



**AFRICAN DEVELOPMENT
BANK GROUP**

GOVERNANCE STRATEGIC DIRECTIONS AND ACTION PLAN GAP 2008-2012

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List of Figures, Tables and Boxes
List of Abbreviations

EXECUTIVE SUMMARY	v
I. INTRODUCTION	1
II. GOVERNANCE OPPORTUNITIES AND CHALLENGES	2
III. BANK EXPERIENCE AND LESSONS LEARNED	3
Governance lending activities.....	4
Governance non-lending activities	5
Lessons from the consultations	6
IV. STRATEGIES OF DEVELOPMENT PARTNERS	7
V. FOCUS AREAS AND LEVELS OF INTERVENTION	7
Guiding principles.....	7
Core objective	8
Levels of intervention	8
<i>Level I: Country level</i>	8
<i>Level II - Sector level</i>	12
<i>Level III - Regional level</i>	13
VI OPERATIONAL IMPLICATIONS	14
Sequencing priorities	14
Operational and institutional arrangements	15
Bank instruments	16
Delivering results	18
Measuring performance	18
Resource implications	19
Monitoring and evaluation	20
VII RECOMMENDATION	20

ANNEXES

Annex I:	Rolling Action Plan and Results Framework
Annex II:	Summary of Development Partners Strategies
Annex II:	Indicative Menu of Options for Governance Operations

LIST OF FIGURES, TABLES AND TEXT BOXES

List of Figures

Figure 1:	Key Governance Challenges in Africa	2
Figure 2:	Governance Trends (1998-2006)	2
Figure 3:	Quality of Financial Governance in Africa (PEFA 2007)	3

List of Tables

Table 1:	Bank Lending Operations in Support of Governance (2002 – 2006)	4
Table 2:	Guiding Principles	7
Table 3:	Indicators of Development Effectiveness	18
Table 4:	Typology of Governance Indicators	19

List of Boxes

Box 1:	Bank Support to Supreme Audit Institutions	5
Box 2:	G8 Action Plan for Good Financial Governance in Africa	6
Box 3:	Extractive Industries Transparency Initiative (EITI)	10
Box 4:	Africa Peer Review Mechanism (APRM)	14
Box 5:	Anti-Money Laundering and Asset Recovery	14

LIST OF ABBREVIATIONS

ACR	African Competitiveness Report
ACBF	African Capacity Building Fund
ADB	African Development Bank
ADF	African Development Fund
AFROSAI	African Organization of Supreme Audit Institutions
AFGO	African Financial Governance Outlook
AGR	African Governance Report
ALSF	Africa Legal Support Facility
APRM	African Peer Review Mechanism
AsDB	Asian Development Bank
AU	African Union
BOP	Balance of Payments
CEMAC	Communauté économique et monétaire de l’Afrique centrale
CFAA	Country Financial Accountability Assessment
CGP	Country Governance Profile
COMESA	Common Market of East and Southern Africa
CPAR	Country Procurement Assessment and Review
CPIA	Country Policy and Institutional Assessments
CSOs	Civil Society Organizations
CSPs	Country Strategy Papers
DAC	Development Assistance Committee
DB	Doing Business
DBSL	Direct Budget Support Loan
DFID	Department for International Development
EADI	African Development Institute
ECA	Economic Commission for Africa
ECOWAS	Economic Community of West African States
EITI	Extractive Industries Transparency Initiative
EC	European Commission
ESAAMLG	East and South African Anti Money Laundering Group
EU	European Union
FAPA	Fund for African Private Sector Assistance
FS	Fragile States
GF	Governance Factor
GABAC	Groupe d’Action contre le Blanchiment d’Argent en Afrique Centrale
GIABA	Groupe Intergouvernemental d’Action contre le Blanchiment de l’Argent en Afrique
HIPC	Highly Indebted Poor Country
HLP	High Level Panel
IBRD	International Bank for Reconstruction and Development
ICF	Investing in Climate Change for Africa
IMF	International Monetary Fund
ISP	Institution Support Project
LIC	Low Income Country
MDBs	Multilateral Development Banks
MFW4A	Making Finance Work for Africa Partnership
MIC	Middle Income Country
NEPAD	New Partnership for African Development
MTEF	Medium Term Expenditure Framework
NGOs	Non-Governmental Organizations

NTF	Nigeria Trust Fund
NTFG	Nordic Trust Fund for Governance
OECD	Organization of Economic Co-operation and Development
OHADA	Organisation pour l'harmonisation en Afrique du droit des affaires
OSGE	Governance, Economic and Financial Management Department
PBL	Policy Based Lending
PEFA	Public Expenditure Finance Accountability Framework
PERs	Public Expenditure Reviews
PETS	Public Expenditure Tracking Survey
PRSP	Poverty Reduction Strategy Paper
PSD	Private Sector Development
PSIA	Poverty and Social Impact Analysis
RBCSP	Results Based Country Strategy Paper
RMCs	Regional Member Countries
SADC	Southern Africa Development Community
SAP	Structural Adjustment Program
SPA	Strategic Partnership for Africa
TA	Technical Assistance
UA	Units of Accounts
UEMOA	Union économique et monétaire ouest-africaine
UNDP	United Nations Development Program
UNECA	United Nations Economic Commission for Africa
UNODC	United Nations Office on Drugs and Crime
UNDP-RBA	United Nations Development Programme – Regional Bureau for Africa
USAID	United States Agency for International Development
WAEMU	West African Economic and Monetary Union
WB	World Bank
WBI	World Bank Institute
WEF	World Economic Forum
WGI	World Governance Indicators

EXECUTIVE SUMMARY

This paper outlines the strategic orientations for the African Development Bank's contribution to good governance and anti-corruption in Africa for 2008-2012. It is prepared for consideration guidance by the Board of Directors at the Board Meeting of May 7, 2008.

It is an appropriate time for the Bank to sharpen its strategic focus and to carve out a distinctive role for itself in the global aid architecture in the area of governance and anti-corruption. The *Governance Strategic Directions and Action Plan* for 2008-2012 is based on the *Bank Policy on Good Governance* of 2000 and the lessons learned as captured in the *Bank Review of Governance Activities* of 2006. It also takes account of recent developments in aid policies and of guidance by Member States on future directions of the Bank's work in governance, most notably through the Eleventh Replenishment of the African Development Fund (ADF-11). It also reflects the recommendations of the independent High Level Panel (HLP) of January 2008. Lastly, it is informed by inputs received in internal and external consultations, and by global debates on development results, aid effectiveness and donor harmonization.

The Governance Strategic Directions and Action Plan will strengthen the implementation of the Bank's governance work by providing the basis for greater strategic selectivity, defining guiding principles for delivering results and achieving impact. The ambition of the Bank is to become a partner of choice for RMCs to strengthen economic and financial governance by 2012. The criteria for the Bank's focus in governance are: (i) *selectivity and results* based on the Bank's mandate, track record, and internal capacity; (ii) *country focus and ownership*, tailoring Bank's support to countries' governance challenges, reform priorities and potential for progress, (iii) *synergy and relevance*, based on the need to create positive interactions with the rest of the Bank's portfolio; and (iv) *complementarity and partnership*, based on the Bank's comparative advantage and its ability to complement other donors.

The Bank's central objective in governance is to assist African countries build capable and responsive states by strengthening transparency and accountability in the management of public resources. African countries have achieved significant progress in improving governance practices, but considerable challenges remain to strengthen institutions of governance. Stronger public sector institutions and improved country systems for managing public resources will contribute to capable states, engaged civil societies and improved accountability and transparency. This is the foundation for growth and a better business environment. The choice of aid instruments to deliver the Bank's support in governance will be tailored to the countries' governance challenges and environment.

The Bank's governance activities will be deployed at three levels: the **country, sector, and regional levels.**

Level I: At the **country level**, the Bank will focus on helping RMCs strengthen country systems for managing public resources, with an emphasis on oversight institutions and accountability systems. Special attention will be paid to:

- *Fragile states*, where there is a need to emphasize building of state institutions and strengthening capacity in financial governance and natural resource management.
- *Middle-income countries*, where there is a special need improve economic governance and to enhance the enabling environment for private sector development

Level II: At the **sector level**, the Bank will concentrate on improving governance and promoting integrity, particularly in high-risk sectors such as infrastructure. This includes increased support to country procurement systems.

Level III: At the **regional level**, the Bank will encourage and support regional and sub-regional initiatives that promote standards and codes of good economic and financial governance.

GOVERNANCE STRATEGIC DIRECTIONS AND ACTION PLAN 2008-2012

I. INTRODUCTION

1.1 **Good governance is crucial for inclusive and sustained economic growth and its promotion is a key element in the Bank Group's strategy to alleviate poverty in regional member countries (RMCs).** African countries have achieved significant progress in improving governance practices, but considerable challenges remain to anchor good governance and eliminate corruption.¹ From the mid-1990s up to the present, several countries in Africa have substantially improved on various dimensions of governance, but wide variations across countries persist.

1.2 **The Bank has embarked on a new phase of institutional reform to consolidate its role as Africa's premier development finance institution.** This is the appropriate time for the Bank to sharpen its focus on governance and to carve out a distinctive role in the global aid architecture in the area of governance and anti-corruption. The Bank has a key role to play to promote an African perspective and voice in the international debates on governance and development. These Strategic Directions are based on the Bank's *Policy on Good Governance* of 2000 and on the lessons presented in the *Bank Review of Governance Activities* of 2006.² They take into account developments in aid policy and practice and the guidance of member states on future directions of governance work, most notably through the Eleventh Replenishment of the African Development Fund (ADF-11) in 2007. It also reflects the recommendations of the report of the independent High Level Panel (HLP) of 2008.

1.3 **The Strategic Directions and Action Plan provide a rationale for greater strategic selectivity and focus in the Bank's governance work.** Their implementation will thus be undertaken in a progressive and sequential manner. They provide guidance for delivering results and achieving impact by focusing on a narrower set of governance priorities in which the Bank has potential to deliver results, build excellence, and add value. It is based on the viewpoint that the Bank's credibility hinges on its capacity to deliver results and demonstrate impact. To leave a "footprint" of its involvement, the Bank needs to operate based on clearly defined objectives, grounded in its comparative advantage as an African institution trusted by its members. This requires matching ambitions with resources and concentrating on those areas in which the Bank can make a distinctive contribution. The Strategic Directions require the re-alignment of Bank resources to match the strategic priorities, by rationalizing the lending portfolio, by adjusting the human resources capabilities and by improving the knowledge base.

1.4 **The Bank has an established mandate to help African countries strengthen governance and combat corruption and it enjoys the support of development partners to do so.** In 2000, the Bank adopted the *Good Governance Policy* to support RMCs' governance reform in a more pro-active and purposeful manner. Under ADF-10, the Bank committed to scale up its governance work³ and, in 2006, established the Governance, Economic and Financial Management Department (OSGE) as the anchor and catalyst for the Bank's work on governance. Governance, as a crosscutting theme was reflected as a resource priority in the Bank's *Strategic Plan for 2003-2007*.⁴ The ADF Deputies have endorsed governance as one of the three core operational priorities of the Bank, built on sharper strategic focus, a reinforced mandate and a strengthened emphasis on results.⁵

¹ Good governance is defined in several ways. According to the 2000 *Bank Group Policy on Good Governance*, governance is "a process referring to the manner in which power is exercised in the management of the affairs of a nation, and its relations with other nations." p.2. The policy identifies the key elements of good governance as: accountability, transparency, participation, combating corruption, and the promotion of an enabling legal and judicial framework.

² The 2006 *Review of Governance Activities* took stock of the Bank's support to governance in RMCs through institutional strengthening projects and non-lending activities based on the pre-2006 institutional set-up of the Bank. These strategy and action plan are also informed by reviews of Bank's budget support and institutional strengthening projects portfolios (October 2007 and March 2008, respectively) and a review of gender mainstreaming in governance activities (February 2008).

³ ADF, *Report on the Tenth Replenishment of Resources of the ADF*, ADF/BD/WP/2005/06, 2005.

