IDEV
Independent Development Evaluation
African Development Bank

Evaluation of the African Development Bank Group's Support for Economic Diversification

CONCEPT NOTE

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AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE
DE DÉVELOPPEMENT

1. Introduction

Independent Development Evaluation (IDEV) at the African Development Bank Group (AfDB or 'the Bank') is launching a thematic evaluation of the Bank's support for Economic Diversification as part of its 2023 Work Program approved by the Board of Directors.

Africa is endowed with abundant natural resources and revenues from export of commodities constitute a major source of income for many Regional Member Countries (RMCs). Eighty-nine (89) per cent of sub-Saharan African countries are commodity-dependent[1] and most of their exports constitute minerals, oil and gas, and agricultural products among others. While other RMCs such as Seychelles, Cabo Verde, and Mauritius are dependent on services, in particular tourism, others such as Djibouti are dependent on port services. Relying on one economic activity or on a narrow range of exports and imports is detrimental to a national economy. The United Nations and other development partners have, for example, strongly advised against African countries' over-reliance on extractive commodities. While Africa has made socioeconomic progress in the last two decades, economic diversification would have laid a more solid foundation for accelerated development[2]. During the Covid-19 pandemic, Economies that are not diversified experienced a decline in growth, accompanied by weakening institutions[3]. During the COVID-19 pandemic, the Real Gross Domestic Product (GDP) of Tourism-dependent economies declined by 11.5 per cent while that of oil-exporting countries and other resource-intensive economies declined by 1.5 per cent, respectively. In contract, the Real GDP of non-resource-intensive economies only shrunk by 0.9 percent[4]. Thus, economies weakened by a lack of diversification are susceptible to global crises such as a pandemic, poor healthcare systems and food insecurity are major concerns in RMCs.

Economic diversification is defined as broadening the economy through diversifying different sectors' contribution to GDP; commodities and products traded and exported; and the revenue and forex base of the country (IMF, 2014). In the context of Africa, Usman & Landry (2021) define economic diversification as a transition from one or a few commodities such as crude oil, minerals, and agricultural production to a broad domestic output base, trade, revenues, and expenditures. They also note that economic diversification is closely associated with the process of structural transformation from lower to higher productivity sectors especially in low- and Middle-Income Countries, while it focuses on three dimensions. These include the expansion of economic sectors that contribute to employment and production or GDP, international trade or exports diversification, and fiscal diversification.

Economic diversification remains a key challenge for RMCs. The 2023 Global Economic Diversification Index (EDI), a measure of economic diversification, shows that economies in Sub-Saharan Africa (SSA) remain the least diversified relative to other regions of the world. In 2022 for instance, SSA had a combined average score of 89.4 out of 160, while Latin America and South Asia recorded 96.8 and 97.4, respectively (Prasad, Refass, Saidi, Salem, & Shepherd, 2023). The

[1] UNCTAD State of Commodity Dependance Report, 2019
[2] Zainab Usman and Landry 2021, Economic Diversification in Africa: How and Why It Matters, Carnegie Endowment for International Peace, Washington, D.C
[3] Njuguna Dung'u, COVID-19 crisis amplifies the urgency for economic diversification in Africa, September 2020
[4] AfDB African Economic Outlook, 2021

data also reveals that the economies of Algeria, Egypt, Libya, Morocco, Tunisia, and South Africa are trailing the emerging economies of India, Brazil, and Russia in terms of diversification. Since 2000, five EDI assessments have been undertaken and 16 countries have remained in the bottom 10 category and 50 percent[5] of these are mostly oil and mineral rich countries on the African continent. This low level of economic diversification in Africa makes its economies vulnerable to economic shocks (Hvidt, 2013; Lashitew et al., 2020; Usman & Landry, 2021). This is evident in past episodes of volatile commodity prices and contraction in economic activities, including the effects of the Covid-19 Pandemic and Russia's invasion of Ukraine[6].

In its 2022-2024 Work Program, IDEV committed to focusing its independent evaluations in areas where a knowledge gap exists, and to providing knowledge to the Bank to inform the "build back better" agenda post COVID pandemic. Supporting economic diversification is one way in which the Bank can help RMCs to "build back better", particularly those that were disproportionately hard hit during the pandemic due to over-reliance on a single economic sector. The evaluation of the Bank's support for economic diversification thus aims to generate useful lessons for its ability to support the "build back better" agenda. This concept note proposes the objectives, scope, questions, methodology, team, and timeline to inform initial consultations with the relevant Bank complexes, departments, and offices to pave the way for the development of a more elaborate Approach Paper.

