking platform for women entrepreneurs; and Fashionomics Africa Digital Marketplace, a networking platform for SMEs producing African textiles, apparel, and accessories.

At the G7 Summit in August 2019, Affirmative Finance Action for Women in Africa secured pledges of $251 million to support women entrepreneurs. During 2019, additional resources were mobilised from the Netherlands ($68 million), Sweden ($7.5 million), Rwanda ($1 million), and the Women Entrepreneurs Finance Initiative ($61 million).

In 2019, more of our projects mainstreamed gender issues with great effect. In Malawi, an SME competitiveness and job creation project provided mentoring and counselling to 115 SMEs, 58% of which were owned or managed by women. In Niger, we promoted access to quality VTET, increasing from 7% to 55% the end-of-cycle examination success rate of the women enrolled. In Tunisia, our regional development programme in disadvantaged governorates included opening a line of credit exclusively for women entrepreneurs.

The Bank is also making progress in its engagement with civil society to ensure that our operations are inclusive and impactful. In 2019, we organised Civil Society Open Day events in five countries to promote country dialogue and help mainstream civil society in country strategy papers and operations. We also organised the annual Civil Society Forum, a platform to deepen collaboration between the Bank and civil society organisations, and finalised the Civil Society Engagement Capacity Building Programme, which will expand our outreach and increase the participation of civil society at the country and regional levels.

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2 The Africa Gender Index offers a comprehensive view of gender equality in Africa and progress in closing gender gaps. It measures parity between women and men across three dimensions: economic, social, and representation and empowerment. The index will be published every three years.