

AFRICAN DEVELOPMENT BANK GROUP



GOVERNANCE STRATEGIC FRAMEWORK AND ACTION PLAN (GAP II), 2014 – 2018

Promoting Good Governance and Accountability for Africa's Transformation

OSGE DEPARTMENT

April 2014

AFRICAN PERSPECTIVES ON GOVERNANCE

“Good governance is perhaps the single most important factor in eradicating poverty and promoting development”.

— Kofi Annan, *Seventh Secretary-General of the United Nations*, 2011

“Over the past ten years, the general trend in governance across Africa has been positive. We have seen a marked decline in conflicts, sustained economic development, and significant gains in Human Development. We are more peaceful, prosperous, healthy and well-educated than at the turn of the millennium.”

— Mo Ibrahim, *Founder of Mo Ibrahim Prize for Achievement in African Leadership*, 2012

“Africa is now the new frontier, an important growth pole for economic recovery and an attractive pole for capital. The perception gap is closing, and there are serious investors who are seriously interested in Africa.”

— Ngozi Okonjo-Iweala, *Coordinating Minister of the Economy and Minister of Finance of Nigeria*, 2012

“There is a stubborn link between governance, growth and human rights. One cannot meaningfully achieve one without the others. Good political and economic governance are the foundation for people to realign themselves for sustainable development. Human rights guarantees fairness, equity and freedom. When good governance and observance of human rights are respected, people are able to attain sustainable growth.”

— Joyce Banda, *President of Malawi*, *Seminar on “Good Governance, Growth and Human Rights: A Vision for Malawi’s Development” Chatham House*, March 13, 2013

“As we progressively understood the causes of environmental degradation, we saw the need for good governance. Indeed, the state of any country’s environment is a reflection of the kind of governance in place, and without good governance there can be no peace. Many countries which have poor governance systems are also likely to have conflicts and poor laws protecting the environment”

— Wangari Maathai, *Lecture after receiving the Nobel Peace Prize in Oslo, Norway*, 2004.

“We will need leadership and I mean leadership at all levels – political leadership, business leadership and civil society leadership to all pull in one direction, the direction which gets Africa to the next level, which is economic transformation. This is vital”.

— Donald Kaberuka, *President of the African Development Bank Group*, *African Banker (Issue No. 24), Second Quarter*, 2013.

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TIMELINES AND MILESTONES

1.	SECTOR/THEMATIC BRIEFING NOTES FROM IDWG	MARCH/ APRIL 2013
2.	OSGE DEPARTMENTAL CONSULTATION	MARCH/APRIL 2013
3.	IDWG REVIEW	MAY 2013
4.	OPSCOM APPROVAL OF THE APPROACH PAPER	24 JULY 2013
5.	PEER REVIEW OF GAP II	30 JULY 2013
6.	DEPARTMENTAL REVIEW	5 AUGUST 2013
7.	IDWG REVIEW	7 AUGUST 2013
8.	OPSCOM APPROVAL	28 AUGUST 2013
9.	DISTRIBUTION TO CODE	9 SEPTEMBER 2013
10.	CODE MEETING ON THE DRAFT GAP II DOCUMENT	23 SEPTEMBER 2013
11.	EXTERNAL CONSULTATIONS	OCTOBER - DECEMBER 2013
12.	CODE MEETING ON THE REVISED GAP II DOCUMENT	25 MARCH 2014
13.	BOARD PRESENTATION	14 MAY 2014

ACRONYMS AND ABBREVIATIONS

ACRONYM	ABBREVIATION
AAA	Advisory and Analytical Assistance
ACAs	Anti-corruption Agencies
ADF	African Development Fund
AfDB	African Development Bank
AFROSAI	African Organization of Supreme Audit Institutions
ALSF	African Legal Support Facility
AMV	African Mining Vision
APRM	African Peer Review Mechanism
ATAF	African Tax Administration Forum
AU	African Union
BEE	Business Enabling Environment
BRIC	Brazil, Russia, India and China
CEIF	Clean Energy Investment Framework
CODE	Committee for Development Effectiveness
COMESA	Common Market for Eastern and Southern Africa
CPIA	Country Policy and Institutional Assessment
CRFA	Country Resilience and Fragility Assessment
CRMA	Climate Risk Management and Adaptation Strategy
CSOs	Civil Society Organizations
DAI	Policy on Disclosure and Access to Information
DFIs	Development Financial Institutions
DRM	Domestic Resource Mobilization
EAC	East African Community
EDRE	Economic and Development Research Department
ECOWAS	Economic Community of West African States
EI	Extractive Industry
EITI	Extractive Industries Transparency Initiatives
ESAAMLG	The Eastern and Southern Africa Anti-Money Laundering Group
ESW	Economic Sector Work
FAPA	Fund for African Private Sector
FDI	Foreign Direct Investment
FS	Fragile States
FSF	Fragile States Facility
FSS	Financial Sector Strategy
GABAC	Groupe d'Action contre le Blanchiment d'Argent en Afrique Centrale
GAP I	Governance Strategic Directions and Action Plan
G&A	Governance and Accountability
GDP	Gross Domestic Product
GECL	General Counsel and Legal Services Department
GEF	Global Environmental Fund
GIABA	The Inter-Governmental Action Group against Money Laundering in West Africa
IACD	Anti-Corruption Department
ICF	Infrastructure Consortium for Africa
ICT	Information and Communication Technology
IDWG	Inter-Departmental Working Group
IFC	International Financial Corporation
ISPs	Institutional Support Programs

MDB	Multilateral Development Banks
MFW4A	Making Finance Work for Africa
MSMEs	Micro, Small and Medium Enterprises
MTS	Medium Term Strategy
NDP	National Development Plan
NEPAD	New Partnership for African Development
NGO	Non-Governmental Organizations
NRM	Natural Resource Management
OECD	Organization for Economic Co-operation and Development
OHADA	L'Organisation pour l'Harmonisation en Afrique du Droit des Affaires
ONEC	Energy, Environment and Climate Change Department
OPEV	Bank's Evaluation Department
OPSM	Private Sector Department
ORPF	Procurement and Fiduciary Services Department
ORPC	Operational Resources and Policies Department
ORQR	Results and Quality Assurance Department
OSAN	Agriculture and Agro-Industry Department
OSHD	Human Development Department
OSGE	Governance, Economic and Financial Management Department
PACS	Public Accounts Committees
PPPs	Public Private Partnerships
PRSP	Poverty reduction Strategy Paper
PSD	Private Sector Department
PSEM	Public Sector and Economic Management
PSO	Private Sector Operation
RISPs	Regional Integration Strategy Papers
RMCs	Regional Member Countries
RMF	Results Monitoring Framework
RWI	Revenue Watch Institute
SADC	Southern African Development Community
SAIs	Supreme Audit Institutions
SMCC	Senior Management Coordinating Committee
SOEs	State Owned Enterprises
STRG	Strategy Department
SWFs	Sovereign Wealth Funds
RMCs	Regional Member Countries
TYS	Ten Year Strategy
UA	Unit of Account
UEMOA	The West African Economic and Monetary Union
UNCAC	United Nations Convention against Corruption
WAEMU	West African Economic and Monetary Union

EXECUTIVE SUMMARY

1. Background: The Governance Strategic Direction and Action Plan, 2008-2012 (hereafter referred to as GAP I), provided the overall direction for the Bank Group governance work in its regional member countries (RMCs) since 2008. GAP I focused on strengthening policies and institutions towards increased effectiveness, transparency, and accountability in the management of public resources; and improving the investment and business climate for private sector-led growth. Bank Group's interventions were undertaken at the country, sector and regional levels. The specific needs of fragile states, low income countries (LICs), and middle income countries (MICs) were taken into account.

2. Why a new Governance Strategy now? GAP I, which guided the Bank Group governance interventions in RMCs since 2008, came to an end in December 2012, thus necessitating the preparation of the successor Governance Strategic Framework and Action Plan (hereafter referred to as GAP II), to guide future Bank Group governance interventions. A new Bank Group's Strategy for 2013-2022 (hereafter referred to as the Ten Year Strategy – TYS), was approved by the Boards in April 2013. The TYS puts the Bank at the center of Africa's transformation and is built around five core operational priorities, including Governance and Accountability (G&A), three areas of special emphasis, and twin objectives namely, achieving inclusive growth and transition to green growth (see Figure 1). Consequently, it has become imperative to align the Bank Group governance work in RMCs with the strategic thrust of the TYS, and to take into account Africa's emerging governance challenges and opportunities.