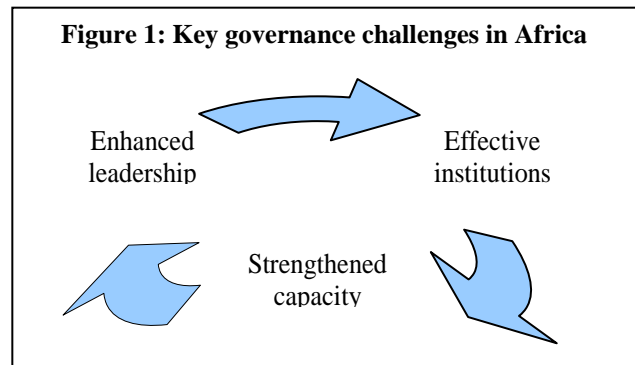
⁴ The *Strategic Plan* delineated a division of labour with other international development finance institutions, where the Bank would concentrate its contribution on improving economic and financial governance.

⁵ ADF, *ADF-11 Deputies Report*, London, United Kingdom, 11 December 2007.

1.6 This paper is divided in six sections. Following the introductory section, Section II looks at the main challenges and trends in governance in Africa. Section III reviews the Bank's recent experience. Section IV provides the rationale for strategic selectivity and focus in the Bank's governance work. Section V identifies the institutional reforms needed to support the delivery of the Bank's governance priorities. Section VI presents the steps to implement the strategic directions.

II. GOVERNANCE OPPORTUNITIES AND CHALLENGES

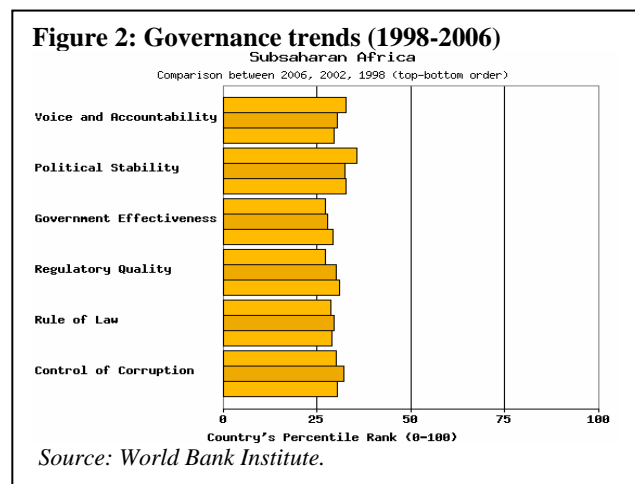
2.1. **There is consensus in Africa that governance underpins sustainable development and poverty reduction.** The defining governance challenges in Africa are: visionary leadership, effective institutions, and indigenous capacity development (Figure 1). Improving governance and tackling corruption are difficult tasks, but empowered Africans are at the forefront of demanding better governance. African leaders are committed to strengthening governance and combating corruption. The New Partnership for



African Development (NEPAD) identifies good governance as a requirement for peace, security and sustainable growth and development. For this reason NEPAD has set up the African Peer Review Mechanism (APRM) as a home-grown tool for improving governance through peer review.

2.2. **Refuting notions of Afro-pessimism, significant progress has occurred, but it is not homogeneous.** The Worldwide Governance Indicators and others all suggest that in recent years several countries in Africa have substantially improved on various dimensions of governance.⁶ There remain pockets of instability and arbitrary rule, but democratic change is becoming the norm in the region, and African-led efforts have succeeded to reduce the scope and duration of conflicts.

2.3. **Change has nevertheless not been uniform, giving a more nuanced picture** (Figure 2). Initial conditions vary and RMCs have different sets of governance strengths and weaknesses, as well as varying levels of fragility and vulnerability. Furthermore, the trajectory of change is not uniform across countries; nor is it linear. On aggregate, available data indicates that in Sub-Saharan Africa there have been positive trends in voice and accountability and in political stability, but a consistent decline since 1998 in government effectiveness and regulatory quality. These two dimensions of governance are, therefore, central to the objectives of the Bank's strategy.



2.4. **Weak governance institutions represent key impediments to equitable growth, economic competitiveness and private sector development.** Strengthening the public sector's enabling environment for private sector development is critical to unleash the growth potential of many African countries. The Global Competitiveness Report 2007/08 indicates that prime problematic factors for doing business include inefficient government bureaucracy; limited access to financing; and cumbersome and unreliable tax regulations or high and volatile tax rates.

⁶ The World Bank's Worldwide Governance Indicators capture the political, economic, and institutional dimensions of governance in six aggregate indicators: (i) voice and accountability; (ii) political stability; (iii) government effectiveness; (iv) regulatory quality; (v) rule of law and (vi) control of corruption.

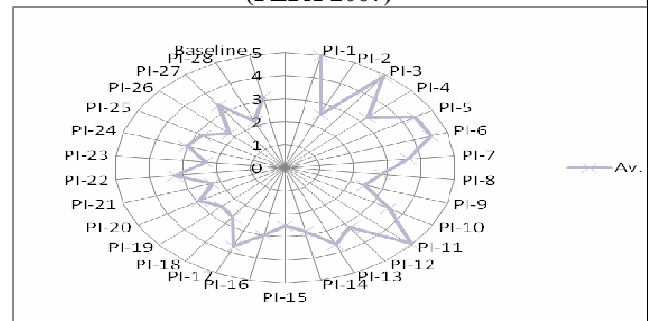
2.5 **Reforms to improve the investment climate and business environment are underway.** The Doing Business Survey of 2008 indicates that some African countries have reformed, led by Ghana and Kenya. In Southern Africa, Madagascar, Mauritius and Mozambique have taken the lead. Improved business environments are the result of changes in property registration, and regulations to open business and trading across borders.

2.6 **The quality of financial governance is key to government effectiveness.** The ability of the public sector to deliver quality public services is limited. In recent years, developing countries have recognized the centrality of sound public financial management (PFM) for achieving economic growth, reducing poverty and providing an enabling business environment. In this regard, the budget process is critical in determining the allocation and use of public resources. The capacity to direct, manage and track public spending allows governments to pursue their national objectives and account for the use of public resources and donor funds. It also allows non-state actors to monitor and hold government to account for its actions.

2.7 **Financial accountability and budget oversight are the weakest and riskiest links in public financial management.** Country PFM systems in Africa remain weak and need substantial improvement. According to the IMF, in 2005, out of the 26 HIPC countries, 24 require some or substantial upgrading in PFM systems.⁷ While overall performance generally improved, there was variation among countries and between components of PFM. Budget formulation and reporting are improving but checks and balances, especially integrity systems and oversight institutions, remain particularly

weak, hampered by the dominance of the executive branch of government. Financial control, public procurement and external auditing are the weakest PFM components, which are also the most important to minimize fiduciary risks and corruption. Figure 3 illustrates this mixed picture based on the 28 indicators of the Public Expenditure and Financial Accountability (PEFA) framework.⁸

Figure 3: Quality of financial governance in Africa (PEFA 2007)



Source: PEFA, 2008.

III. BANK EXPERIENCE AND LESSONS LEARNED

3.1 **A first general lesson of past experience is that the Bank has a central role in promoting better governance in Africa, as reflected in increased demands and expectations.** Governance is critical to improve the effectiveness of Bank operations beyond the governance “sector” per se; it affects everything the Bank does. An independent evaluation of ADF 7-9 in 2004 concluded that the Bank potentially has a substantial role in support to good governance in Africa.⁹ The Bank Group’s *Good Governance Policy of 2000* and the implementation guidelines of 2001 provide the basis for addressing governance challenges facing RMCs. There is a strong demand from RMCs for support in governance, reflected for example in the priority given to governance in the Bank’s country strategy papers (RBCSP). Furthermore, the quality of governance is an important determinant for the

⁷ IMF, *Update on the Assessment and Implementation of Actions Plans to Strengthen Capacity of HIPCs to Track Poverty-Reduction Public Spending*, IMF, 2005.

⁸ The PEFA initiative is a partnership of eight entities which developed a PFM performance assessment framework that has been used in more than 50 countries since its launch in June 2005. It is based on a set of 28 high-level indicators measuring PFM systems performance along six dimensions: (a) credibility of the budget; (b) comprehensiveness and transparency; (c) policy-based budgeting; (d) predictability and control in budget execution; (e) accounting, recording and reporting; and (f) external scrutiny and audit.

⁹ ADB, *Stepping up to the Future: Independent Evaluation of ADF VII – IX*, ADB OPEV, July 2004.

allocation of Bank concessionary resources through the performance based allocation framework.¹⁰ The Bank uses governance indicators to assess country performance and allocate ADF resources, through the Governance Factor (GF) based on cluster D of the CPIA.¹¹

3.2 A second general lesson is that, while the governance mandate of the Bank is well established, implementation is not focused enough. To leave a “footprint”, the Bank’s aggregate contribution must be more than the sum of its parts. A 2006 review found that its governance activities lacked strategic thrust and have not been sufficiently mainstreamed through the organization.¹² More recent studies on the Bank’s governance portfolio in 2007 indicate that its portfolio is too diverse, with small scale interventions, in particular ISPs. Because of their size, the impact of these activities is limited. The high transaction costs also are a constraint to operational effectiveness. The 2008 independent HLP therefore recommends the Bank to sharpen the focus of its governance work.¹³

Governance lending activities

3.3 In terms of lending instruments, the review of Bank’s ongoing portfolio shows that a significant proportion of the Bank’s multi-sector operations are aimed at improving governance. Multi-sector operations represent a growing share of the Bank’s portfolio (15.4% of cumulative loans and grants approved between 1967 and 2006.) In 2006, they represented the third largest share of approvals (UA708.6 million). 75% of these operations related to governance (budget support, 27.8%; institutional support and capacity building, 13.8%; public sector management 33.4%).

Table 1: Bank lending operations in support of governance (2002- 2006)

Type of operation	Operations		Amount	
	Number	%	UA million	%
Policy Based Operations	24	33.8	504.12	31.9
Budget Support Operations	16	22.5	980.03	61.9
Institutional Support Projects	31	43.7	97.47	6.2
Total	71	100	1581.62	100

3.4 Between 2002 and 2006, a total of 71 operations were financed by the Bank for a total amount of UA 1.6 billion. These operations covered 34 RMCs, including 31 out of 39 ADF-only countries. Economic and financial governance reforms were also supported in 3 ADB borrowing member countries. 31 of these operations were institutional support projects (ISPs), while 30 were policy-based (PBLs) and budget support programs (DBSLs). In terms of amount, PBLs accounted for about UA 1.5 billion and ISPs for approximately UA 0.1 billion. The majority of governance operations include components addressing economic and financial governance.¹⁴

3.5 Reviews of the Bank’s lending portfolio indicate that the Bank has an established track record in promoting good economic and financial governance. Economic and financial governance reform has featured prominently in the Bank’s governance portfolio, both through policy-based

¹⁰ Governance influences the Bank’s allocation formula (PBA) through the Governance Factor (GF) made up Cluster D of the Country Policy and Institutional Assessment (CPIA) and introduced in 2002 in the adjusted country performance assessment (CPA*). Changes were introduced in the PBA framework under ADF-11. ADF, *ADF-11 Deputies Report*, London, 11 December 2007, Annex VIII.

¹¹ Including fiscal policy, debt policy, quality of budgetary and financial management, efficiency of revenue mobilization, and transparency, accountability and corruption in the public sector.

¹² ADB, *Final Report of the Review of Governance Activities of the African Development Bank*, April 2006. A 2007 analysis of ongoing ISPs shows that the range of activities supported by this instrument is disparate, with substantial attention to civil service reform, legal and judiciary, and transparency and corruption, but also participation in PRSPs and the demand side of governance.