2. The Bank's Support for Economic Diversification

The Bank has supported economic diversification in RMCs over the past decade. However, a review of Bank policies and strategies, and consultations with some relevant departments, indicate that the Bank's support is not based on a specific economic diversification policy, strategy or guidance note. Consequently, there is no specific Bank definition for economic diversification. Thus, the support is driven by the strategic pillars/priority areas in the Bank's Country Strategy Papers (CSPs) or Country Briefs and Regional Integration Strategy Papers (RISPs), which are guided by the 2013-2022 Ten-Year Strategy (TYS) (AfDB, 2013), the High-5 priority areas, and other sectoral policy and strategic frameworks[7].

In the absence of a standalone policy, strategy, guidance or working definition for economic diversification, the Bank's support for RMCs takes different forms. A preliminary review of relevant Bank Sector/Thematic Strategies and CSPs approved between 2013 and 2022 shows that the Bank's support for Economic Diversification is currently provided through the following areas of focus:

- Expanding the production, upgrading, and modernizing of traditional sectors, such as agriculture and manufacturing, to enhance their competitiveness and productivity.
- Developing new industries and sectors to diversify products, services, and exports.
- Promoting innovation, entrepreneurship, and development of Small and Medium Enterprises (SMEs) and the Private Sector, including management of state-owned enterprises.
- Investment in infrastructure (transport, energy, and water), human capital linked to economic diversification, and research and development;

[5] The eight African countries, mostly natural resource rich countries, have consistently remained in the bottom 10 category with respect to economic diversification. These include Angola, Cameroon, Cote d'Ivoire, Ethiopia, Ghana, Nigeria, Uganda and Zambia.

[6] [6] Language adopted in the Communiqué of the Board of Governors at the AfDB's annual meetings in May 2022; Algeria, China, Egypt, Eswatini, Namibia, Nigeria, and South Africa entered a reservation and proposed "Russia-Ukraine conflict."

[7] The strategic frameworks that guide the Bank's support during the 2013-2022 TYS include the Feed Africa strategy (2016-2025), Industrialize Africa strategy (2016-2025), Regional Integration Strategy (2014-2023), Bank Group's Strategy for The New Deal on Energy for Africa (2016 – 2025), Bank's Governance Strategic Framework and Action Plan - GAP-II (2014-2020) and the Private Sector Development Strategy (2014 to 2019).

- Regional Integration (Transport corridors, Trade and Services),
- Expansion of the fiscal and forex base; and
- Enabling policies and regulatory frameworks for business climate reform, investment, accountability, and utilization of revenues from dominant sectors (e.g., oil and minerals), and other non-lending support (policy dialogue, analytical work, technical assistance, and advisory services).

Within the Bank, there are different views from departments[8] consulted so far regarding the Bank's support to economic diversification. Nonetheless, based on a review of documents from the Bank and other Multilateral Development Banks (MDBs), International Financial Institutions (IFIs), and other Development Partners, the working definition of economic diversification for this evaluation is: ***"a process of shifting an economy away from a single or a few sources of production, trade and income towards multiple sources from a growing range of sectors, services, and markets with a view to reducing a country's dependence on a few primary commodities or sectors, and to create a more resilient, competitive, and inclusive economy".*** Specifically, diversification of domestic production of goods and services, and trade, including regional integration, logistics, and supply chain management among others are the key drivers.

Based on the adopted definition of economic diversification above, the evaluation's scope, objectives and methodology are as follows.

3. Evaluation Scope, Objectives, and Questions

Scope and Evaluation Objectives: The evaluation will span the period of the Bank's TYS (2013 to 2022). It will cover all approved, ongoing, and closed Bank projects, policies, and strategies for implementation of pillars or priority areas that focus on economic diversification in RISPs and CSPs. The primary objective of the evaluation is to examine whether the Bank's support for economic diversification in RMCs has achieved its intended results while taking into account the support received from other MDBs and Development Partners. The evaluation is expected to bridge existing knowledge gaps on economic diversification within the Bank and generate lessons and evidence to inform the Bank's future support within the context of the "Build Back Better" agenda following the economic impacts of the COVID-19 pandemic. The following preliminary themes will be explored by the evaluation:

i. The relevance of the Bank's support to meet the economic diversification needs of RMCs.
ii. The effectiveness of the Bank's support for economic diversification in achieving intended results and its contribution in improving the RMCs resilience to economic and other shocks.
iii. Lessons, good practices and recommendations to improve the Bank's support to RMCs in the context of TYS 2.0 and the build back better agenda, including good practices from various socio-economic contexts and development partners.

Evaluation Questions: The indicative list of the evaluation's key questions is as follows:

i. To what extent has the Bank's support for economic diversification met the needs of RMCs?
ii. How effective has the Bank's support been in contributing to diversification of economies of RMCs?
iii. To what extent is the Bank well set up and equipped to provide the right (mix of) instruments to support economic diversification in RMCs?