3. Over the past decade, Africa has been undergoing economic and social transformation, with sustained economic growth, more peaceful transition of power through democratic elections; and an increase in the middle class who pay taxes and demand improved services. Revenues from natural resources, inflows from remittances and Foreign Direct Investment (FDI) vastly dwarf aid. Increasingly, Africa is getting to a position where it can mobilize and use its own resources for transformational growth, but needs a strong governance framework to put the resources into effective use, consistent with the demands and expectations of its people. Furthermore, the Bank is mainstreaming governance into all its operations, thus necessitating a new approach to the Bank Group governance work in RMCs. In this regard, GAP II adopts a “One Bank” approach, involving cross-departmental and cross-complex collaboration to ensure effective delivery of the Bank's governance work in RMCs. In line with this “One Bank” approach, GAP II has been elaborated by a cross-complex multi-disciplinary team, with the Governance, Economic and Financial Management Department (OSGE) coordinating the preparation and consultation process.

4. Strategic Platform for GAP II: The TYS, with its twin objectives of inclusive growth and gradual transition to green growth together with its Governance and Accountability (G&A) core priority area, provides the strategic platform for GAP II. Inclusive growth and governance are closely intertwined and complement each other in a virtuous circle by maintaining buoyant growth rates through prudent macroeconomic policies; broadening the inclusion of citizens through access to economic opportunities and provision of public services; and bolstering voice and accountability. The TYS articulates the green growth agenda along three prongs: managing natural assets efficiently, promoting sustainable infrastructure, and building resilience. GAP II will support the green growth agenda through its work streams on the governance of sustainable infrastructure and natural resources.

5. Vision, Core Objectives, and Strategic Pillars: The vision of GAP II is: “Africa governed by transparent, accountable and responsive governments and strong institutions, capable of driving inclusive and sustainable growth”. GAP II has three core objectives: (i) strengthening Governments' capacity for transparent and accountable use of public resources and

citizens' ability to hold Governments to account; (ii) improving outcomes in the sectors and citizen's' ability to monitor them; and (iii) promoting a business enabling environment which supports Africa's socio-economic transformation, job creation and financial inclusion. A cross cutting objective supporting these three core objectives is reducing corruption in both the public and private sectors. The Strategy is built around three pillars: (i) public sector and economic management (PSEM), (ii) sector governance, and (iii) investment and business climate; and three cross-cutting issues: anti-corruption, gender, and regional integration.

6. Within the work streams (operational programmes) of these three strategic pillars, the Bank will build on the achievements of GAP I in the areas of PFM, BEE and sector governance. Enhanced focus will be put on regional integration by mainstreaming it in all the three strategic pillars. New work streams, based on country and sub-regional demands, will be pursued in the context of the three GAP II strategic pillars, and will reflect the principles of selectivity and comparative advantage. In implementing GAP II, the Bank will: deepen diagnostic work to ensure that the drivers and impediments to reforms are understood and risks are mitigated; pay attention to behavioral and political economy dimensions of reform implementation; step up policy dialogue and advice; emphasize capacity building across the three pillars; and focus on outcome indicators. The Bank will also give consideration to environmental and climate change governance in the context of the natural resource governance and the green growth agenda of the TYS.

7. **Implementing GAP II:** The strategy will be implemented in the context of the "One Bank" approach and the "Decentralization Road Map". The "One Bank" approach will necessitate a collective cross-departmental effort in mainstreaming governance across all Bank operations. Thus, while the governance agenda will be led by the Governance, Economic and Financial Management Department, delivery of results across the three pillars, will depend on input from all

departments implementing governance operations. The implementation of the Decentralization Roadmap will further bring the Bank closer to its clients, enhance policy dialogue and facilitate responsiveness and feedback. This implementation modality has implications for the current organizational structure (in both OSGE and Bank wide); ownership; financial resources; staffing and capacity development; Bank-wide capacity building and awareness program; monitoring and evaluation; and strategic partnerships. The Bank will use a wide range of lending and non-lending instruments and explore flexible and innovative approaches in implementing GAP II based on country and regional contexts and circumstances.

8. **Policy Dialogue** is important as an enabler of reforms and an essential tool for sustainable development. It enables the Bank to engage with its RMCs on a continuous basis and to understand their development challenges and reform priorities. The Bank Group franchise value as a "preferred and trusted" partner, in view of its African character, gives it legitimacy to act on issues affecting Africa and in engaging RMCs in sensitive governance policy dialogue. To this end, in implementing GAP II, the Bank, through its field offices, will step up country level governance policy dialogue. To give proper guidance to staff on how to approach the critical issue of governance and policy dialogue, specialized training will be organized for staff. This regular country level policy dialogue will be complemented with occasional high level dialogue conducted by the Bank's Senior Management with the RMCs' political leadership and senior policymakers. In particular, there is a need for serious high level governance policy dialogue on challenges holding African countries back from transformational and inclusive development, despite their high real growth rates. To provide a robust knowledge base for these engagements, the Bank will step up upfront analytical work to solidly understand the contexts, including the political economy dimensions, to inform CSPs, RISPs, BPOs, and policy dialogue. In this regard,

the Bank will invest in strengthening staff capacity to conduct political economy analysis, building on good practices and lessons learned from other agencies.

9. **Risks and Mitigating Measures:** There are several risks that could potentially impact the effective implementation of GAP II. They include financial, government commitment, implementation, capacity and operational risks. Management of these risks will be an iterative process, with new risks identified, assessed, prioritized, and dealt with throughout the duration of the implementation of the Strategy.

10. **Conclusion and Recommendations:** GAP II lays out the strategic direction of the Bank's governance work in RMCs over the period 2014-2018, embraces the principle of "One Bank approach" and benefitted from wide ranging external consultations with the Bank's various stake holders.

11. The Boards are requested to approve this Governance Strategic Framework and Action Plan, covering the period 2014-2018.

1. INTRODUCTION

1.1 Governance can be defined as a set of institutions, processes, policies, laws, and behaviours that affect the manner in which power is exercised in the management of a country's economic, financial and social resources across the public, private and non-state sectors. Therefore, to secure positive outcomes, governance requires effective involvement of the public, private and non-state actors (the civil society, media, business associations, women groups and the youth etc.) in the affairs of the state. Good governance is a nation's safeguard to ensure sustainability of development and to secure inclusion. The Bank Group's Good Governance Policy adopted in 1999 specified five core principles namely: transparency, accountability, participation, anti-corruption, and rule of law. Although these core principles remain valid, the policy itself needs to be updated to reflect Africa's emerging governance challenges. The Bank will therefore develop a new Governance Policy in advance of the preparation of GAP III in 2018.

1.2 The Bank Group's Governance Strategic Directions and Action Plan, 2008-2012 (GAP I), was adopted in 2008 to guide the Bank's governance work in its Regional Member Countries (RMCs). Using a combination of programme based operations (PBOs), institutional support projects (ISPs), technical assistance, economic and sector work (ESW), policy dialogue and advisory services, the Bank has emphasized economic and financial governance in RMCs. In this context, GAP I focused on Public Financial Management (PFM) and the Business Enabling Environment (BEE), addressing these issues at three levels – country, sector and regional. The specific needs of fragile states, low income countries (LICs), and middle income countries (MICs) were taken into account.

1.3 The successor Bank Group's Governance Strategic Framework and Action Plan, 2014-2018 (GAP II), will leverage other Bank Group's thematic and sector policies, strategies, and framework papers. These include the: TYS, Policy on Program Based Operations (PBO), Policy on Disclosure and Access to Information (DAI), Energy Sector Policy, Private Sector Development Policy, Private Sector Development Strategy, Agricultural Development Strategy, Urban Development Strategy, Regional Integration Strategy, Financial Sector Strategy, Anti-Money Laundering Strategy, Climate Risk Management and Adaptation Strategy, Gender Strategy, Green Growth Framework, Civil Society Engagement Framework, the Gender Responsive Budgeting Framework, and the upcoming Human Capital Strategy and the strategy for addressing fragility and building resilience in Africa¹. GAP II embraces a "One Bank approach" and involved wide ranging consultations with various stakeholders (See Annex 5)

2. THE CONTEXT OF THE NEW GOVERNANCE STRATEGY

Why a new Governance Strategy now?