¹³ The HLP noted that “the Bank, currently, is involved in a disparate range of governance-related activities, needs more focus in its governance work. Its portfolio of governance is small and lacks clear direction. As an African institution and with an elected African president, the Bank should play a privileged and distinctive role. For that, it needs a coherent, more focused strategy.” HLP, *Investing in Africa’s Future: The ADB in the 21st Century*, 2008. The HLP’s assessment should nevertheless be nuanced because it does not take full account of the Bank’s emphasis on governance in policy-based operations

¹⁴ These include, *inter alia*, the enabling environment for private sector development, economic competitiveness, debt management, public expenditure management (budget preparation, execution and control, aggregate fiscal discipline, aggregate expenditure), revenue reforms, public procurement, audit and financial control, debt management, anti-corruption reforms, intergovernmental fiscal relations, fiscal decentralization and legislative budget oversight.

operations and institutional support projects. Both instruments are complementary: policy-based and budget support operations (grants and loans) are designed to encourage policy and institutional reforms, while institutional support operations enhance institutional and human capacities. A key finding of recent reviews is the emphasis on specific aspects of PFM, in particular public procurement, government auditing and financial control.

- The review of PBLs shows that there is already significant focus on PFM conditions in DBSLs. During ADF-8 to ADF-10, over 60% of the Bank's budget support conditions related to governance, of which over 75% are linked to PFM (particularly budget planning, external auditing, public procurement).¹⁵ As shown in a 2006 multi-donor evaluation of budget support, by using country PFM systems, budget support contributes to strengthen those.¹⁶ The policy dialogue and conditions of budget support typically focus on transparency and accountability in the management of public resources.
- The analysis of ISPs shows that the range of activities is much more disparate, although ISPs are being increasingly focused in recent years. About 60% of ongoing ISPs in 2007 promote economic and financial governance, including macroeconomic and debt management, public procurement, internal controls and external auditing (Box 1).¹⁷

Box 1: Bank Support to Supreme Audit Institutions

The Bank supports more than 25 RMCs to improve financial control and audit systems and standards. In Uganda, the Institutional Support Project for Good Governance provides reinforcement of the Offices of the Auditor General and the Inspector General. The Poverty Reduction Budget Support Loan (PRSL) to Mozambique of UA 60 million approved in 2006 includes strengthening PFM through the external auditing function of the Administrative Tribunal. The program also supports the internal audit function in all ministries.

3.6 There is a clear need to re-align the PBL, ISP and the ESW portfolio to maximize impact and to focus future projects on economic and financial governance. PBLs, ISPs and ESW are complementary instruments. This complementarity needs to be exploited further. It is essential that the Bank deploys the full menu of operations in governance so that research and analysis, capacity development and institution reform and direct budget support are all aligned and enable the Bank to achieve the best possible results. That includes the need for sequencing and combining the instruments in a strategic manner.¹⁸

Governance non-lending activities

3.7 Another important lesson is the need for the Bank to consolidate and scale-up its upstream diagnostic work in governance. This will contribute to policy-relevant knowledge, inform country dialogue, guide Bank governance interventions, and more adequately respond to demand for high quality policy advice. Analytical work must be coordinated with other development partners and is particularly important in the dialogue with RMCs around governance reforms linked to joint donor budget support.

3.8 Non-lending activities, including analytical and advisory work, are an important part of Bank assistance to foster governance reforms in RMCs. These activities are an integral part of the menu of options to foster good governance in RMCs:

- Integrated into the RBCSP process, Country Governance Profiles (CGPs) contribute to mainstream governance into Bank operations and inform policy dialogue.

¹⁵ ADB, *Retrospective of ADB Budget Support*, draft 2007. Moreover, the review showed that the specific focus on external auditing and public procurement indicates complementarity with other development partners. The World Bank too has a strong focus on PFM conditions, but its conditions tend to be much more related to the front end of the public finance cycle. The focus of the Bank on the back end of the cycle is therefore appropriate.

¹⁶ OECD DAC, *Joint Evaluation of General Budget Support (1994–2004)*, 2006.

¹⁷ ADB, *Review of ADB Institutional Strengthening Projects*, draft 2007.

¹⁸ Evaluations of the implementation of governance projects and activities over the past decade shows that the selection, sequencing and combination of the aid instrument and the way they are deployed in a specific environment has a direct effect on the effectiveness of governance interventions. World Bank, Independent Evaluation Group, *Evaluation of World Bank Support for Public Sector Reform*, Washington, DC, World Bank, draft 2008.

- The Bank, with other partners, contributes to the preparation of fiduciary reviews and PFM diagnostics.¹⁹ These reviews assess the degree to which RMCs' financial management policies and practices comply with internationally accepted standards. They also serve as a basis for assessing the fiduciary environment and the eligibility to budget support.
- Research activities and reports are an instrument of the Bank to disseminate information and raise awareness about governance issues.²⁰

3.9 **Another avenue for the Bank Group to support financial governance activities in RMCs is through bilateral and multilateral trust funds it manages on behalf of donor partners.** There is nevertheless scope for scaling-up and redeploying bilateral grant resources to strengthen Bank capacity to implement this strategy. The Nordic Trust Fund for Governance (NTFG) has been instrumental in pursuing innovative governance initiatives, exploring frontier areas and responding to immediate demands from RMCs. The DFID Governance Trust Fund is contributing to enhance Bank capacity in governance.

3.10 **The Bank works closely with other multilateral and bilateral partners, through project co-financing, information sharing and coordination.** However, the Bank has to be more selective in the strategic partnerships and platforms it decides to pursue in order to influence them effectively and leverage additional resources.

3.11 **Another critical lesson is that good financial governance is critical to improve development and aid effectiveness, and manage risks.** The international community is committed to supporting African countries further good financial governance; as reaffirmed in the G-8 Summits of Gleneagles (2005) and Heiligendamm (2007), as well as the Paris Declaration.²¹ In 2007, the G-8, in cooperation with African countries, outlined an *Action Plan for Good Financial Governance in Africa*.

Box 2: G8 Action Plan for Good Financial Governance in Africa

- Contributing to good financial governance through bilateral and multilateral development assistance;
- Strengthening African tax systems;
- Establishing transparent and comprehensive budgetary procedures;
- Promoting accountability and transparency and enhancing budgetary control;
- Increasing accountability for revenues from extractive industries;
- Securing public debt sustainability;
- Supporting fiscal decentralisation;
- Promoting donor harmonisation through knowledge management;
- Enhancing capacities for governance in fragile states and situations;
- Developing local bond markets in emerging market economies.

Lessons from the consultations

3.12 **The Bank has made an extensive effort to consult externally and internally about the Strategic Directions and Action Plan.** The comments received indicate a high level of support to the role the Bank envisages to play regarding governance in Africa. External partners appreciate the effort to focus the Bank's governance orientation on economic and financial governance. The focus on fragile states and on regional initiatives is regarded positive and analytical work in these areas is welcome. Partners stressed that the Bank has to be very selective at country level. Development partners stressed the need for sustained selectivity and upgraded capacity, recognizing the Bank's limited capacities and the real danger of spreading these too thinly.

3.13 The **internal consultations** echo the need for selectivity, while there is strong demand for more support with governance work. Governance is central to the new directions of the Bank, as reflected in

¹⁹ Public Expenditure and Financial Accountability (PEFA), Country Financial Accountability Assessment (CFAAs), Country Procurement Assessment Reviews (CPARs), Public Expenditure Reviews (PERs), Public Expenditure Tracking Surveys (PETS).

²⁰ The 2005 African Development Report dealt with public sector management, while the 2007 African Development Report focused on the management of natural resources, including extractive industries. The 2009 African Development Report will address the development challenges of fragile states.

²¹ The first clause of the Paris Declaration underscores the need to increase aid to support developing countries' efforts to strengthen governance and improve development effectiveness.

the Medium Term Strategy for 2008-2012. Regional departments regard governance as key element in the dialogue with the RMCs. Fragile states need specific analytical work on financial governance to develop better targeted interventions and more intense policy dialogue. MICs demand an increase in the quality of financial governance work. The Sector Departments recognize the need to address governance issues more vigorously to effectively influence sector policies and institutions.

IV. STRATEGIES OF DEVELOPMENT PARTNERS

4.1 **Governance is a broad “sector” in which many development partners are involved.** No development partner is able to cover the complete array of governance activities. Each partner provides a distinctive contribution and comparative advantage. Annex II provides a brief overview of the governance strategies of several development partners and regional institutions.

4.2. The Bank will continue to align its governance activities with others to complement approaches to governance and anticorruption. The broad scope of governance makes donor coordination and harmonization imperative. Important changes have occurred in aid policies and governance strategies of key development partners since the Bank adopted its own governance policy in 2000. The role of governance as a central condition for growth and development is well recognized. There is also a realization that development efforts often fail due to lack of appreciation of governance obstacles.

4.2 **The Bank will continue to coordinate and cooperate with other bilateral and multilateral institutions and partners supporting governance reforms in Africa to harmonize support and forge strong partnerships.** The Bank is part of various donor coordination and harmonization efforts, including various MDB Working Groups (financial harmonization) and OECD-DAC Working Parties (aid effectiveness, governance, public financial management, public procurement and managing for development results). The Bank also works with the Strategic Partnership for Africa (SPA), as a key forum for dialogue on aid effectiveness, including in governance.

V. FOCUS AREAS AND LEVELS OF INTERVENTION

Guiding principles

5.1 These strategic directions are guided by the following nine principles, consistent with the commitments of the Paris Declaration (based on the principles of ownership, alignment, harmonization, mutual accountability, and managing for results).

Table 2: Guiding principles

1. African countries have the primary responsibility for improving their own governance to accelerate the fight against poverty.	Institutions cannot be imported or exported; they need to grow from within. Where there is country ownership and commitment to reform, improvements in governance can take place relatively quickly. The Bank’s work on governance will be guided by a country focus, working with governments, civil society and the private sector to further good governance and fight corruption.
2. Bank activities in governance will be sequenced and tailored to country circumstances.	The Bank will tailor its support to countries’ governance challenges, reform priorities and potential for progress. Every RMC has a unique combination of governance features, strengths and vulnerabilities; not one size fits all. The Bank’s approach will therefore be tailored and sequenced to meet the specific developmental needs and governance challenges of fragile, middle and low-income RMCs.
3. The Bank considers corruption as a symptom of broader governance challenges.	Therefore, the Bank’s approach to fighting corruption will focus on deterrence by strengthening country systems of financial integrity, especially financial accountability and budget oversight.

4. The Bank will pursue a strategy of constructive and systemic engagement, including in high-risk environments.	The approach will be predictable and consistent, so as to avoid punishing the poor twice and creating “aid orphans.” Potential for progress, rather than initial conditions, will guide its engagement in governance, based on countries’ commitment to reform and direction of change. ²²
5. The Bank will strengthen country systems, rather than bypass them.	To optimize <i>development objectives</i> , the Bank will endeavor to strengthen and use country systems, in particular public financial management and accountability systems, consistent with Bank’s strategy.
6. Internally, the Bank will strengthen transparency in its own operations	To address its <i>fiduciary concerns</i> , the Bank will enhance its safeguards and integrity mechanisms, including financial management and procurement systems, ²³ to ensure that the funds it provides are used for the purposes intended and are properly accounted for. ²⁴
7. Bank activities in governance must be focused on delivering results, demonstrating impact and adding value compared to other partners.	Bank governance operations will be selective, based on the Bank’s mandate, track record, and internal capacity. Delivering results will require enhancing strategic alignment, upstream analytical work, improving quality-at-entry, and a results framework for measuring progress. The Bank is committed to mainstreaming gender concerns, strengthening social cohesion and encouraging domestic accountability.
8. Bank governance activities will develop synergies and improve relevance.	Bank governance operations will be selective also based on the need to create positive interactions with the rest of the Bank’s portfolio and corporate priorities.
9. The Bank will work with others to achieve common objectives.	This approach will be based on the Bank’s comparative advantage and its ability to complement other development partners, consistent with the Paris Declaration commitments on aid effectiveness.

Core objective

5.2 The Bank’s core objective in governance is to assist African countries to build capable and responsive states by strengthening transparency and accountability in the management of public resources, with an emphasis on oversight institutions and accountability systems. Reinforced public sector governance and enhanced country systems for managing public resources will contribute to open governments, engaged societies and an improved business environment. The Bank’s governance work will focus on public sector governance to improve the effective use of public resources for poverty reduction and the enabling environment for private sector development.