[8] The Evaluation team held consultative meetings with ECGF, RDRI and SNDR from 16th to 25th May 2023

iv. What are the key lessons on economic diversification in terms of what works and doesn't in different pathways and country contexts, and how they have been applied to programming in line with the "Build Back Better" Agenda in the post-covid era?

In addition to these themes, the evaluation may also cover other pertinent aspects of the Bank's support for Economic Diversification, for example those relating to the discussions on TYS 2.0, that may emerge as important from stakeholder consultations during the scoping phase.

4. Methodology

The evaluation will be theory based and will apply mixed methods in line with the guidance in IDEV's Evaluation Manual and the revised international evaluation criteria. A Conceptual Framework for economic diversification based on academic and practical development literature will be elaborated in the Approach Paper. The evaluation findings and recommendations will be informed by evidence from several building blocks. These may include but are not limited to: the Review of Key Documents from 2013 through 2022 (Corporate and Thematic/Sector Strategies, Regional Integration Strategy Papers -RISPs (including mid-term reviews and completion reports), Country Strategy Papers - CSPs (including mid-term reviews and completion reports), the Bank's Analytical works e.g. African Economic Outlook Reports- AEO and Economic Sector Works – ESW; Project Appraisal Reports – PARs; and Validated PCRs and Program/Project Level Progress and Evaluation Reports, among others); Literature Review and/or a light Evaluation Synthesis; Portfolio Review; Benchmarking Study; and Country Case Studies. The Bank's policies/strategies (CSPs and RISPs for instance) will provide a good entry point for assessing the support for economic diversification in relation to National Development Plans (NDPs) of RMCs. Furthermore, the evaluation will also utilize evidence from previous and ongoing IDEV evaluations related to economic diversification. An elaborate sampling criterion will be developed for selection of RMCs and CSP Pillars for in-depth analyses to ensure representativeness of regions, country typologies and different economic diversification pathways undertaken by RMCs.

5. Evaluation Audience, Quality Assurance, and Indicative Timeline

Evaluation Audience: A mapping exercise will be conducted to identify key stakeholders for the evaluation. This will be followed by stakeholder consultations to improve the utility of the evaluation's findings and recommendations. That said, the primary audience for the evaluation is the Bank's Board of Directors, Senior Management, Bank Sector and Operations Experts, and RMCs. Others include other development partners and non-state actors such as the private sector and civil society. A stakeholder engagement strategy will be developed at the Approach Paper stage of the evaluation to indicate the role(s) and interest(s) of stakeholders in the evaluation.

Management and Evaluation Quality Assurance: The evaluation will integrate effective quality assurance processes and measures through the establishment of an Evaluation Reference Group (ERG) comprising staff representing relevant Bank complexes and departments. The purpose of this process is to ensure that it is of good quality, reliable and credible. The evaluation will be led by Andson Nsune (Principal Evaluation Officer) and Tesfaye Teklu (Evaluation Consultant), supported by Latefa Camara (Evaluation Officer); Eustace Uzor (Evaluation Officer); and Miguel Luba Bahosi (Young professional). The Internal Peer-review will comprise of Andrew Anguko (Chief Quality Officer, IDEV.0), Girma Earo Kumbi (Chief Evaluation Officer, IDEV.2) and Mabarakissa Diomande (Principal Evaluation Officer, IDEV.1). The knowledge management and communication support will be provided by Jacqueline NYAGAHIMA (Principal Knowledge Management Officer, IDEV.3), Tariro Sibanda (Junior Consultant, IDEV.3) and Kate Stoney (Senior Communications Officer), while overall guidance will be provided by Rufael FASSIL, Division Manager, IDEV.1 and

Karen ROT-MUNSTERMANN, Evaluator General. Henda AYARI, Team Assistant, will provide administrative support. The evaluation will also benefit from a high-level external peer review by established academic and/or professional institutions/bodies.

Indicative timeline: The following is the indicative timeline for the next phases of the evaluation. This will be reviewed during the approach paper phase.

Milestones	Timeline
Concept Note	June 2023
Consultation with key stakeholders in the Bank	May - Jun 2023
Set up an Evaluation Reference Group (ERG)	September 2023
Approach Paper/Inception Report	Sept 2023
Consultants Recruitment (External Peer Reviewer and Consultancy Firm)	Sept 2023
Data collection and analysis	Aug -Dec 2023
Country Case Study Data Collection Missions	Nov 2023-Feb 2024
Preparation of Background Evaluation Reports	Dec 2023- March 2024
Submission of Country Case Study Synthesis Report	March-April 2024
Submission of Draft Technical Evaluation report	April-May 2024
Submission of Final Technical Evaluation Report	May 2024
Submission of Draft Summary Evaluation Report	July 2024
Submission of Final Summary Evaluation Report	September 2024