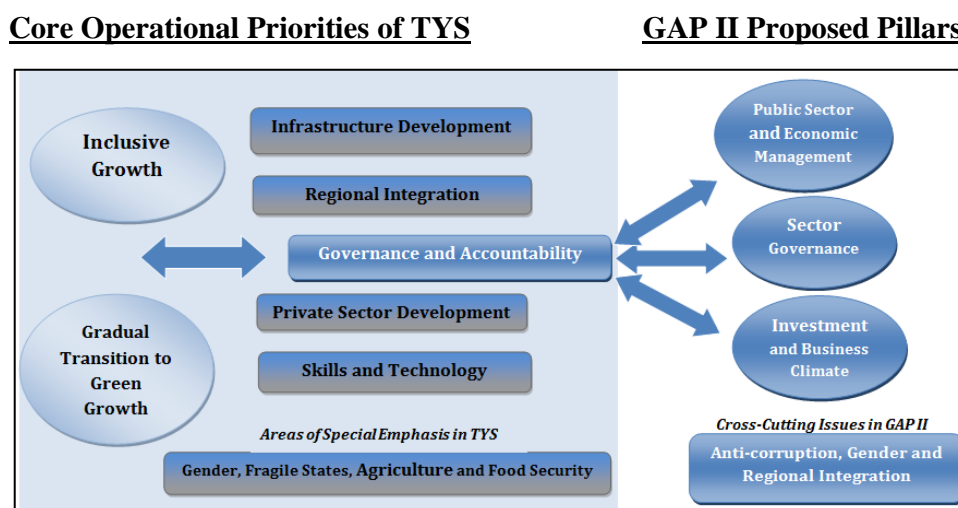
2.1 GAP I, which guided the Bank Group governance interventions in RMCs since 2008, came to an end in December 2012, thus necessitating the preparation of the successor Governance Strategic Framework and Action Plan (GAP II), to guide future Bank Group governance interventions. A new Bank Group's Strategy for 2013-2022 (TYS), was approved by the Boards in April 2013. The TYS puts the Bank at the center of Africa's transformation and is built around five core operational priorities, including Governance and Accountability (G&A), three areas of special emphasis, and twin objectives namely, achieving inclusive growth and transition to green growth (see Figure 1). Consequently, it has become imperative to align the Bank Group governance work in RMCs with the strategic thrust of the TYS, and to take into account Africa's emerging governance challenges. Thus, the TYS provides the strategic platform for GAP II, which is designed to operationalize its G&A agenda.

2.2 **Over the past decade, Africa has been undergoing a significant transformation process**, with sustained economic growth, more peaceful transition of power through democratic elections; and an increase in the middle class who pay taxes and demand improved services. Revenues from natural resources, inflows from remittances and Foreign Direct Investment (FDI) vastly dwarf aid flows. Increasingly, Africa is in a position to mobilize and use its own resources for transformational growth, but needs a strong governance framework to put them into effective use consistent with the demands and expectations of its people. The Bank is mainstreaming governance into all its operations, thus necessitating a new approach to the Bank's governance work in RMCs. In this regard, GAP II

¹ Addressing Fragility and Building Resilience in Africa: The African Development bank Group's Strategy 2014-2019.

adopts a “One Bank” approach, involving cross-departmental and cross-complex collaboration to ensure effective delivery of the Bank Group governance work in RMCs. In line with this “One Bank” approach, GAP II has been elaborated by a cross-complex multi-disciplinary team, with OSGE coordinating the preparation and consultation process. Members of this Inter-Departmental Working Group (IDWG), cover 20 Bank’s departments/units, and contributed 20 sector and thematic briefing notes, which informed the preparation of this document. Figure 1 presents the core elements of the TYS and the governance and accountability dimension.

Figure 1: The Bank Group’s Strategy for 2013-2022 and the Governance and Accountability Dimension



Source: Adapted from the Bank Group’s Strategy for 2013-2022.

2.3 **Inclusive growth and governance** are closely intertwined and complement each other in a virtuous circle by:

- **Maintaining buoyant growth rates at the country and regional levels through prudent and effective macroeconomic policies**, including robust fiscal policy, tax policy and administration that mobilize resources in a sustainable manner; expenditure frameworks and sound public investment programs that facilitate productive investments; and strong financial sector surveillance.
- **Broadening the inclusion of citizens by improving the BEE and providing public services**. This includes improving the business enabling environment (BEE); removing barriers to the growth of micro, small and medium enterprises (MSMEs) and strengthening their integration with larger enterprises; and improving financial inclusion for MSMEs and households (including access to credit, payments and savings services, as well as the quality and affordability of these services). It also includes reform of legislations restricting women’s business opportunities and access to property and justice; promoting youth employment; building social safety net programs to reduce vulnerability (e.g., to women, youth, and people living with disabilities); broadening economic opportunities in fragile states; and ensuring broad-based access to quality education and health services. The Bank will also not lose sight of other social groups frequently disenfranchised, such as ethnic and cultural minorities.
- **Bolstering voice and accountability**: Particularly, where accountability channels in service delivery are weak, basic services provided may be sub-optimal. Strengthening voice and demand-side accountability is therefore critical for reducing opportunities for corruption and for effective policy performance. Putting recipients and beneficiaries at the center of policy and project/program implementation is the main principle for improving voice and accountability. Creating an enabling environment for civil society to operate, including capacity to hold government to account, will strengthen demand-side accountability and the capacity of states to engage in productive investments that meet the citizens’ demands.

2.4 **Green growth and governance**: The working definition of green growth provided by the Bank is: “The promotion and maximization of opportunities from economic growth through building resilience, managing natural assets efficiently and sustainably, including enhancing agriculture productivity and promoting sustainable

infrastructure”². In line with this definition, the TYS articulates the green growth agenda along three prongs: managing natural assets efficiently, promoting sustainable infrastructure, and building resilience. Since Africa’s ecological footprint (aggregate demand on natural resources) is small, though increasing³, GAP II work streams will focus on both mitigation and adaptation measures and will be informed by the Bank Group’s Climate Risk Management and Adaptation Strategy (CRMA), especially its pillar 2 activities (Box 1). It will also take into account the new Bank Group’s Green Growth Framework, which includes policies and measures on sustainable land management. GAP II work streams on sustainable infrastructure and natural resources governance will support the transition to green growth objective. The innovative theme of “building sustainable cities” to manage risks and opportunities in the African mega and secondary cities will also support an integrated but geographically selective green growth agenda.

Box 1: Bank Group’s Climate Risk Management and Adaptation Strategy (CRMA)

The Bank Group’s support to environmental and climate change governance is guided by its CRMA, approved by the Board in 2009. The objectives of the Strategy are to reduce vulnerability and promote climate resilience in Bank-financed development investments making them more effective; and to build capacity and knowledge within the RMCs to address the challenges of climate change and ensure sustainability through policy and regulatory reforms. The Strategy is built around three pillars namely climate proofing; policy, legal and regulatory reforms; and knowledge generation and capacity building. The **climate proofing pillar** supports RMCs to ensure climate resilience of their development investments so as to promote increased adaptation to climate change and ensure resilience to extreme events (e.g., warmer temperatures, stormy conditions, torrential rains and floods, etc.). The **policy, legal and regulatory reforms pillar** consists of four activities namely: (i) Support mechanisms to prevent and reverse land degradation and promote afforestation, and sustainable land use practices; (ii) Designing and mainstreaming climate risk management strategies into sector policies, as well as implementing institutional reforms for enhanced performance; (iii) Establishing anti-pollution standards for African rivers, basins and lakes, as well as strengthening trans-boundary cooperation in the management of freshwater resources; and (iv) strengthening regulatory oversight over extractive industries, particularly in the case of oil, gas, and precious stones industries. The **knowledge generation and capacity building pillar** includes support for building climate information systems, and strengthening RMCs’ capacity in climate change issues and helping them in accessing climate change multilateral and bilateral resources. The Bank has prepared a Comprehensive Action Plan to implement the strategy, involving investments amounting to US\$ 8 billion up to 2015, to be sourced internally from Bank’s resources and from contributions by multilateral and bilateral institutions, and the private sector.

Source: African Development Bank: Climate Risk Management and Adaptation Strategy, Tunis, 2009.

Country Differentiation

2.5 GAP II will adopt a differentiated approach to the Bank’s governance work in different country settings. In LICs, emphasis will be on **the support needed to put countries on a path of graduation towards middle income status**. LICs will be supported across a broad range of governance operations, particularly domestic resource mobilization to increase fiscal space in the budget, and measures to foster private sector growth. In MICs, the Bank recognizes that there will be less reliance on external resources to finance governance interventions, but there will be demand for non-lending operations, in the form of **knowledge products, policy dialogue, advisory services, and technical assistance**. To complement these non-lending activities, the Bank will seek to mainstream governance in sectors where governments plan to make significant investments on the basis of their domestic priorities. Also, the private sector will continue to benefit from the Bank’s non-sovereign lending and interventions to improve the business enabling environment. In fragile states, interventions will reflect the priority given to fragile states in the TYS and will support the upcoming strategy on: “Addressing Fragility and Building Resilience in Africa: The African Development Bank Group’s Strategy 2014-2019”, which was informed by the findings and recommendations of the High Level Panel on Fragile States⁴.

Lessons learnt from GAP I and Past Governance Operations

2.6 A review of the implementation progress of GAP I, concluded in 2012, revealed that economic and financial governance had become a priority area of Bank Group’s support to RMCs. The summary of the findings of the progress review is presented in Annex 6. The key areas of focus of GAP I: PFM, BEE and mainstreaming governance in sector operations remain relevant for GAP II, and provide the selectivity basis for moving forward.

² Green Growth Team and African Development Bank (2013). African Development Report 2012: Towards Green Growth in Africa

³ According to WWF and AfDB’s Africa Ecological Footprint Report: “Green Infrastructure for Africa’s Ecological Security” (2012), Africa’s ecological footprint increased by 240% between 1961 and 2008.