5.3 Operationally, the Bank’s strategic focus in governance will be deployed at three levels; the country, sector, and regional levels. The Bank will focus on certain dimensions of governance most relevant to its mandate and core objectives. The Bank’s approach will be tailored to client countries’ governance priorities and commitment to reform, differentiating the special needs of fragile states (FS), performing low-income countries (LICs) and middle-income countries (MICs). It will seek to balance alignment with country priorities with the Bank’s need to focus its contribution where it can add value. This approach will inform the choice, mix and sequencing of Bank instruments.

Levels of intervention

Level I: Country level

5.4 At the country level, the Bank will focus on helping RMCs strengthen country systems and institutions for managing public resources, with an emphasis on oversight institutions and accountability systems. To complement the work of other partners, the Bank will focus on areas of the budget process in which it can have a distinctive contribution and the greatest impact. This

²² A typology of country situations will guide the choice and mix of aid instruments deployed by the Bank. A four-category classification has been developed in terms of quality of policies (good, bad) and corruption risk (high, low) to guide the deployment of Bank instruments. ADB, *Engaging Constructively in High-Risk Governance Environments*, 2006.

²³ ADB, *Restructuring Procurement and Financial Management Services*, ADB, ORPU, draft August 2007.

²⁴ In 2006, the Bank established an anti-corruption and fraud investigation function and an Anti-corruption and Fraud Division was set-up in the Office of the Auditor-General (OAGL).

approach will allow for synergies and complementarities with other African institutions (AU, UNECA), as well as the World Bank,²⁵ the IMF, the EC and bilateral partners.

5.5 Key elements underpinning this objective include:

- Improving transparency and accountability in the budget process as a key driver of pro-poor change. This is critical for ensuring that public resources are managed for the benefit of the poor, in the context of rising aid flows and high commodity prices. The Bank recognizes that the budget is inherently a political process, as it reflects delicate political arbitrages between competing priorities, and that reforms require sustained political commitment.
- African leaders have demonstrated political will to address these issues. In May 2006, the African Finance Ministers stated their intention to redouble their efforts to develop transparent, accountable and reliable budgetary systems, as stated in the *Abuja Commitment to Action*.
- Sound public financial management is also central for improving the effectiveness of all Bank operations. The Bank's internal audits have recommended a greater focus on country systems in public financial management as a way to minimize fiduciary risks.²⁶

5.6 This strategy focuses on the following areas:

- **At the central government level, the Bank will support government institutions tasked with managing public resources in an effective, transparent and accountable manner.** Specific areas of enhanced engagement center on the ministries of planning and finance and include: revenue and resource management, debt management, budget policy and planning, accounting, financial control and internal auditing, and aid coordination.²⁷
 - **Macroeconomic management.** The Bank will support stronger macroeconomic and aid management frameworks and greater alignment between policy and budget priorities (PRSPs & MTEFs) to ensure that public resources, including those of the Bank, are put to the best use in the fight against poverty.
 - **Revenue management.** In the context of increased domestic revenues and aid flows in many RMCs. Efficient, transparent and equitable taxation matters for building capable and accountable states and creating an enabling business environment. The Bank will progressively scale up its assistance to strengthen the policy, regulatory and institutional framework for domestic revenue mobilization (tax and customs).²⁸
 - **Debt management.** In the context of debt relief, Bank interventions will continue to promote debt sustainability. They will help develop appropriate debt management policies and strategies; restructure and strengthen the capacity of debt management units; and develop effective legal and regulatory debt management frameworks.
 - **Results management.** The Bank will step-up its support to countries' capacities for monitoring public expenditure and managing for development results.
- **Beyond government, the Bank will scale-up its support to independent oversight institutions that hold government to account.** It will increase its assistance to RMCs to develop adequate regulatory financial control and audit frameworks and strengthen the

²⁵ The World Bank *Governance and Anticorruption Strategy* indicates that the World Bank will work with others to "more systematically help legislatures, supreme audit institutions and other formal oversight institutions develop the capacity to oversee public expenditures" (p.14).

²⁶ ADB, Internal Audit Department, *Annual Report to the Board*, 2004.

²⁷ Government agencies of particular relevance to this stream of work include Finance and Planning Ministries (including central budget and debt management offices), Accountant Generals, Procurement Tender Boards, Tax and Customs Administrations, Regulatory Agencies, and Aid Coordination Offices.

²⁸ Including through, modernization and simplification, broadening the tax base, strengthening transparency, and encouraging greater demand for accountability as part of the social contract and fiscal pact between the state and citizens. Although there have been improvements in revenue raising efforts over the last few years, half of sub Saharan African countries still mobilize less than 15% of their GDP in tax revenues.

technical and human capacity of institutions involved in control and audit of public funds, such as Inspector Generals, Internal Auditors, and External Auditors, and Anticorruption bodies.

- **Demand for better governance.** In the medium-term, the Bank will gradually enhance its support to parliaments²⁹ and civil society’s tracking and oversight of public resources and, more generally, to the “demand side” for better financial governance.
- **Gender budgeting.** Gender budgeting is a powerful tool for mainstreaming gender in a core area of public policy. The Bank will gradually steps-up work on gender-responsive budgets and gender auditing, in particular in the context of the Bank’s policy dialogue around budget support.³⁰
- **The Bank will also strengthen good financial governance at the local level.** The Bank’s contribution in this area will focus on fiscal decentralization and municipal finances. Support to financial transparency and accountability at the local level will also be pursued gradually (report cards, participatory budgeting).

Fragile states

5.7 In fragile states, the Bank’s enhanced engagement will focus on building institutions and strengthening capacity in financial governance and, where relevant, in natural resources management. Support to fragile states is an integral part of the Strategic Directions. Efforts have been made to harmonize the governance and fragile states strategies.³¹ In fragile states, good financial governance is both a condition and an objective of the Bank’s engagement, according to the 2008 strategy for Bank *Enhanced Engagement in Fragile States*.³² Fragile and post-conflict states present special development challenges. At the same time, post-conflict contexts and “turnaround” countries provide great potential for progress. Restoring basic systems for sound management of public resources is essential for rebuilding government capacities, delivering essential services and restoring public confidence in the state. Effective engagement in fragile states nevertheless requires continuous policy dialogue in the field, which will be driven by the Bank’s field offices.

5.8 In resource-rich states, special attention will be paid to the effective management of natural resources, in particular in extractive industries. The Bank will gradually scale-up its involvement in this sub-sector, primarily in fragile states but also in unequal low- and middle-income countries. Improving the management of natural resource revenues provides a unique opportunity to tackle poverty, in a context of the commodity boom. It is also critical to avoid the “resource curse” and relapse into resource-driven conflicts.

Box 3: Extractive Industries Transparency Initiative (EITI)

Following its endorsement of EITI in 2006, the Bank supports the implementation of EITI in a selected number of RMCs, in close coordination with other partners, based on the Bank’s added value and comparative advantage. Bank’s operational support started in mid-2007 following a two-pronged approach:

- (i) Encouraging resource-rich countries to adhere to the EITI mechanism through advocacy and outreach and;
- (ii) Providing technical assistance to RMCs that have subscribed to the EITI but lack implementation capacity.

The Bank is currently supporting the implementation of EITI in five countries (Chad, Liberia, Botswana, Central African Republic and Madagascar). As internal capacity is being built, the Bank expects to respond to increasing demand for support from two new resources rich RMCs a year.

²⁹ Through support to parliamentary budget, finance and public accounts committees, and parliamentary budget offices.

³⁰ This will include encouraging gender-disaggregated Public Expenditure Reviews (PERs) and Poverty and Social Impact Assessments (PSIA), and gender-sensitive Public Expenditure Tracking Surveys (PETS).

³¹ The strategy for *Enhanced Engagement in Fragile States* (2008) focuses on two thematic pillars: reconstruction of basic infrastructure and good economic and financial governance. The strategy further stipulates that: “specific attention will be paid to the challenges of resource-rich fragile states, lack of transparency, and corruption as contributors to state fragility” (p.9).

³² The strategy establishes a country’s commitment to sound financial management practices and transparency of public accounts as a criterion for increased Bank support. The Bank will “assess this commitment based on progress made by a country to reforming its public expenditure management system, minimising corruption and reviving or strengthening its revenue mobilisation institutions” (p.5).

5.9 The Bank endorsed the Extractive Industries Transparency Initiative (EITI) in 2006 and collaborates closely with the World Bank and other partners in this area (Box 3). An expansion of the program, called EITI++, is currently being tested in pilot countries. Adherence to the EITI principles sends an important signal to investors and reflects the countries' commitment to manage extractive resources for sustainable development and equitable growth.

- The ADF-11 Results Framework adopted EITI as one of the key results indicators for the Bank in the area of governance and transparency.
- The Bank shall mainstream EITI principles in its own natural resource operations (energy, water, forestry). At the policy level, a 2007 Bank-wide Task Force on Extractive Industries made recommendations on how best to mainstream transparency in the extractive sector, through stronger safeguards and due diligence clauses in Bank's private sector operations.
- The *Bank Policy on Environment* (2004) underscores the governance dimensions of natural resources management, particularly in the mining sector.

5.10 Consistent with its Medium Term Strategy for 2008-2012, the Bank will gradually expand its internal capacity and expertise in the relevant disciplines.³³ The Bank is working to establish an African Legal Support Facility (ALSF) to provide assistance to African countries on legal matters related to concession and contract negotiation.

Middle-income countries

5.11 **In middle-income countries, the Bank's approach will emphasize improved economic governance and promotion of the enabling environment for private sector development, in line with the Middle-Income Countries Strategy (2007).** The Bank will progressively scale-up its support to economic competitiveness and the investment climate, in line with the Private Sector Development strategy (2007).³⁴ It will do so through support to core public sector governance reforms as well as activities targeting the enabling environment for private investment in key economic sectors.

5.12 The Bank will enhance its role in this area sequentially, building on existing initiatives and very gradually expanding the remit of this work-stream in the medium term, as it builds capacity and gains expertise.

- It will continue to support the business climate and economic competitiveness in MICs and, increasingly, in LICs, as part of a renewed focus on pro-growth strategies, principally through policy-based loans.
- It will contribute to improve the business environment through better public sector governance through, *inter alia*, administrative simplification, tax and customs modernization, public procurement reform, as well as anti-corruption and anti-bribery measures.
- The enabling environment for private sector development will also be promoted through regional initiatives and programs.
- The Bank will continue to tailor its knowledge products, including through the *African Competitiveness Report*, in collaboration with the World Bank and the WEF.

³³ Such as legal and regulatory frameworks, contract negotiation, fiscal regimes, sector anti-corruption, revenue management, social and environmental impact.

³⁴ ADB, *Strategy Update for the Bank's Private Sector Operations*. Tunis: ADB/BD/WP/2007/149, December 2007. ADB, *A Strategic Framework for Enhancing Bank Support to Middle Income Countries*, Tunis: ADB, November 2007.

Level II - Sector level

5.13 **The Bank will focus its governance activities at the sector level to strengthen the accountability and transparency in the management of public resources in key sectors of Bank operations, in particular in infrastructure.** Improving sector governance is critical to deliver results and improve service delivery. The Bank will enhance its support to promoting transparency, integrity and accountability at the sector level, in particular in high-risk sectors of direct relevance to the Bank's broader mandate. By addressing governance dimensions and corruption risks in key sectors, the Bank's governance work will help improve the efficiency of sector spending and the effectiveness of sector operations in RMCs.

5.14 **Governance is a transversal concern cutting across sectors.** In addition to the work of OSGE, sector departments will mainstream governance as a key element of their sector strategies to address the institutional, policy and regulatory dimensions of their respective sectors, consistent with the Bank's governance strategic directions. The relevant sector departments, in partnership with OSGE, shall take the lead in addressing the governance challenge in their respective sectors.

5.15 **The Bank is committed to improving African infrastructure.**³⁵ Infrastructure is the largest sector in the Bank's portfolio (52% in ADF-10 and 62% projected in ADF-11). However, it is also highly vulnerable to corruption.³⁶ Consistent with its corporate focus on infrastructure, the Bank's work on sector governance shall concentrate on infrastructure (energy, roads and transportation) and natural resource management (water, extractive industries, forestry).