⁴ AfDB (2004): High Level Panel on Fragile States - Ending Conflict and Building Peace in Africa: A call for Action

The lessons learnt from the review of GAP I, OPEV evaluations, and the Bank Group governance work in general, have informed the design of GAP II and will also guide its implementation. These lessons include the need to:

- Strengthen diagnostics and analytical work to improve the quality of programming and guide policy dialogue at the country and regional levels;
- Increase the focus on results and re-assess the results framework;
- Pay better attention to mainstreaming of governance in sector operations; and enhance cross-sector collaboration to better address governance issues at the sector level, particularly through PBOs, and ensure stronger engagement in sector policy dialogue;
- Ensure stronger engagement in policy dialogue through more knowledge products and decentralization of expertise for ongoing dialogue with RMCs' governments;
- Refine the approach to institutional support projects (ISPs) to better ensure sustainability of capacity building, building capacity in time for the arrival of BPO funds, enhancing the linkage to wider public sector reforms, including engaging with local, indigenous and regional organizations for capacity building; and taking steps to ensure more efficient implementation;
- Emphasize mainstreaming gender equality in governance operations; and
- Develop strategic partnerships and strengthen current engagements, particularly at the regional and global levels, and determine where the Bank can play a leadership role.

2.7 A general lesson from governance in Africa is the critical importance of **political governance and transformational leadership** for economic progress, as conflicts and fragility in RMCs can be exacerbated by weak leadership and political governance. Across the continent as a whole, there have been trends towards democratically elected governments, but democratic institutions and consensus politics remain weak. Also, there is the need to improve the implementation of the charters⁵ of the African Governance Infrastructure of the African Union (AU) aimed at improving political governance at country level. Although the Bank has no political governance mandate, it is conscious of the negative consequences of weak political governance and leadership for economic progress. Capitalizing on its franchise value as a “trusted and preferred” partner by RMCs, the Bank will step up engagements in policy dialogue as an important instrument for addressing political governance and leadership challenges in Africa, with emphasis on high level policy dialogue involving Bank’s Senior Management and field offices. Analytical work on political economy dimensions will be undertaken to strengthen CSPs, RISPs, PBOs, and policy dialogue engagements. In conformity with the new PBO Policy and Guidelines, the Bank will continue upfront assessment of political stability as a general pre-requisite for PBOs. The Bank will also strengthen collaboration with institutions that have direct political governance mandate. In this regard, the Bank will intensify its strong engagement with the African Peer Review Mechanism (APRM) and collaborate with the African Union Commission (AUC) in assessing the implementation of the various AU charters at country level, as well as by being “at the table” when Africa’s political governance and leadership challenges are being discussed, using its role as a “trusted broker”⁶.

Building on the Achievements of GAP I

2.8 GAP II will build on the achievements of GAP I by deepening interventions in the areas of PFM, and the BEE. Regional integration will be given enhanced focus across all the GAP II strategic pillars in collaboration with Regional Economic Communities (RECs), while sector governance will also receive enhanced focus. In improving on the implementing of GAP I, the Bank will step-up diagnostic works to ensure that the drivers and impediments to reforms are understood and risks mitigated; deepen policy dialogue and advisory services; **emphasize capacity building support across all the three GAP II pillars** while building greater synergy with PBOs and investment projects; invest in IT solutions to strengthen e-governance, and better focus on results with emphasis on outcome indicators. **The core emerging issues of environmental and climate change governance will also be addressed in the context of work in the infrastructure and natural resources management** to promote the green growth objective.

⁵ Examples are Charter on Democracy and Governance, Charter on Prevention and Combating Corruption, and Charter on Capable Public Services Delivery.

⁶ The Bank could also co-sponsor these events with strategic partners who have direct political governance mandate.

2.9 New work streams, based on country and regional demands, will be undertaken in the context of the GAP II strategic pillars but will reflect the principles of selectivity and comparative advantage. For example, work on the rule of law and judicial reform will be undertaken to support results in improving business enabling environment (e.g., improving contract enforcement and/or dispute resolution) and strengthening inclusiveness (e.g., improving gender equality especially women's legal/property rights and access to justice). Also, work on reform of state-owned enterprises (SOEs), will support results in sector governance (e.g., energy utilities) or in the financial sector (e.g., DFIs). Governance activities will also leverage the platform offered by the partnerships acquired and lessons learnt from the Bank's private sector portfolio to enhance broader private sector policy dialogue.

3. THE BANK GROUP'S GOVERNANCE STRATEGIC FRAMEWORK AND ACTION PLAN (2014-2018)

3.1 The orientation of GAP II is informed by lessons learned from implementing GAP I, review of the current governance challenges in Africa, the core operational priorities of the TYS and other recent Bank Group's strategies, Bank-wide consultations, guidance by Senior Management and the Board, and input from external consultations.

Vision and Core Objectives

3.2 The vision of GAP II is: "Africa governed by transparent, accountable and responsive governments and strong institutions, capable of driving inclusive and sustainable growth". The Strategy has three core objectives: (i) Strengthening Governments' capacity for transparent and accountable use of public resources and citizens' ability to hold Governments to account; ii) Improving outcomes in the sectors and citizens' ability to monitor them; and (iii) Promoting a business enabling environment, which supports Africa's socio-economic transformation, job creation and financial inclusion. A cross cutting objective supporting these three core objectives is reducing corruption in both the public and private sectors.

Bank Group Positioning

3.3 The Bank Group's comparative advantage in supporting governance in Africa derives from a number of factors including: (i) Its African character, which makes it a "trusted and preferred" partner and gives it legitimacy to act on issues affecting Africa, and in having access and reach into sensitive governance dialogue in view of its strong relationship of trust with partner countries; (ii) Strong convening power, which is increasingly being acknowledged by African leaders and globally, thus the Bank has become a convener of knowledge and peer learning, as well as an advocate for driving solutions suited to the specific needs of the continent; (iii) Special mandate on governance by African leaders; (iv) Its role as a partner in a wide range of regional initiatives such as the APRM and the African Mining Vision (AMV), (v) A track record in supporting economic and financial governance activities and institutional infrastructure development across Africa; (vi) Its renewed emphasis on support to natural resources management (NRM) and its perceived credibility in providing independent advice on contract negotiation and other NRM issues; (vii) Its local presence, across the continent, being strengthened by the Decentralization Roadmap, which enables the Bank to develop first-hand knowledge of Africa's governance challenges and its political economy dynamics; and (viii) Its experience and record in non-sovereign operations (NSOs), which allow it to draw lessons from its investment operations to inform policies for BEE, and engage private sector entities and actors (both domestic and foreign) on policy dialogue on private-sector related governance issues at national and regional levels. In view of its positioning, the Bank has demonstrated a track record of improving governance in Africa, especially in fragile states, and in providing a rapid response to RMCs in crisis especially during the 2008-2009 global economic recession.

Guiding Principles

3.4 In supporting the vision and objectives of GAP II, in addition to **conformity with the strategic thrust of the TYS** which is mandatory, the Bank will be guided by the following principles:

- *Selectivity*: will be applied at two levels: upstream, in selecting the activities outlined in this strategy, by assessing the division of labor among development partners and areas in which the Bank has an established track record, e.g. PFM and BEE; and downstream, allowing RMCs to identify the areas of activities that best fit their needs through a programming process driven by alignment between National Development Plans and Country Strategy Papers.

- *Country and regional ownership:* Country and regional initiatives and commitment to reforms will be critical for sustainable results. In this context, the Bank's governance interventions will be responsive to country and regional demands.
- *Synergy with the rest of the Bank's portfolio:* Governance operations will aim to complement existing or new investment projects. By addressing broader bottlenecks and fiduciary risks, governance operations can be an enabler for the achievement of results in other Bank Group's operations.
- *Focus on results:* The Bank's governance operations will be results-oriented with focus on development outcomes, informed by the One Bank Results Measurement Framework (RMF).
- *Coordination and complementarity with other donors:* In line with the principles of the Paris, Accra and Busan Declarations, the Bank will work with RMCs and other partners to build synergies in donors' governance interventions in RMCs. This is particularly important in fragile states which have weak capacity.

Strategic Pillars and Core Activities

3.5 Consistent with the Governance and Accountability core priority of the TYS, GAP II is built around three strategic pillars and a set of mutually reinforcing activities. The pillars are public sector and economic management (PSEM); (ii) sector governance; and (iii) investment and business climate. The three pillars constitute the building blocks towards the vision of transparent and accountable governments able to meet the twin objectives of inclusive growth and transition to green growth of the TYS (Table 1). In arriving at these three pillars and corresponding work streams, the Bank has followed due process spanning the mid-term review of GAP I, the review of key governance challenges in Africa, preparation of thematic and sector notes, and internal and technical consultations undertaken with key stakeholders. During the strategy implementation stage, further prioritization will be undertaken by applying the selectivity principle (paragraph 3.4), taking into account individual country and sub-regional needs. The Bank will also pay close attention to behavioral change and the political-economy contexts in which the strategy will be implemented.

Table 1: Strategic Orientation of GAP II (2014-2018)

VISION			
Africa governed by transparent and accountable governments and strong institutions capable of driving inclusive and sustainable growth.			
CORE OBJECTIVES			
(i) Strengthening Governments' capacity for transparent and accountable use of public resources and citizens' ability to hold Governments to account (ii) Improving outcomes in the sectors and citizen's' ability to monitor them; (iii) Promoting a business enabling environment which supports Africa's socio-economic transformation, job creation and financial inclusion.			
A cross cutting objective supporting these three objectives will aim to reduce corruption in both the public and private sectors.			
PILLARS			
	1. Public Sector and Economic Management	2. Sector Governance	3. Investment and Business Climate
EXPECTED OUTCOMES	Improved core governance systems for the management of public resources; (measured by indicators including: real GDP growth, CPIA, IIAG, open budget index, and statistical capacity Index)	Improved natural resources management, institutional infrastructure, and basic services delivery supporting inclusive and green growth; (measured by indicators including the Resource Governance Index, Infrastructure Development index, and Human Development Index.	An enabling business climate supporting green investment and the development of business enterprises and job creation; trade facilitation; and decline in illicit financial outflows; (measured by indicators including Global Competitiveness Index, Doing Business indicators, and Logistics Performance Index).

OUTPUTS	Robust policy, legal and institutional framework and implementation capacity for PFM; increased domestic resources; improved debt management; and Improved databases supporting better policy, strategy, planning; and results measurement.	Increased revenues from natural resources for driving infrastructure development and improved economic linkages with other sectors; Better managed infrastructure projects; and more transparent and accountable delivery of basic services.	Improved policy, legal and regulatory frameworks for private sector interventions across sectors, including improved financial infrastructure supporting the growth of the private sector.
MAJOR WORKSTREAMS	Deepening PFM systems at central and sub-national government levels; Strengthening IT solutions (such as e-governance, e-procurement, and e-justice); Strengthening oversight institutions and demand-side governance; and Strengthening statistical capacity and evidence based policy, planning, monitoring and evaluation, and results measurement.	Strengthening transparency, accountability, and value chain development in NRM; reducing mispricing and illicit financial flows in NRM; strengthening PPP policy, legislation and regulatory frameworks for infrastructure development; and improving fiduciary standards including anti-corruption practices in infrastructure, NRM and basic services delivery, e.g. through e-procurement.	Support to enabling environment for private sector development and green investments; Strengthening trade facilitation through improved logistics efficiency including coordinated customs management and integrated IT systems; Support to SMMEs' development, access to credit and job creation especially for women entrepreneurs; Strengthening financial infrastructure and regulatory framework; tackling money laundering, illicit financial flows, and recovery of stolen assets.
CROSS-CUTTING ISSUES	Anti-corruption; gender; and regional integration.		
NON-LENDING OPERATIONS	Knowledge products (ESW); policy dialogue and advisory services		
KEY INSTRUMENTS	Program based operations; institutional support projects and technical assistance.		

Pillar 1: Public Sector and Economic Management

3.6 Public sector and economic governance have improved overtime in Africa. Key findings of the 2013 Mo Ibrahim Index of African Governance (IIAG) revealed that many RMCs have experienced overall governance improvement since 2000. Most improvement has been seen in human development and sustainable economic opportunity and, to a lesser extent, participation and human rights; but safety and rule of law remain a major concern, having seen average deterioration since 2000. Many RMCs have also taken steps to improve their fiscal frameworks and public financial management (PFM) systems, and there is increasing awareness of the importance of demand-side accountability⁷. Many RMCs now have sound PFM legal and policy frameworks, as well as requisite PFM institutional structures⁸. The credibility of national budgets has improved, while debt management and revenue collection are also improving. External oversight institutions such as Supreme Audit Institutions (SAIs), Parliamentary Public Accounts Committees (PACs) or other parliamentary alternatives, Civil Society Organisations (CSOs) and other non-state actors, such as the media and business associations, are becoming increasingly active in many RMCs.

3.7 Improved economic governance has also supported Africa's robust economic growth. For over a decade (2000-2012), Africa has sustained an average annual real GDP growth rate of over 5%. Due to the 2008-2009 global economic and financial crisis, real GDP growth rate fell to 3.1% in 2009. Africa has since staged a robust recovery with real GDP growth rate reaching 6.6% in 2012 and 4.8% in 2013⁹, despite the persistent slowdown in the global economy (see Annex 7). Seventeen African countries maintained real growth rates of 6% and above in both 2012 and 2013, making Africa the fastest growing region globally¹⁰.

⁷ In this document, demand side governance refers to the ability of citizens, CSOs and other non-state actors to hold the state accountable and make it responsive to their needs.

⁸ For example, Botswana, Mauritius, Namibia and South Africa have high quality PFM systems and overall governance

⁹ Libya's real GDP growth rate of 59.5% in 2012 was an outlier, up from -57.7% in 2011 when the country experienced a serious crisis. The decline in the growth rate to 15% in 2013 is a major explanation for the lower Africa's average real growth rate in 2013.

¹⁰ AfDB, OECD and UNECA: African Economic Outlook, 2013.

KEY CHALLENGES

3.8 Despite recent achievements, there are still significant challenges to be addressed:

- **When assessed across its various dimensions, PFM still presents a mixed picture.** While some achievements have been made in reforming legal and regulatory frameworks in line with good practice, implementation of rules and processes has been lagging behind. Expenditure controls and internal audit functions are also still weak in many countries, e-governance is at rudimentary state; while reforms to laws and procedures have not always translated into improved performance, with enforcement of national procurement laws still a major challenge due to capacity constraints and lack of political will in some cases. Many countries depend on external aid and have limited capacity for domestic resource mobilization. At the sub-national level of government (including municipalities and secondary cities), the PFM challenges are more pressing given their weak frameworks and implementation capacity. At the same time, as a result of decentralization, local entities are assuming increasing responsibilities for service delivery in many RMCs. Service delivery systems need to be strengthened as the prevailing regressive systems penalize the poor who sometimes have to pay bribes to obtain basic social services.
- **Formal accountability mechanisms and demand-side governance remain weak:** In many countries, the capacity of parliamentarians to effectively engage the executive arm of government is limited due to inadequate backup support (in terms of clerical and research officers); while the independence of SAIs is not always assured and follow up on their recommendations is often not undertaken. CSOs, media and business associations often lack authority and/or capacity to operate effectively in many countries due to the unfavourable enabling environment, poor coordination, limited access to public information, and inadequate analytical and staffing capacity.
- **Growth is not inclusive enough and inequality is high:** Strong economic growth has made some impact on poverty reduction but growth is not equally shared. Though the proportion of the population living below the poverty line (US\$1.25 a day) declined from 51% in 2005 to 37% in 2012¹¹, Africa's poverty incidence is still about 17% higher than the average for other developing countries (Annex 8), and Africa's average Gini index in 2012 remained high at 46%. Thus, implementation of PRSPs/NDPs has not met the expectation of deep poverty reduction as poverty and inequality remain widespread in many RMCs and many are unlikely to achieve the Millennium Development Goals (MDGs) by 2015. High youth unemployment and limited economic opportunities for women have further worsened the poverty situation.
- **Africa also still faces knowledge and evidence gaps to inform policy development and planning.** Although a recent Bank study has demonstrated improvements in African statistics, especially GDP figures, the study also affirms the weak statistical capacity challenges in RMCs¹². Policy formulation remains weakly grounded in evidence, with sector programs often not linked to available resources and monitoring and evaluation systems. Going beyond GDP figures, more efforts are needed to build robust databases in all sectors to improve policy and strategy formulation; planning, programming and budgeting; and provide reliable data for poverty assessment, monitoring and evaluation, and results measurement.

OPERATIONAL PROGRAMME

3.9 Working with partner governments, other development partners and organizations as necessary, the Bank's PSEM interventions in RMCs will prioritize PFM at national and subnational levels, including strengthening domestic resource mobilization, formal accountability mechanisms, and demand-side governance. Building stronger statistical capacity to provide the evidence base for planning, policy making, monitoring and evaluation, and results measurement, will also receive equal priority. Essentially, these PSEM work streams, will help promote the five core governance principles namely: transparency, accountability, participation, anti-corruption, and rule of law. Table 2 presents the Bank Group operational programme for Pillar 1.