5.16 Bank engagement in sector governance will entail, *inter alia*:

- Enhancing governance in sectors through improved policy, planning, and budgeting by sector ministries and effective interaction with planning and finance ministries;
- Promoting an enabling environment for service providers through robust regulatory frameworks allowing efficient public-private partnerships for the delivery of public services;
- Mitigating risks in Bank-financed sector projects by assessing corruption risk and designing corresponding mitigating measures (*sector governance risk mapping*), including through more and better diagnostic work, improved project design and targeted technical assistance.³⁷

5.17 **The work on sector governance will particularly focus on enhancing integrity through enhanced public procurement systems.** Given the Bank's zero tolerance policy on corruption in its own projects, enhanced support to country procurement systems will contribute to maximizing development impact in RMCs and mitigating fiduciary risk to the Bank.

5.18 **The Bank will continue to strengthen procurement systems, both at the country and regional (through regional economic communities) levels.** As per the Paris Declaration on aid effectiveness (2005) and consistent with its rules and procedures, the Bank is committed to using and strengthening country public procurement systems. In this regard, it will provide assistance:

- Directly to countries to develop adequate regulatory frameworks and strengthen the capacity of procurement agencies and national tender boards;
- Indirectly through regional economic communities such as ECOWAS, COMESA, and WAEMU; consistent with the Bank's focus on regional integration and the promotion of regional public goods;

³⁵ The Bank has received a mandate to lead on infrastructure development (APRM) and it hosts the *Infrastructure Consortium for Africa* (ICA) and the *African Water Facility* (AWF).

³⁶ Transparency International (TI), *Preventing Corruption in Construction Projects*, 2004.

³⁷ These also include existing tools such as sector-focused Public Expenditure Tracking Surveys (PETS) or Poverty and Social Impact Analysis (PSIA).

- Building knowledge and promoting international standards of integrity in public procurement, through cooperation with relevant bodies. In collaboration with other donors, the Bank will develop diagnostic tools to assess sector governance and sector integrity systems.

5.19 **As part of this engagement, the Bank will further strengthen the transparency of its own operations through greater disclosure of information**, providing accessible information on its operations, including disbursement data, and implementing the Bank Group Policy on Disclosure of Information,³⁸ including through a more effective use of the web.

Level III - Regional level

5.20 **At the regional level, Bank will support regional initiatives to deepen good economic and financial governance.** The Bank will pursue a regional approach in selected areas through targeted purpose initiatives, platforms and facilities, in line with its support to regional integration and the promotion of regional public goods.³⁹ It will use principally multinational projects and specific-purpose grants. By proactively engaging in a limited number of such initiatives, the Bank will be able to influence and leverage additional resources. Examples include:

- Support to the promotion of *good corporate governance*, principally focusing on the APRM.
- Support to international standards and regional harmonization in *government auditing* (AFROSAI), *payment systems* (ECOWAS, COMESA), *public procurement* (UMEOA, COMESA), *business law* (OHADA), and *anti-money laundering* (GIABA, GABAC, ESAAMLG).
- Support to the *investment climate* through the Investment Climate Facility for Africa (ICF) and the Fund for African Private Sector Assistance (FAPA).
- Support to *financial sector reform* principally through the Bank's Making Finance Work for Africa Partnership (MFW4A).

5.21 **The Bank will encourage the adoption and implementation of regional and international standards and codes that contribute to greater transparency and accountability in the management of public resources**, including in natural resources. International charters, standards and codes are cost-effective mechanisms to build incentives for better governance and deeper regional integration. They are largely voluntary and enforced by peer pressure. They often involve partnerships not only with governments, but also with the private sector and civil society across national borders.

5.22 **The Bank will develop the capacities of regional networks and institutions to anchor regional standards and codes of good economic and financial governance.** The Bank will form strong internal and external partnerships to work in support of initiatives such as the Extractive Industries Transparency Initiative (EITI) in the extractive industries sector (see above) and the Construction Sector Transparency Initiative (CoST) in the infrastructure sector. The Bank will also consider supporting similar transparency and certification initiatives.⁴⁰

5.23 Examples of such support in the areas of concentration of the Bank include:

- Support to the crafting of an *African Agenda for Good Financial Governance*, in cooperation with key African partner institutions such as the UNECA and the AU.
- Support to regional networks of senior budget officers, accountants-general and auditor-generals, for example the Collaborative Africa Budget Reform Initiative (CABRI), and strengthen the accounting and auditing profession in Africa.

³⁸ ADB, *The Bank Group Policy on Disclosure of Information*, 2004.

³⁹ ADB, *Strategic and Operational Framework for Regional Operations*, Tunis, ADB, January 2008.

⁴⁰ Such as the Forest Law Enforcement and Governance (FLEG) initiative in the forestry sector or the Kimberley Process Certification Scheme in the diamond industry.

5.24 **The Bank will continue and expand its role of supporting the African Peer Review Mechanism (APRM).** The APRM process is an African-led regional charter-type mechanism that aims to strengthen governance standards and practices through peer review. In countries that have completed the review, the APRM provides a framework for alignment with country priorities reflected in the National Plans of Action (NPOA).⁴¹ Where applicable, the Bank's RBCSP will be aligned to the APRM and support the implementation of the NPOAs.

Box 4: African Peer Review Mechanism (APRM)

The Bank was mandated by NEPAD Heads of States & Governments to be the APRM's lead partner in the areas of economic and corporate governance, in close coordination with the other strategic partners (UNDP, ECA). The Bank's support to the APRM includes the provision of technical and financial assistance to the undertaking of country reviews and the strengthening of the review process. It has to date participated in the review of 8 RMCs, (Rwanda, Ghana, South Africa, Algeria, Benin, Burkina Faso, Uganda, and Nigeria). Following recommendations of the Sixth Africa Governance Forum in Kigali in 2006, the Bank will provide assistance to the streamlining and simplification of the APRM process.

5.25 **The fight against corruption is a global effort requiring international cooperation.** Regional codes in support of governance include the AU Convention on Preventing and Combating Corruption (AUCPCC) and the UN Convention against Corruption (UNCAC). African states have committed themselves to these conventions, which include provisions for enhanced international cooperation in support of integrity reforms, anti-money laundering and the recovery of stolen assets. Going forward, the Bank will support integrity reforms and institutions in countries and, at the regional level, international standards and codes in specific areas of relevance to the Bank's overall mandate, such as the ADB-OECD Anti-bribery and Business Integrity Initiative.

Box 5: Anti-money laundering and asset recovery

The Board approved the Bank's strategy on anti-money laundering in October 2007. The strategy defines two key objectives: strengthening internal safeguards against money laundering in particular in financial sector operations and; supporting the efforts of RMCs in combating corruption and money-laundering, especially at the regional level. Bank's support to anti-money laundering and asset recovery will be part of the Bank's broader governance and anticorruption agenda supporting integrity institutions and transparency reforms. Bank's support to anti-money laundering and asset recovery will be focused at the regional level (through support to FATF-style regional bodies), undertaken in close partnership with specialized organizations (AU, UNODC) and as part of broader international efforts, such as the Stolen Asset Recovery (StAR) Initiative.

VI OPERATIONAL IMPLICATIONS

6.1 This section outlines how the Bank will deliver the governance strategic orientations in 2008-2012. A detailed description of actions is included in Annex I, presented as a rolling action plan to be adjusted as resources become available. The results-framework to monitor implementation and results is provided below. The emphasis on results will provide the Bank with a renewed sense of purpose and direction to guide its governance work. It should nevertheless be noted that implementation of a number of measures is already under way.

Sequencing priorities

6.2 Deeper engagement in support of strengthening economic and financial governance in RMCs will require careful sequencing, calibrated to the Bank's institutional capacities and organizational reforms, including its plans for decentralization. The Bank wants to achieve excellence in a limited set of governance activities. That requires re-alignment of the skills-mix and a progressive increase in institutional capacity, at headquarters and in field offices.

⁴¹ ADB, *Corporate Governance Strategy*, 2005; ADB, *Bank Group Financial Sector Policy*, 2003; ADB, *Corporate Governance Implementation Framework*, draft, 2007.

6.3 The strategy adopts a two phased approach:

- (i) **Short-term:** Focus on existing engagements in a narrow set of governance areas. Aim to demonstrate results and add value. In the short-term (2008-2010), the Bank will focus on aligning its ongoing work with the strategic focus on the country (Level I) and the regional levels (Level III). Within Level I the Bank will increase its work in fragile states through the establishment of the Fragile States Facility and Unit.
- (ii) **Medium-term:** In the medium term (2010-2012), the Bank will gradually engage in new governance priorities as it builds excellence and capacity, in particular at the sector level (Level II). Within Level I, the work on the enabling business environment will be gradually scaled-up, as Bank develops its capacity in this area.

Operational and institutional arrangements

6.4 Implementing the Strategic Directions and Action Plan will require adaptations in the management of the Bank's governance operations:

- Mainstreaming of governance requires Bank-wide involvement and accountability for implementing the Strategic Directions and Action Plan. This strategy will be actively disseminated to ensure buy-in and alignment.
- Governance projects (ISPs), policy-based lending (DBSLs) and upstream analytical work (ESW) will be further aligned to ensure greater synergies at the country level. Future Bank ISPs will focus on institutional development and capacity building in public financial management and accountability, in particular in external auditing and public procurement.
- Mainstreaming governance requires a stronger role for governance in sector operations (by including governance and anticorruption as a pillar of sector strategies) and in country plans (by including governance and corruption more prominently in RBCSPs).
- New knowledge about governance will be shared Bank-wide to improve institutional learning capacities, knowledge generation, peer-learning and sharing of lessons learned from independent evaluations.
- The visibility of the Bank's governance work will be enhanced through effective communication and disclosure of information, notably through its website.
- The Bank's capacities in economic and financial governance will be managed through the establishment of a cross-departmental network of governance experts. This will eventually lead a professional cadre, for professional development, technical support and quality assurance, based on a skill gap analysis and a feasibility review.

6.5 Governance is a cross cutting concern. Relevant Departments/Units in the Bank share responsibility for implementing and mainstreaming the Strategic Directions and Action Plan. The Bank's governance work also has a horizontal dimension, contributing to the achievement of the Bank's broader goals. This entails:

- Delineating the roles and responsibilities of the Bank's departments to deliver economic and financial governance activities in RMCs. This includes sector departments, country departments and field offices. OSGE will anchor the Bank's support to economic and financial governance at the country and at regional levels (levels I and III).
- Strengthening of governance capabilities in sector departments, in particular in the Bank's priority sectors, to effectively implement the work on sector governance under Level II; strengthening governance inputs into key corporate processes, such as country strategies, quality review and risk assessment.

- Furthering the contribution of the Research, Legal, Audit and Procurement and Financial Management Departments in the Bank’s work on economic and financial governance.⁴²
- Strengthening the role of Field Offices in the conduct of policy dialogue and the management of country programs in governance. The decentralization process will contribute to a better understanding and mitigation of governance risks at country and sector levels, and promote Bank’s voice in donors groups at country level.

Bank instruments

6.6 The Bank will deploy a range of instruments for economic and financial governance operations in RMCs. The operational portfolio will be aligned with the Strategic Directions. The 2006 restructuring of the Bank and the establishment of OSGE are bringing greater coherence and consistency in the use of instruments. *Policy-based lending, institutional strengthening projects, non-lending activities* and *analytical and advisory work* will be better coordinated to maximize impact and leave a “footprint”. Enhanced collaboration with other partners will also be strengthened to ensure synergies and complementarities.

6.7 **Policy dialogue:** The Bank’s activities in governance will be guided by a careful assessment of country needs, governance risks, and potential for success. Regional Departments will ensure that RBCSPs are based on a thorough assessment of governance opportunities and risks. The Bank’s second-generation country governance profiles and other diagnostics will be deployed to inform such assessment. The Bank’s participation in the APRM provides an additional entry point to strengthen Bank understanding of governance in RMCs. Field Offices will also play a pivotal role in the Bank’s dialogue on governance at the country level.

6.8 **Operational support:** The Bank will use a combination of *policy-based lending, institutional grants, non-lending initiatives, and analytical work* to support economic and financial governance. The choice and mix of aid modalities will be guided by the objectives set in the RBCSPs and strength of country systems.