¹¹ African Development Bank, Annual Development Effectiveness Report (ADER) 2013, page 13

¹² African Development bank: *Situational Analysis of the Reliability of Economic Statistics in Africa -Special Focus on GDP Measurement, 2013.*

Table 2: Policy Targets and Operational Programme for Pillar 1		
Policy Targets	Areas of Bank Group Programme	Comments
1.1. Strengthening macroeconomic management and deepening PFM systems at the national level.	<ul style="list-style-type: none"> Strengthen macro-fiscal framework; Promote open budget system as a pre-condition for stronger budget transparency and demand-side accountability; Strengthen accounting and reporting; Strengthen expenditure control and internal audit function; Improve enforcement of national procurement laws including support for e-procurement; Strengthen capacity for implementing PFM reforms; Strengthen gender responsive PFM reforms (e.g., gender budgeting); and Strengthen IT solutions (e-governance) 	The state-building aspect of PFM reform will be emphasized in fragile states. The Bank's continued support to the collaborative Africa Budget Reform Initiative (CABRI) will enhance PFM capacity building through peer learning and best practices. GAP II will emphasize the Good Financial Governance (GFG) approach, which links the technical dimensions of PFM with political economy elements such as political will and culture, networks, incentive structures and institutional capacity building.
1.2. Extending PFM work to the sub-national level	<ul style="list-style-type: none"> Strengthen PFM framework at sub-national level; Support capacity building for implementing PFM reforms at the sub-national level; and Implement PFM dimensions of the Bank Group's Urban Development Strategy (UDS, 2011), specifically its fiscal decentralization, revenue collection, transparency and anti-corruption dimensions. 	The Bank already has some experience and capacity in supporting sub-national governance. Examples are: Ethiopia's Basic Services Program (BSP) focusing on expanding access and improving quality of decentralized basic services; the ISP in Sierra Leone addressing identified weaknesses in the sub-national level PEFA prepared by the Bank; the ISP in Mali focusing on strengthening the decentralization process; and the ISP in DRC supporting domestic resource mobilization in three provinces.
1.3. Strengthening Domestic resource mobilization	<ul style="list-style-type: none"> Support the reform of RMCs' tax systems; Promote modernization of revenue administration systems including automation of the systems; and Strengthen non-tax revenue collection especially in the area of automation of customs revenue administration, given that customs are a major source of non-tax revenue in RMCs. 	The Bank will continue to support the African Tax Administration Forum (ATAF) to strengthen networks and assist RMCs to build capacity in tax administration through peer learning. Better management of natural resources will minimize mispricing and illicit financial outflows and generate more revenue for RMCs for inclusive growth.
1.4. Strengthening formal accountability mechanisms, and demand-side governance	<ul style="list-style-type: none"> Strengthen capacity of independent integrity and oversight institutions including the Parliament, SAIs, ACAs, judiciary, regulatory institutions, procurement authorities, and licensing agencies. Support IT solutions, such as e-procurement and e-justice, to enhance the performance of procurement agencies and enable the judiciary to improve the rule of law by speeding up the dispensation of justice. Support the capacity building of non-state actors notably CSOs, the media and business associations, with a special focus on women's interest groups. Work with relevant African Institutions and Think Tanks to improve Bank's understanding of CSOs' needs through focused knowledge products. 	Effective performance of oversight functions will improve fiscal performance, transparency and accountability, and financial integrity. It will serve as safeguards against corruption, and highlight specific delivery bottlenecks at the sector level (e.g., through performance audits of sector operations). GAP II will build on the Bank's Civil Society Engagement Framework with the aim of strengthening citizens' engagement with the Government in the policy dialogue space, improving their analytical capacity, and improving voice and accountability.
1.5. Strengthening RMCs' statistical capacity and databases to provide the evidence base for planning, policymaking, monitoring and evaluation, and results measurement.	<ul style="list-style-type: none"> Support RMCs' efforts in reforming their statistical systems; Strengthen RMCs' statistical capacity and databases to generate reliable and up-to-date statistics in the TYS priority sectors; Implement better statistical techniques to measure results more effectively giving consideration to gender, employment, environment and climate change; Deploy ESW for the preparation, guidance and/or review of National Strategies for Development of Statistics (NSDS) in RMCs to meet the inclusive and green growth objectives. Provide evidence base and support for the design of PRSPs/NDPs for inclusive growth and transition to green growth. 	The Bank's Statistical Capacity Building (SCB) program in RMCs, provides the basis for moving forward in this area. The Bank will continue to apply a country-focused approach, working with National Statistics Offices, Research Institutes, African Think Tanks, and other national institutions supporting broad capacity building; and promoting systematic civil society participation, especially in the formulation of indicators, analytical work, and preparation of PSPs/NDPs. In order to be close to its clients, the Bank is progressively deploying its Statisticians to the Regional Resource Centers.

Pillar 2: Sector Governance

3.10 The Bank is mainstreaming governance in its sector operations in RMCs. GAP II will prioritize three key sectors namely, natural resources, infrastructure (energy, transport, agricultural infrastructure, and water and sanitation), and basic services delivery (education, health and social safety nets). This prioritisation is informed by the following factors: (i) natural resources have become a key driver of growth and government revenue in Africa's resource-rich countries and hold high potential for Africa's transformation, if harnessed in the context of a robust governance framework, including close attention to environmental and climate change issues; (ii) infrastructure constitutes over 65% of Bank Group's portfolio in RMCs; and (iii) basic services delivery is an enabler of inclusion and poverty reduction. **Agriculture and food security**, which is a special area of emphasis in the TYS, will also receive attention in governance interventions in specific country contexts¹³, to address vulnerability and exclusion caused by food insecurity.

3.11 There has been some progress in these three sectors during GAP I. In the natural resources sector, a number of RMCs' achieved compliance with the EITI transparency standards¹⁴. RMCs have also recorded some improvements in the area of policies and legislation for natural resource management (NRM), as well as improvements in contract negotiation. The support of the Bank, in collaboration with other development partners and the African Legal Support Facility (ALSF) hosted by the Bank, played a critical role in securing this progress. In the **infrastructure sector**, private sector participation in the provision of infrastructural services (ICT, energy, transport, water and sanitation) has accelerated in Africa over the last decade¹⁵. Particular improvements have been recorded in the ICT sector, where private telecommunications companies have become the major providers of mobile telephone and internet services across Africa; in power generation where participation of Independent Power Producers (IPPs) is becoming significant; and in water and sanitation, where community participation is being encouraged. In the area of **basic services delivery**, the 2013 Mo Ibrahim Index on human development showed dramatic increases in primary school enrolment rates and child vaccinations in many countries.

KEY CHALLENGES

3.12 **Natural resource management (NRM):** The hiatus between the abundance of natural resources and development outcomes in Africa (especially the paradox of poverty and natural resources wealth) has been attributed to poor governance¹⁶. Lack of strong macroeconomic management has left African resource-rich countries vulnerable to the Dutch disease; while weak institutional checks and balances have opened the way for rent-seeking and corruption, which often fuel conflicts and illicit financial outflows. In view of their weak negotiation capacity, information asymmetry, and corruption, RMCs have been unable to receive their adequate share of revenues from natural resources. According to the 2013 Africa Progress Report, Africa lost more resources annually during 2008-2010 through illicit outflows and trade mispricing (US\$63.4 billion) than it received from aid and foreign investments (US\$62.4 billion)¹⁷. Moreover, extractive industries have developed as enclaves with few linkages with the rest of the economy and fail to create a cluster of downstream industries around extractive activities, thus limiting job creation. In many resource-rich African countries, failure to respect the human rights of local communities by oil companies has resulted in the expropriation of local communities and significant negative social and environmental consequences of natural resources exploitation. Companies should have the obligation to contribute to the development of the local communities in which they operate and to sustainable development. The presence of resource rents, matched with grievances of local communities, is a factor driving resource-rich countries towards a situation of fragility and conflict. Unsustainable management of renewable natural resources (land, forests, and bio-diversity resources) results in environmental degradation and aggravates the impact of climate

¹³ For example, the Bank has undertaken a budget support operation in Niger focusing on agriculture and food security.

¹⁴ Out of 25 EITI compliant countries globally, 14 are in Africa. These are Burkina Faso, Cameroon, Cote d'Ivoire, Ghana, Liberia, Mali, Mauritania, Mozambique, Niger, Nigeria, Republic of Congo, Tanzania, Togo and Zambia). Four countries (Chad, Guinea, Sao Tome, and Senegal) are candidates, while the compliant/candidate status of 4 other countries (Central African Republic, DRC, Madagascar, and Sierra Leone) have been suspended.

¹⁵ World Bank's Private Participation in Infrastructure (PPI) database

¹⁶ No resource-rich African countries has been rated "satisfactory" in the Revenue Watch Institute (RWI) Resource Governance Index due to poor governance.

¹⁷ Report of Africa Progress Panel - Equity in Extractives, page 7.

change. Poor management of shared natural resources (such as water, forest and biodiversity resources), also poses significant threat of over-consumption and regional conflict.

3.13 Infrastructure: Apart from challenges due to poor and inadequate physical infrastructure, which have been estimated to reduce economic growth in Africa by 20% per year and cut business productivity by 40%¹⁸, there are specific challenges in the area of “institutional infrastructure”, for example in the energy (see Annex 6, Box 2) and transport sectors. Pressing governance challenges include: weak policy, legal and regulatory frameworks for infrastructure development especially for PPPs; inadequate budgetary provisions for new investments and for operations and maintenance; and corporate governance issues such as political interference in the management of SOEs, weak capacity which limits their efficiency and effectiveness; and lack of transparency, accountability and risk of corruption in procurement activities; all of which affect both the cost and quality of services provided. The Bank Group’s Urban Development Strategy (UDS) has also highlighted the impact of growing urbanization on public infrastructure, resulting in inadequate service delivery and worsening urban poverty. The increasing level of urban pollution, if not addressed, will negatively affect the green growth agenda.

3.14 Basic Services Delivery: There are still severe deficiencies in the quality of basic services in many RMCs, which reduce value for money in services delivery. Often, delivery systems are inefficient and none transparent, resulting in public funds not reaching the direct beneficiaries and households sometimes having to pay illicit charges to obtain services. Such charges represent a regressive tax on the poor, limit social inclusion, and disproportionately affect women and girls and their social and economic empowerment. Also, inappropriate procurement and management processes fuel corruption and inefficiency in services delivery. In addressing these challenges, often due to weak governance and accountability in services delivery, GAP II will support the implementation of the upcoming Bank Group’s Human Capital Strategy (HCS).

OPERATIONAL PROGRAMME

3.15 In order to assist RMCs to deliver visible results for their citizens and support the inclusive and green growth agenda, sector governance will focus on strengthening transparency, accountability and mitigating procurement-related corruption risks in sector operations; while also strengthening policies, legal framework, institutions, processes, and incentives to deliver high quality services to the population. Table 3 presents the Bank Group operational programme for Pillar 2.

Table 3: Policy Targets and Operational Programme for Pillar 2

Policy Targets	Areas of Bank Group Programme	Comments
2.1 Natural resources governance	<ul style="list-style-type: none"> • Support transparency agenda, for example, the new EITI standards, IMF Guide to Resource Transparency, and AMV; • Improve policies, legal, and regulatory framework for sustainable NRM; • Strengthen economic linkages between the natural resources sector and the wider economy to improve value chain development; • Overcome information asymmetry, which limits RMCs’ negotiation capacity, and the climate change information gap; • Strengthen RMCs’ domestic capacity for contract negotiation and minimize corruption, trade mispricing and illicit financial outflows; • Support environmental mitigation measures to alleviate environmental degradation and the negative impact of natural resources exploitation on the host communities; • Pay particular attention to the issue of corporate social responsibility¹⁹ as a social mitigation measure and safeguard against the expropriation of local communities; • Improve management of renewable natural resources (land, 	The way forward for Africa’s resource-rich countries is to take ownership and secure more benefits from their natural resources for better development outcomes, in terms of creating more jobs and generating additional incomes. To this end, the Bank is putting enhanced emphasis on NRM and has recently established an African Natural Resources Center (ANRC), which together with the other relevant departments, will enhance Bank’s capacity to support RMCs in improving NRM and the operationalization of the African Mining Vision (AMV) at the country level. The Bank will pay particular attention to the governance of natural resources in fragile states, with focus on addressing its political economy dynamics. The potential of natural resources to support self-reliance in MICs will also be promoted through knowledge products and advisory services. The Bank will pay attention to audit systems in NRM to make them work more efficiently and serve as safeguards against corruption.

¹⁸ African Development Bank: Private Sector Development Strategy, 2013-2017; July 2013.

¹⁹ One way of doing this is to assist RMCs in developing their Corporate Governance Codes, as the Bank did for Botswana, putting particular emphasis on corporate social responsibility.

	<p>forests, fisheries, and bio-diversity) to reverse environmental degradation; and</p> <ul style="list-style-type: none"> • Intensify technical assistance and advocacy role for regional collaboration in the management of shared and trans-boundary natural resources. 	
2.2. Governance of sustainable infrastructure	<ul style="list-style-type: none"> • Design and implement appropriate infrastructure sector policies, strategies and regulatory framework with special emphasis on energy, road, customs administration and water and sanitation; • Design and implement PPPs' policies, legal, financial and regulatory mechanisms; • Support corporate governance reforms in state-owned infrastructure utilities; • Strengthen fiduciary standards and safeguards to mitigate the corruption risk (especially procurement and cash management) in infrastructure projects • Mandate external oversight of projects/programs implementation by CSOs, communities and beneficiaries to monitor performance and check corruption; • Strengthen regulatory reforms to provide for due process and an evaluation framework for unsolicited bids. 	A key emphasis in the governance of sustainable infrastructure will be to mitigate corruption by promoting transparency and accountability in infrastructure operations. The green growth agenda (for example in the energy sector), will also be promoted through renewable sources. Particular attention will also be paid to "soft" infrastructural issues at the regional level to promote policy convergence and stronger regional integration.
2.3 Governance of basic services delivery.	<ul style="list-style-type: none"> • Promote greater inclusion and efficiency in basic services delivery; • Scale up monitoring mechanisms such as community score cards, information flows and feedback between service providers and users, grievances redress systems, and client satisfaction surveys; • Support reforms to improve value for money in service delivery such as transparent procurement and efficient personnel management, including payroll controls and robust audit systems in the delivery of health and education services; • Improve demand side accountability by strengthening citizens' voice and accountability in monitoring the delivery of basic services; • Mandate CSOs and beneficiary participation in the design and implementation of services delivery projects and programmes, and in monitoring the quality of services delivered to promote inclusiveness. 	Emphasis will be put on strengthening the governance of basic services delivery to ensure that resources allocated to projects/programmes are used efficiently and services are delivered based on the principles of transparency, accountability, value for money, efficiency, responsiveness, and inclusiveness; and that citizens are empowered to demand greater accountability in services delivery.

3.16 In implementing the sector governance work streams, the Bank will put particular emphasis on **public investment management**, at the planning stage, to ensure that: priority investments are identified; adequate budgetary provisions are made for new investments, and operations and maintenance; sector programs fit the national planning priorities and processes; investment plans are properly selected and executed; investment decisions are transparently reported; and beneficiaries oversee the quality of products delivered.

Pillar 3: Investment and Business Climate

3.17 A large and vibrant private sector is an engine of growth and job creation. The 2013 ADER²⁰ showed that, on average, the cost of business start-up in Africa has decreased by more than 60% over the past seven years, while the time required for business start-up has reduced by nearly 50%. Registering properties and securing construction permits have also become more efficient. Countries like Botswana, Ghana, Mauritius, Rwanda, and South Africa are among the leading global reformers. Many countries have taken steps to establish "one stop" shops to provide services to investors, but in some cases, they tend to be "one stop" desks, unable to deal with all the necessary paper work. Many countries have also made progress on reforms of their legal and regulatory frameworks for private sector development (e.g., improved investment codes, taxation and judicial systems for better contract enforcement and resolution of commercial disputes). For the region as a whole, foreign direct investments have increased fivefold since 2000²¹, although a large proportion has been in the extractive industries.

²⁰ African Development Bank, Annual Development Effectiveness Report (ADER) 2013, page 15

²¹ ADER, 2013, page 15

KEY CHALLENGES

3.18 **Although achievements have been made, there are still significant challenges in the investment and business environment in RMCs, which need urgent attention.** Notably, limitations that are inherent in the informal sector such as its underdeveloped status and the lack of linkages with the formal sector, have limited value chain development and employment generation, with youth unemployment constituting 60% of total unemployment in Africa²². This situation has prevented Africa from capturing the demographic dividend of its increasingly better educated youth²³, thus limiting inclusiveness. Poor quality and quantity of skills and skills mismatch²⁴, and restrictions on cross-border movement of labor have also contributed to this development. Africa's infrastructural deficiency (particularly energy, customs administration, transport services, and ICT), imposes high costs on industries and reduces competitiveness²⁵. The financial infrastructure and capital markets essential to support private sector investment and growth are also at nascent stages of development²⁶. The resulting predominant cash-based economies impede financial intermediation. Lack of access to credit, especially long-term finance, by MSMEs, with women entrepreneurs particularly facing greater difficulties due to their unfavourable legal status, constrains business growth. Uncertainty in property rights, and especially access to land, also hinders investment and growth. Weak corporate governance frameworks, corruption risk, and concerns about financial market integrity, are disincentives to investors. Also, illicit financial flows and money laundering rob Africa of potential investment capital (see paragraph 3.12).

OPERATIONAL PROGRAMME

3.19 Working with the partner governments and other development partners, the Bank will seek improvements in Africa's business enabling environment (BEE), including the development and better regulation of the financial systems to support private sector development. The need for the private sector to generate jobs to minimize youth unemployment so as to capture the demographic dividend of the increasingly better educated African youth is also critical. Table 4 presents the Bank Group operational programme for Pillar 3.