- *Menu of options:* The Bank will align its approach to country priorities and sector focus based on a “menu of options” that it can draw upon to choose the type and combination of instruments tailored to country circumstances [see Annex III]. Such a menu of options will be refined and adjusted by Country Teams (CTs), as circumstances evolve.
- *Sequencing and packaging:* Synergy and complementarity between product lines of the Bank are critical to enhance the impact of its interventions. The sequencing and combination of aid instruments will be further strengthened to respond to client needs and country circumstances. The Bank will use budget support as its instrument of choice to encourage institutional reform and deepen policy dialogue on governance, only when conditions are appropriate and fiduciary conditions have been met.⁴³ Use of budget support to promote governance is consistent with the Paris Declaration targets on program-based approaches and use of country systems. ISPs will complement budget support operations to strengthen institutional capacity, especially in those areas of high fiduciary risk. In addition, analytical work will ensure that Bank projects are addressing the appropriate priorities and meet fiduciary requirements.
- *Governance budget support:* The Bank views budget support as an instrument, not as an end in its itself. OSGE’s contribution to Bank budget support operations will concentrate on implementing governance policy-based loans.⁴⁴ This includes budget support operations whose main purpose is to improve economic and financial governance and the governance components of multi-sector budget support operations. Relevant Bank department will handle multi-sector budget support operations, based on the main objectives such operations seek to

⁴² ADB, *Restructuring Procurement and Financial Management Services*, ADB, ORPU, 2007

⁴³ ADB, *Guidelines on Development Budget Support Lending*, ADB/BD/WP/2003/145/Rev.2, 2004.

⁴⁴ ADB, *Guidelines for Policy-Based Lending on Governance*, ADF/BD/WP/2003/193/Rev.1, 2004.

achieve. In all cases, Country Teams and Country Economist will continue to play a critical role in this process.

6.9 Knowledge development: Understanding the political economy of governance reform is critical to improve Bank effectiveness. Furthermore, the Bank has a key role to play in crystallizing and advocating for an African perspective on governance. Providing high quality advice and analytical support to RMCs requires a significant increase in the quality and quantity of upstream analytical and advisory work. This will also contribute to improving the quality at entry of the Bank's own operations and the depth of policy dialogue. The analytical activities will include enhanced governance assessments,⁴⁵ public financial management reviews,⁴⁶ and public procurement reviews.⁴⁷ Together with other development partners the Bank will continue to support African think tanks and policy research institutions focused on the governance priority areas, as provided for in the Bank strategy for supporting research in Africa.⁴⁸ These activities include, *inter alia*:

- *Country dialogue and programming:* The newly designed second-generation Country Governance Profiles (CGP) are better aligned with the APRM framework and focused on financial governance.⁴⁹
- *Crystallizing Africa's voice on governance:* The Bank will develop a flagship report, the *Africa Financial Governance Outlook*, in close cooperation with key African partners and focusing on good financial governance.⁵⁰
- *Monitoring for results:* Aggregate, actionable indicators will be used to assess governance trends, monitor reform progress, and support mutual accountability.

6.10 Enhanced partnerships: The Bank will focus on selected strategic partnerships complementing its focus areas to pursue common objectives, enhance its influence, and leverage additional resources.

- At the *international level*, the Bank will enhance its engagement in donor harmonization, such as the OECD-DAC and the SPA, to better align its efforts, influence aid agendas and bring an African perspective on those. Key strategic partners include the World Bank, the IMF, the EC, the UN, and key bilateral partners
- At the *regional level*, the Bank will work with key institutions such as AU, NEPAD-APRM, UNECA, ACBF, and UNDP-RBA to improve synergies and strengthen African institutions.
- At the *country level*, the Bank will enhance its engagement in donor coordination in the area of governance, especially around budget support.

6.11 The Bank's focus on economic and financial governance adds value to work by other development partners. At the country level, a strategic focus on good economic and financial governance will enhance the capability of the Bank to engage in policy dialogue as part of multi-donor budget support groups. The Bank's work on financial management, public procurement, and external auditing will complement the IMF and the World Bank's focus on building capacity of the

⁴⁵ Joint Governance Assessments (JGA), Country Governance Profiles (CGPs), and Institutional and Governance Reviews (IGRs).

⁴⁶ Public Expenditure and Financial Accountability (PEFA) assessments, Country Financial Accountability Assessments (CFAAs), and Public Expenditure Reviews (PERs).

⁴⁷ Country Procurement Assessment Review (CPARs).

⁴⁸ ADB, *Bank Group Strategy and Framework for Support to Research and Capacity Building Institutions in Africa*, ADB ORPC, 17 October 2006, ADB/BD/WP/2006/110 and ADF/BD/WP/2006/128.

⁴⁹ ADB, *Review of Country Governance Profiles 2002-2006*, ADB, ORPC, 2006.

⁵⁰ Through the proposed AFGO, the Bank will have a more robust and consistent approach to the assessment and monitoring of governance performance based on an analytical framework and a battery of indicators (both aggregate and actionable) drawn from available sources such as the WGI and the GII. This will inform the Bank's country allocation system (PBA), through the governance factor (GF), the CPIA, and adjusted CPA.

executive.⁵¹ For example, the Bank is working with the World Bank to develop a joint strategy and initiatives to support Auditors-General.

Delivering results

6.12 Implementing the Strategic Directions requires a robust and realistic framework for monitoring results (country level outcomes) and measuring performance (institutional). A key challenge is that in governance it is difficult to demonstrate impact explicitly in the short term. Unlike other sectors the impact of governance work is intrinsically difficult to measure, because of the effects of time lags and problems of attribution. Measuring impact is also contingent on a corporate culture that uses evaluation to improve performance and to fine-tune approaches.

6.13 The Bank will monitor progress in conforming to this results-framework and adjust it accordingly. The Bank will assess results and impact at country level in the context of international standards of economic and financial governance, e.g. the monitoring framework of the Paris Declaration (based on the 2007 Baseline Survey) and the Public Expenditure and Financial Accountability (PEFA) framework (based on the 2007 PEFA assessments).

Measuring performance

6.14 *Development effectiveness*: The Bank will monitor impact using a battery of proxy indicators for performance. These are summarized in Table 3 below.

Table 3: Indicators of development effectiveness

Development Effectiveness (country outcomes)	Frequency	Scale	Baseline
Governance and Transparency			
Public Expenditure and Financial Assessment	every 3 years	(0 -- 7)	3.12 (2007)
Worldwide Governance Indicators Average	every 2 years	(-2.5 -- 2.5)	-0.80 (2006)
Extractive Industries Transparency Index	every year	(% compliance)	20.5 (2007)
Private Sector Development and Investment Climate			
Cost Required for Business Start-up	every year	(% of GNI per capita)	190 (2006)
Time Required for Business Start-up	every year	(days)	58 (2006)
Global Competitiveness Index Ranking	every year	(1 to 7)	3.1 (2007)

6.15 **Caution is warranted in the use of performance indicators to measure impact because of measurement and attribution problems.** Governance is broad and multi dimensional. It includes a wide variety of processes, systems, organizations, and rules of the game, all together frequently captured by the broad term “institutions”. Given this variety, there are also a large number of indicators that can be applied to governance. The issue of how to measure governance is a topic that attracts intense debate. Several attempts have been made to define indicators of governance performance in an objective fashion and that produce results that can be monitored over time and allow for comparisons between countries.

6.16 The most common classification is to distinguish between “broad” and “specific” indicators. The first category looks at the general outcomes of governance systems. The second category looks at specific aspects or subsystems of governance. As these indicators go further down in detail they become “actionable indicators”, enabling policy makers to decide on specific actions to address deficiencies. The typology of governance indicators in Table 4 provides a menu of governance indicators and enables selection of the appropriate indicator for specific circumstances.

⁵¹ World Bank, *Development Policy Lending Retrospective*, 2006; IMF, *Update on the Assessment and Implementation of Action Plans to Strengthen the Capacity of HIPC to Track Poverty Reducing Public Spending*, 2005.

Table 4: Typology of governance indicators

	Measuring quality of process and rules	Measuring quality of outcomes
Specific measures	PEFA indicators CPIA sub group indicators Global Integrity Indicators Open Budget Indicators OECD Procurement Index Doing Business indicators	Investment Climate Assessments Business Environment & Enterprise Surveys (BEEPS) Worldwide Governance Indicators (WGI) sub groups African Governance Report (AGR) sub groups Africa Competitiveness Report (ACR) sub groups
Broad Measures	Overall CPIA ratings Overall GII ratings Overall OB ratings Overall DB indicators Overall ACR governance indicators	Transparency International Corruption Indicators Overall WBI score Freedom House Polity IV African Governance Report (AGR) Indicators

Source: Adapted from World Bank *Governance and Anti Corruption (GAC) Implementation Plan, 2007*

6.17 Despite the growth in the number of governance indicators, there remain underlying problems with causality and attribution. Thus, in measuring its contribution to better governance in Africa, the Bank will monitor results by using proxy indicators:

- Development effectiveness of Bank interventions (country level outcomes) will be monitored on a yearly basis with the relevant *Country Policy and Institutional Assessment* (CPIA) criteria for economic and financial governance, principally CPIA-13 (Quality of Budgetary and Financial Management). Other yearly results indicators to be considered include CPIA-1 (macroeconomic management), CPIA-2 (debt policy), CPIA-6 (business regulatory environment), and CPIA-16 (transparency, accountability and corruption control in the public sector).
- Relevant Paris Declaration performance indicators: Indicator 2a (reliable public financial management systems), 2b (reliable public procurement systems), and 10b (joint country analytical work).
- PEFA Performance Indicators: Aggregate performance and specific performance indicators (PI 2: composition of budget expenditure out-turn compared to the original approved budget; PI-26: scope and nature of external audit, and PI-27: follow up of audit reports by the executive or audited entity). The Bank has adopted PEFA as one of the institutional performance indicators of the ADF-11's Results Framework. PEFA assessments are regularly updated, every 2-3 years.

6.18 ***Institutional effectiveness:*** The Action Plan that is included in Annex I provides specific indicators for each action that the Bank will undertake. These measures are specific, and are mostly measured at the country level. The Bank's performance in delivering results will be measured through the standard Key Performance Indicators (KPIs) and by tailored performance indicators.

- *Tracking governance work internally:* The Bank will reclassify "governance" as a distinctive sector category (adjusting the existing "multi-sector category) to better track, monitor and report on its support to governance.
- *Aligning portfolio with strategy:* The alignment of the Bank's governance operations with the Strategic Directions will be assessed using the proxy indicators which have been included in the rolling Action Plan in Annex I.
- *Managing the Governance Action Plan:* The Bank will implement a number of actions to ensure that governance is mainstreamed in the organization and that capacities are developed in those departments and units that require strengthening for implementing the action plan.

Resource implications

6.19 Implementation of the Strategic Directions and Action Plan will have considerable resource implications, including on staff numbers, professional competencies and skill mix. An analysis of existing skills and gaps in 2008 will guide decisions on future staffing levels Bank-wide. This will be

incorporated into the 2008-2012 Medium Term Strategy (MTS) which foresees an increase in OSVP staff levels. This analysis will be informed by a Bank-wide assessment of capacity needs in the areas of economic and financial governance.

6.20 Staff capacities will be realigned progressively, in terms of skill mix and re-deployment, within the existing constraints. Specific actions include:

- In the short term (2008-2010), priority will be given to equipping OSGE with the necessary staff and required skills, through staff redeployment and net increases.
- In the medium-term (2010-2012), governance experts will be deployed (i) at the regional level to enhance policy dialogue, quality at entry and supervision, (ii) in sector departments to help mainstream governance in sectors and (iii) in country offices through local recruitment.
- A network of governance specialists will be established, anchored in OSGE and including governance experts in sector and regional departments. This network will be developed as communities of practice, with a strong emphasis on professional development, peer learning, knowledge sharing. The Bank will also undertake a governance training program, which will serve the dual purpose of strengthening the knowledge base of governance specialists and mainstreaming understanding of governance throughout the Bank.
- The Bank will seek to leverage specialized expertise through technical assistance and secondments, aligned with the priorities of the strategy. It will mobilize bilateral trust funds and technical assistance to support the implementation of the strategy and outsource sector expertise through partnerships and platforms. It will work to consolidate existing governance trust funds in a multi-donor governance trust fund to strengthen Bank governance capacity, building on the lessons learned from the NTFG.

Monitoring and evaluation

6.21 The implementation of the action plan in Annex I is contingent on the availability of resources and, therefore, is presented as a rolling action plan. The strategy will be monitored annually to gauge its effectiveness and adjusted accordingly. In 2010, the Bank will undertake a mid-term review. It is further proposed that OPEV undertakes an evaluation of Bank governance work to inform the 2010 mid-term review.

VII RECOMMENDATION

7.1 The Boards of Directors of the African Development Bank Group are invited to endorse the Governance Strategic Directions and Action Plan for 2008-2012.

ANNEX I: ROLLING GOVERNANCE ACTION PLAN AND RESULTS FRAMEWORK – 2008-2012

Purpose	Action	Sequencing (start date)	Responsible (lead & support)	Results	Indicators ⁵²	
Level 1: Improving core governance systems and institutions at the country level						
Improve efficiency, transparency, and accountability in the management of public resources and mitigate risks by strengthening country systems in RMCs	Strengthen financial governance components in RBCSP	2008		ORVP, ⁵³ with OSGE	Improved Bank's understanding or financial governance challenges and mitigation of corruption risk	<ul style="list-style-type: none"> % of RBCSP including general governance analysis & corruption risk assessments
	Enhance strategic alignment of Bank governance portfolio	2008		OSGE, with ORVP	Bank support to governance focused on economic and financial governance (strategic alignment); Enhanced use of governance PBLs and stronger governance focus of DBSL	<ul style="list-style-type: none"> Number of new governance-focused PBLs % of new OSGE operations focused on economic and financial governance (including components of ISPs and PBLs) % of new OSGE operations in fragile states focused on economic and financial governance (including components of ISPs and PBLs)
	Improve quality of Bank governance portfolio and develop positive linkages between aid instruments	2008		OSGE, with ORVP	Economic and financial governance in RMCs is improved by the deployment	<ul style="list-style-type: none"> Bank KPIs and project ratings for governance operations Number of RMCs with complementary ESW, DBSL/BOP, and ISPs
	Increase Bank support to country audit systems	2008		OSGE, with OAGL, ORVP	Strengthened integrity and transparency in the management of public resources and mitigation of risk to the Bank	<ul style="list-style-type: none"> Number of new OSGE operations with audit component (ISPs and DBSLs) Improvement in relevant PEFA & GII scores
	Increase Bank support to country procurement systems	2008		OSGE, with ORPU, ORVP	Strengthened country procurement systems in RMCs and mitigation of risk to the Bank	<ul style="list-style-type: none"> Number of new OSGE operations with procurement component (ISPs and DBSLs) Improvement in relevant PEFA and OECD DAC scores
	Increase Bank support to country revenue systems		2010	OSGE, with ORVP	Strengthened country revenue systems in RMCs leading to more efficient revenue mobilization	<ul style="list-style-type: none"> Number of new OSGE operations with revenue component (ISPs and DBSLs) Improvement in relevant PEFA scores
	Increase Bank support to country debt management systems		2010	OSGE, with ORVP	Strengthened debt management in RMCs and improved debt sustainability	<ul style="list-style-type: none"> Number of new operations with debt management component (ISPs and DBSLs) Improvement in relevant PEFA scores
	Increase Bank support to the demand for better economic and		2010	OSGE, with OSHD	Improved scrutiny, oversight and accountability for the management	<ul style="list-style-type: none"> Number of new operations with components aimed at strengthening the "demand side" of

⁵² Unless otherwise indicated, all indicators measure against the available 2007 based line.

⁵³ Mention of ORVP denotes involvement of Regional Departments and Country Offices.

Purpose	Action	Sequencing (start date)		Responsible (lead & support)	Results	Indicators ⁵²
	financial governance				of public resources	financial governance (legislative budget oversight, civil society budget scrutiny)
	Increase Bank support to gender-based budgeting and auditing		2010	OSHD, with OSGE	Strengthened gender sensitive budgets in RMCs	<ul style="list-style-type: none"> Number of Country Gender Profiles and operations (ISPs and DBSLs) integrating gender sensitive budgeting and auditing
	Increase Bank support to economic competitiveness and the enabling environment for private sector development		2010	OSGE, with OPSM	Economic competitiveness and growth prospects promoted through improved enabling environment for private sector development	<ul style="list-style-type: none"> Support economic competitiveness and growth through support to the business environment Number of new operations with competitiveness and enabling environment components (ISPs and DBSLs) Improvement in relevant DB & ACR scores
Enhance policy dialogue on governance through advisory and analytical work	Strengthen governance through peer pressure, review and learning	2008		OSGE, with ONRI	Improved assessment of governance quality and support to national plans of actions (NPOAs)	<ul style="list-style-type: none"> Number of country APRM reviews with Bank support Improved APRM framework and review process with Bank support Number of APRM countries with Bank support to the implementation of the NPOAs
	Enhance knowledge and evidence on economic and financial governance	2009		ECON (EDRE & ESTA), with OSGE, ORVP	Improved understanding of key challenges in economic and financial governance, including governance statistics	<ul style="list-style-type: none"> Number of thematic ESW focusing on economic and financial governance issues Publication of the 2009 African Development Report on fragile states
	Increase involvement in upstream diagnostic and advisory work on country PFM systems (priority given to RMCs with ongoing or potential for DBSL and upcoming CSP)	2009		OSGE & ORPU, with EDRE, OAGL, OSVP	Improve depth and quality of Bank governance activities through enhanced knowledge of PFM country systems and robust assessment of fiduciary environment informing decisions on DBSL eligibility	<ul style="list-style-type: none"> Number of RMCs with PEFA-CFAA assessments undertaken with Bank participation Number of CPAR & OECD DAC procurement assessments undertaken with Bank participation
	Enhance assessment and monitoring of governance in RMCs, including: <ul style="list-style-type: none"> Revise CGP analytical framework Complete feasibility study of AFGO Prepare report on Good Financial Governance in 	2008 2009 2009	2010	OSGE, with EDRE, ESTA, ORPC	Enhanced evidence of governance trends and patterns in RMCs, improved policy dialogue and mutual accountability between RMCs and Bank in country	<ul style="list-style-type: none"> Number of second-generation, evidence-based country governance profiles Publication of Bank flagship report on financial governance in Africa (<i>African Financial Governance Outlook</i>)

Purpose	Action	Sequencing (start date)		Responsible (lead & support)	Results	Indicators ⁵²
	Africa)					
	Enhance assessment and monitoring of economic competitiveness and the business climate	2009		ECON (EDRE), with OPSM, OSGE	Enhanced enabling environment for private sector development	<ul style="list-style-type: none"> Number of Africa Economic Outlooks and Africa Competitiveness Reports published by the Bank
Level 2: Mainstreaming and strengthening governance at the sector level						
Improve Bank ability to engage in sector policy and governance; enhance quality at entry in key sectors, and improve risk mitigation	Mainstream governance and anticorruption concerns in Bank sector strategies		2010	Relevant sector departments (OIVP, OSVP), with OSGE, ORPU	Better understanding of governance challenges in sectors and strengthened sector strategies	<ul style="list-style-type: none"> Number of sector strategies integrating governance issues
	Design sector governance and risk assessment tools	2009		OSGE, with OIVP and ORPC	Strengthened sector risk management strategies	<ul style="list-style-type: none"> Sector governance and risk assessment framework designed and piloted in the infrastructure sector Guidance note on sector governance published
	Implement a governance program in the infrastructure sector to enhance transparency and accountability		2010	ONIF, with OSGE, OPSM, ORPC, ORPU	Strengthened quality at entry and reduced risk exposure in infrastructure operations	<ul style="list-style-type: none"> Individual project ratings Number of infrastructure sector operations where governance and corruption risks are assessed and addressed Number of Bank supported CoST country initiatives
	Strengthen public financial management and accountability in infrastructure projects (energy, electricity, transportation)		2010	ONIF, with OSGE, ORPC, ORPU	Enhanced assessment and mitigation of fiduciary risk in sector operations	<ul style="list-style-type: none"> Number of infrastructure sector operations addressing PFM challenges (including public procurement)
	Support RMCs to enhance efficiency, transparency and accountability in the management of natural resource and extractive industries (EITI and EITI++)	2008		OSGE, with OSAN, OPSM	Improved governance and transparency of natural resource management in RMCs	<ul style="list-style-type: none"> Number of countries strengthening NR and EI governance with Bank support Number of RMCs implementing EITI & EITI++ with Bank support Number of countries reaching EITI validation point with Bank support Number of Bank's NRM investment operations in countries committed to transparency and accountability in NRM
Level 3: Promoting regional integration and harmonization in governance						
Strengthen regional	Strengthen standards and codes of good economic and financial	2008		OSGE, with ONRI, ORPU	Increased interregional trade and investments through greater	<ul style="list-style-type: none"> Economic and investment statistics Number of countries compliant with

Purpose	Action	Sequencing (start date)		Responsible (lead & support)	Results	Indicators ⁵²
integration through improved governance	governance				harmonization of economic and financial governance standards	international and regional standards and codes
	Help crystallize the African agenda for good financial governance	2008		OSGE, with ORPU, ORPC, OAGL	Good financial governance agenda and action plan developed and endorsed by RMCs	<ul style="list-style-type: none"> Indicators used in the good financial governance agenda and action plan
	Support to the African corporate governance standards through the APRM	2008		OSGE, with ONRI	Improved corporate governance practices in RMCs	<ul style="list-style-type: none"> Number of APRM country reviews undertaken with Bank support
	Strengthen regional auditing and accounting standards	2008		OSGE, with OAGL, ONRI	Improved regional auditing standards and practices	<ul style="list-style-type: none"> Number of initiatives furthering regional standards in government auditing and accounting with Bank support
	Strengthen regional procurement standards	2008		OSGE, with ORPU, ONRI	Improved and harmonized regional procurement standards and practices	<ul style="list-style-type: none"> Number of initiatives furthering regional standards in public procurement with Bank support
	Support to regional Communities of Practice (CoP) in the area of economic and financial governance	2009		OSGE, with ORRU	Strengthened Pan-African financial governance networks through increased use of peer learning and benchmarking	<ul style="list-style-type: none"> Number of CoPs supported by the Bank (e.g. CABRI) and frequency and quality of activities
Strengthen RMCs' ability to improve the enabling environment for private sector development	Improve the regional investment climate through regional platforms	2009		OSGE, with OPSM, ECON	Increased leveraging of resources to support the investment climate	<ul style="list-style-type: none"> Number of activities under the ICF Number of activities supported by FAPA
	Stimulate regional partnerships to support fiscal reform	2008		OSGE	Improvements in fiscal transparency and responsibility	<ul style="list-style-type: none"> Number of RMCs benefiting from AFRITAC assistance
	Support regional standards in anticorruption and anti-bribery	2008		OSGE, with OAGL, GECL	Improvements of anti-bribery standards and practices	<ul style="list-style-type: none"> Establishment of ADB-OECD anti-bribery initiative Number and quality of activities
	Support African legal capacities in complex business transactions in NRM and EI sectors		2010	GECL, with OSGE, OPSM	Improvements of RMCs legal capacities to negotiate and litigate in the NR & EI sectors	<ul style="list-style-type: none"> Establishment of the African Legal Support Facility (ALSF) Number of request for support to the ALSF
	Stimulate regional partnerships to support to financial and banking sector reforms	2008		OSGE, with OPSM	Increased leveraging of resources to support financial sector reform	<ul style="list-style-type: none"> Establishment of MFW4A initiative Performance indicators agreed by MFW4A
	Improve regional integrity standards and practices		2010	OSGE	Increased support to pro-integrity reforms through peer learning and knowledge sharing	<ul style="list-style-type: none"> Establishment of African Integrity Initiative Number and quality of activities
Managing the implementation of the Governance Action Plan						
Mainstreaming	Establish a Bank-wide	2008		OSGE, with	Bank governance work coordinated	<ul style="list-style-type: none"> Establishment and frequency of meetings to

Purpose	Action	Sequencing (start date)		Responsible (lead & support)	Results	Indicators ⁵²
governance in Bank operations	Governance Working Group			relevant divisions and departments in OSVP, OIVP, ORVP, ORRU, CHRM, OAGL	and consolidated and governance concerns mainstreamed in regions and sectors;	monitor implementation of GAP 2008-2012
	Establish a governance network	2009		OSGE, with ECON, CHRM	Enhanced dissemination of governance knowledge within the Bank	<ul style="list-style-type: none"> ▪ Intensity of knowledge sharing activities ▪ Membership of governance network
	Disseminate governance strategy and action plan inside and outside the Bank	2008		ERCU, with OSGE, EDRE	Increased awareness and visibility of the Bank's governance work	<ul style="list-style-type: none"> ▪ Number of dissemination and awareness raising activities
Invest in African partnerships and donor harmonization in governance	Influence international debates on governance by bringing African perspective	2008		PRDT, with ECON, OSVP (OSGE), ORVP	Global governance agenda informed and improved by African perspective	<ul style="list-style-type: none"> ▪ Number of key international and regional events on governance with senior Bank participation
	Develop African partnerships for governance	2009		OSGE	Better coordinated governance interventions at regional level	<ul style="list-style-type: none"> ▪ Number of strategic partnerships with key African institutions (AU, UNECA, ACBF)
	Influence donor harmonization on governance by bringing African perspective	2008		ORPC, with OSGE	African voice in donor harmonization efforts strengthened	<ul style="list-style-type: none"> ▪ Number of donor coordination and harmonization fora in governance with Bank participation (number of meetings attended) ▪ Number of OECD DAC & MDB WG joint position and policy papers with Bank contribution
	Improve coordination and complementarity of the Bank's governance operations in RMCs with Development Partners	2008		ORVP, with OSGE	Improved effectiveness of governance support to RMCs	<ul style="list-style-type: none"> ▪ Number of governance activities undertake jointly / co-funded with other development partners increased
Equip the Bank to implement the GAP 2008-2012	Undertake a skill gap analysis and prepare a HR plan for governance (as part of HR plan under MTS 2008-2012)	2008		CHRM, with OSGE	Governance expertise scoped and gaps identified	<ul style="list-style-type: none"> ▪ Bank-wide governance capacity, needs and gaps assessed ▪ Governance HR action plan drafted and approved
	Implement Governance HR action plan	2009		CHRM, with OSGE, OIVP, ORVP	Governance work adequately resourced	<ul style="list-style-type: none"> ▪ Governance HR action plan implemented
	Realign OSGE	2009		OSGE	Adjusted organization of OSGE to balance country/regional focus and sector/technical focus	<ul style="list-style-type: none"> ▪ Realignment and reallocation plan drafted, approved and implemented
	Explore the establishment of a professional cadre of governance	2009		CHRM, with OSGE, ORPU,	Strengthen Bank governance competencies and technical skills	<ul style="list-style-type: none"> ▪ Feasibility study completed ▪ Competency framework developed and

Purpose	Action	Sequencing (start date)		Responsible (lead & support)	Results	Indicators ⁵²
	specialists			OAGL		<ul style="list-style-type: none"> ▪ accreditation system adopted ▪ Number of accredited staff in central, regional and country units
	Decentralize governance expertise in regional and sector departments, including field offices		2010	CHRM, with OSGE, OIVP, ORVP	Increased governance capabilities in sector units, country teams and regional departments	<ul style="list-style-type: none"> ▪ Number of governance specialists deployed in sector units and regional departments (including regional field offices) ▪ Pilots agreed in selected sectors and regional departments
	Develop and undertake governance training plan for Bank staff	2009		CHRM, with OSGE	Increased governance capability of the Bank and re-skilling and re-alignment of governance expertise	<ul style="list-style-type: none"> ▪ Number of governance training events
	Develop and implement a Governance Week and related capacity building activities		2010	EADI/JAI, with OSGE	Increased access to state-of-the-art knowledge on governance for RMCs and enhanced governance capabilities of Bank staff	<ul style="list-style-type: none"> ▪ Number of governance training activities by EADI/JAI focused on PFM
	Develop arrangements to mobilize specialized expertise, as required		2010	OSGE, with ORPU, ORRU	Bank can leverage “just in time” specialized expertise	<ul style="list-style-type: none"> ▪ Number of networks and arrangements established (e.g. panels of accredited consultants, resource center)
	Leverage dedicated resources to support the implementation of the Bank GAP 2008-2012	2009		ORRU, with OSGE	Bank can mobilize resources and skills through TF-TA to implement the GAP 2008-2012 and support catalytic governance initiatives in RMCs	<ul style="list-style-type: none"> ▪ Establishment of a multi-donor trust fund (GAP MDTF) with significant commitment capacity to support the implementation of the GAP, in particular for non-lending work, and to develop Bank capacity

ANNEX II: STRATEGIES OF DEVELOPMENT PARTNERS

African Union	Several African institutions have a mandate over different dimensions of governance. The African Union has a political mandate to promote regional unity and integration through the support to peace and security, democratic principles and institutions, as well as sustainable development at the economic, social and cultural levels.
United Nations system	<ul style="list-style-type: none"> ▪ UNECA has focused its governance activities on public administration with the establishment of the Governance and Public Administration Division (GPAD), including support to private sector development, civil society and social development through policy analysis, research and technical assistance in support to the APRM. ▪ UNDP focuses on political governance helping countries manage electoral processes and parliamentary functions, strengthen justice systems, promote human rights, decentralize government functions and strengthen local governments. UNDP also supports the APRM and works on conflict prevention and recovery and the investment climate.
World Bank	In 2007, the World Bank adopted the Governance and Anti Corruption (GAC) strategy as central to all its operations. Governance is also a pillar of its <i>Africa Action Plan</i> (AAP). Half of the new FY2006 lending operations were designed to strengthen governance. The focus of the GAC is at the country level, where the World Bank will increase efforts to reform core government systems, mainstream governance in sector work, engage with private sector and civil society and strengthen the “demand side”.
Regional Development Banks	Regional Development Banks have also developed a strong focus on governance. Governance is one of the three pillars of the Asian Development Bank’s poverty reduction strategy. In 2006, it adopted its <i>Second Governance and Anti-Corruption Action Plan</i> . The Modernisation of the State has been one of the four priority areas of the Inter-American Development Bank since 2003.
European Union	The European Union ’s strategy on governance of 2006 has a broad remit, including a strong focus on promoting democracy and human rights, including gender equality, and the rights of children, indigenous peoples and ethnic minorities. The EU backs efforts to reinforce the rule of law and administration of justice; to enhance the role of civil society and non-state actors. It also helps to reform public administration, civil services and local governments. EU-funded programmes contribute to fighting corruption and prevent conflict.
Bilateral partners	Bilateral partners , such as the United Kingdom (2007), France (2006), and the United States (2005) have revisited their governance and anticorruption strategies. The UK White Paper on Development of 2006 focuses on “Making governance work for poor people”, complemented by a strategy paper in 2007 on building capable, accountable and responsive states. France’s new governance policy has a broad remit and adopts an integrated approach to the promotion of democratic governance, including through support to state reform, judicial reform, decentralization, local governance, and financial governance. Promoting democracy and good governance is a central aim of USAID, including through support to the rule of law and judicial reform, electoral and political party assistance, civil society and anticorruption.

ANNEX III: INDICATIVE MENU OF OPTIONS FOR GOVERNANCE OPERATIONS

Types of countries

1. **A key challenge for the Bank is to balance the alignment with country priorities and the need for greater selectivity in its contribution to governance.** It needs to tailor its services accordingly. Broadly, the RMCs can be categorized as⁵⁴:
 - Fragile States (FS)
 - Low Income Countries (LICs)
 - Middle Income Countries (MICs)
2. **Due to its mandate, the Bank needs to remain engaged in all these countries, but the demands for support in governance vary widely.**
 - In Fragile States, which include a wide range of countries in state of vulnerability and post-conflict situations, the emphasis will be on rebuilding institutions of state as soon as basic requirements of peace and security have been met. There is a large need for capacity development, aimed at safeguarding the essential institutions of state. Frequently this needs to be combined with provision of additional financial resources. Analytical work is needed to build up knowledge of the underlying political economy trends and processes.
 - In LICs the institution development efforts (ISPs) are needed to help the institutions in these countries to become stronger so that they are able to prevent a decline. Additional resources (budget support) are needed to enable these countries to meet the demands of all segments of society. Analytical work is needed to assist these countries in moving to the next level in quality of governance systems and institutions.
 - MICs continue to need access to capacity building (ISPs) and to analytical work (ESW) in order to move their economies up to higher levels of productivity. Their PFM systems can be seen by potential investors as an indicator of its attractiveness for investment and market building.

Types of instruments

3. **In these different operating environments the Bank has a range of aid instruments at its disposal.** Evaluation of the implementation of governance projects and activities over the past decade shows that the selection, sequencing and combination of the aid instrument and the way it is used in a specific environment has a direct effect on the effectiveness of governance interventions⁵⁵.
4. The aid instruments available to the Bank include:
 - Balance of Payments (BOP) Support.
 - Direct Budget Support Lending (DBSL).
 - Institution Support Projects (ISP).
 - Economic Sector Work (ESW).
5. BOP, DBSL, ISPs and ESW are complementary instruments. This needs to be exploited further. That includes the need for proper sequencing of the instruments (ESW to precede DBSL and ISP interventions). It is essential that the Bank deploys the full menu of operations in governance so that

⁵⁴ A more exhaustive discussion of the strengths of states and the implications for development is included in *State Building, Governance and World Order in the 21st Century*, Francis Fukuyama; Ithaca, 2004

⁵⁵ World Bank, Independent Evaluation Group, *Evaluation of World Bank Support for Public Sector Reform*, Washington, DC, World Bank, draft 2008.

research and analysis, capacity development and institution reform and direct budget support are all aligned and enable the Bank to achieve the best possible results.

Menu of options

6. MICs require more flexible responses, including DBSLs. There may be more demand for DBSLs in the middle category of countries, but this is also the category of countries in which there is a higher volume of Development Partners, and therefore more variety in available options for these RMCs.
7. The use of ISPs and ESW is not yet in line the demands of these different market segments for the Bank. The analysis of current ISPs shows that the range of activities supported by this instrument is much more disparate. As noted by the HLP, this disparate portfolio produces very little results and cause that the Bank does too little in any of these activities to leave any significant impact.
8. There is a clear need to re-align the ISP and the ESW portfolio and to focus future projects on economic and financial governance. The ISP and ESW work also needs to be aligned more closely with the needs of the countries.
 - MICs demand flexible DBSL and more high quality ISPs and ESW activities. This requires that the Bank is able to provide knowledge and expertise at the level of OECD countries in order to help these countries to achieve a real transformation of their economy and state performance.
 - In FS countries, there is a need for more analytical work, followed later by more ISPs. A better understanding of the real causes of the failures of institutions in these countries is needed to be effective in the reconstruction work in post conflict states, or in reducing the risks of decline.

Table: Use of governance aid instruments in types of countries

Typology	Governance DBSL/BOP	Governance ISP	Governance ESW
FS	Subject to mitigation of fiduciary risk. Requires up-front analytical work and emphasis on ISP undertaken in parallel. Only in collaboration with other DPs	Focused on strengthening core government systems and prevent risk of relapse. Essential in case of BOP/DBSL.	Aimed at understanding risks and identifying opportunities for interventions and support to demand side of governance
LIC	In demand. Standard fiduciary risk assessments needed. Collaborate with other DPs	In demand. Strengthening of institutions, and improvements in standards and performance	In demand. Aimed at stronger understanding of drivers for change and growth
MIC	Demand for more flexibility by countries that have access to multiple sources of capital	In demand, if assistance is of high quality and provided with short lead time	In demand, if analytical work is of high quality and provided with short lead time