Policy Targets	Areas of Bank Group Programme	Comments
3.1.Improving business enabling environment	<ul style="list-style-type: none"> Enhance reforms of business enabling environment especially those relating to ease of starting a business, registering properties, securing construction permits; and trading across borders; Improve the "one stop" shop arrangement by streamlining and simplifying procedures and supporting it with an integrated IT system (e-governance) to expedite processing of applications, including facilitating on-line registration; Improve the policy, legal and regulatory frameworks for BEE (e.g investment codes and tax regimes), and PPPs, including the analytical capacity for PPPs selection, preparation, monitoring and evaluation; Strengthen judicial systems for contract enforcement and resolution of commercial disputes (including e-justice) to improve administration of justice, security of investments, and rule of law; Strengthen policies, legislations and regulations promoting the establishment and growth of women-owned businesses; Improve the policy and legal framework and capacity building support to MSMEs' by improving their access to business development services and training (e.g., entrepreneurship and small business management); Support reforms to remove the barriers to informal enterprises to formalize, thus providing opportunities for their integration into the formal system, skill development and employment generation; 	Pillar 3 of GAP II, is consistent with the Bank's Private Sector Development (PSD) Policy (2013) and also builds synergy with the PSD Strategy (2013-2017), by supporting the three PSD Strategic pillars (Annex 6, Box 1). An enabling business environment, that supports the development of SMMEs' and strengthens the financial sector to provide better support to the private sector, especially SMMEs, will promote inclusive growth. By supporting PPPs and improving their policy and legal basis would also promote green private sector investments especially green infrastructure investments.

²² African Development Bank (2012): Household and Labor Force Survey in 16 African Countries.

²³ By 2030, it is estimated that Africa will have produced 137 million secondary school graduates and 12 million tertiary level graduates (African Development Bank: Annual Development Effectiveness Report, 2013, page 19).

²⁴ A Bank study has reported a serious mismatch between the skills which young people bring to the labour market and those sought by the private sector, a factor which limits their employability (African Development Outlook, 2012)

²⁵ Infrastructure Consortium for Africa (ICA), 2005, Africa's Infrastructure: A time for transformation, Washington DC.

²⁶ Financial infrastructure comprises a set of market institutions and networks that enable the effective operation of financial intermediaries, the exchange of information and data, and the settlement payments between wholesale and retail market participants. It includes credit bureaus, collateral registries and credit rating systems, which are only being developed in several African countries.

	<ul style="list-style-type: none"> Expand private sector job opportunities and employability of youths through support to labor market observatories; leveraging private sector internships and mentorship programs; provision of business development services for entrepreneurship and employment; provide vocational training programs for the youth, women, and people living with disability; and promote job-creating innovations for inclusive growth; Strengthen corporate governance and pay particular attention to the issue of corporate social responsibility as a safeguard against the expropriation of local communities and to mandate firms to contribute to the development of their host communities; Support public-private dialogue to empower the private sector as a demand side advocate for policy reform. 	
3.2. Financial sector development	<ul style="list-style-type: none"> Strengthen RMCs' financial infrastructure including development of collateral registries, land registries, credit bureaus, credit ratings, and payment and settlement systems necessary for financial stability and the successful operation of globally integrated financial markets; Develop financial and capital markets, including the creation of a diversity of financial institutions and services (e.g., insurance and leasing companies), and financial instruments (e.g., bonds, equities, guarantees) that can secure long-term finance; Strengthen financial sector regulators and related associations (e.g., the African Association of Central Banks), and other non-bank financial institutions' regulators, to enhance the performance of the African financial systems; Broaden financial inclusion with particular focus on ensuring that MSMEs and especially women-owned businesses benefit from increased access to finance and financial services. 	Predominantly cash-based economies can impede financial intermediation and constrain the development of the private sector and economic growth. Improved and well-functioning financial systems will therefore strengthen financial intermediation and support private sector productivity, and the development of SMMEs for inclusive growth.
3.3. Tackling money laundering, illicit financial flows, and recovery of stolen assets.	<ul style="list-style-type: none"> Provide strategic basis for this work stream by updating the Bank Group's Strategy on Money Laundering and Anti-terrorism financing to cover illicit financial flows and recovery of stolen assets. Emphasize illicit financial flows and money laundering issues in CSPs, RISPs, and ESWs, and build internal capacity to effectively drive policy dialogue on these issues in RMCs and at the sub-regional level; Support RMCs and RECs in developing necessary policies, strategies and safeguards; and in building capacity within their financial systems and at the sub-regional level, to address the issues of money laundering, illicit financial flows and recovery of stolen assets. Strengthen strategic partnerships with key institutions (e.g., OECD and the World Bank) in addressing these issues in RMCs and at regional and global levels. 	The joint AfDB and Global Financial Integrity report (2013) ²⁷ provides an evidence base for the design of policy and strategy for tackling illicit financial flows issues in Africa. The report underscores the importance of, promoting equitable tax regimes, and building an effective tax administration for stemming illicit financial flows. The new Bank Group's Strategy will fully articulate the Bank's strategic response to these issues.

Cross-Cutting Issues

3.20 In delivering the work streams of the three pillars, the Bank will put special emphasis on three cross-cutting issues critical to inclusive growth namely, anti-corruption, regional integration, and gender.

- Anti-corruption:** Forty-eight African countries have acceded to the United Nations Convention against Corruption (UNCAC), corruption²⁸ as at November 2013, and many countries have established anti-corruption agencies to investigate and sanction corruption. However, corruption remains a major challenge in many RMCs both in the public and the private sectors. The internal drivers of corruption in RMCs include poor governance, greed, poverty and inequality. There are also international drivers of corruption resulting from globalization. The structures that facilitate legitimate businesses and international financial transactions are often manipulated for illicit purposes such as laundering proceeds of corruption, generating illicit flows out of developing countries, paying bribes and evading taxes²⁹. Collaborative global efforts are needed to combat this type of corruption. Corruption raises the cost of doing business and disproportionately affects the poor who can least afford to pay

²⁷ AfDB and Global Financial Integrity, Illicit Financial Flows and the Problem of Net Resource Transfers from Africa (1980-2009), March 2013.

²⁸ Corruption is defined as "the abuse of public office for private benefits" (World Bank, 2012).

²⁹ Anti-Corruption Resource Centre (2012), International Drivers of Corruption

for services. Of the 177 countries covered in the 2013 Transparency International (TI) corruption perception index, only 5 African countries scored over 50%, with the average for the continent at 32%³⁰. As part of anti-corruption collaborative effort, the Joint OECD-AfDB initiative on “Stocktaking of business integrity and anti-bribery legislations, policies and practices in 20 African countries”, formed the basis of the “Anti-Bribery and Business Integrity Course of Action for Africa”³¹. In implementing GAP II, the Bank will adopt a comprehensive approach towards anti-corruption by mainstreaming it in all Bank Group’s operations. The success of anti-corruption initiatives in RMCs critically depends on strong political will backed by sound judicial systems. Box 2 presents the proposed operational programme in this area.

Box 2: Poposed operational programme in the area of Anti-Corruption

- Support reforms strengthening the legal framework, policies and regulations for anti-corruption in RMCs;
- Support RMCs’ efforts to improve the performance of anti-corruption agencies (ACAs) in preventing, investigating and sanctioning corrupt practices, while blending this direct support to ACAs with a diffused approach supporting a broad range of institutions (e.g., police, the judiciary, SAIs, and parliamentary public accounts committees) in addressing corruption;
- Emphasize aspects of PFM work that are relevant to the prevention of corruption (e.g., transparent procurement systems) and leverage the work on demand side governance to support anti-corruption activities by encouraging CSOs/community/ beneficiary participation;
- Create an open platform for interacting with stakeholders to articulate their ideas and proposals on specific approaches that work within their environments and how they can collaborate with the Bank to fight corruption.
- Provide anti-corruption training to integrity and oversight institutions, and CSOs, on fraud indicators, procurement red flags, sanctions, cross debarment, and other integrity risk tools

- **Regional integration:** The speed of various regional economic communities (RECs) in the integration process is varied. There has been notable progress in some fronts, but challenges also persist. Best practice cases include the tripartite Free Trade Arrangement involving COMESA, EAC and SADC; the ECOWAS regional passport; and the regional payments initiatives in ECOWAS and EAC supported by the Bank. Notable challenges include the multiplicity of RECs with overlapping membership, which tends to limit their efficiency and effectiveness in driving Africa’s regional integration agenda. The absence of compensation funds in RECs (with the exception of the SACU Customs Revenue Pool), to offer protection to weaker countries that incur losses due to phasing down of tariffs also poses a challenge to free trade arrangements. Regional integration is important for Africa to participate more effectively in the global economy, and to share the benefits of an increasingly inter-connected global marketplace. To this end, the Bank will, in the context of its Regional Integration Strategy Papers (RISPs), continue to provide support to RECs in the “soft” aspects of regional integration. Box 3 presents the proposed operational programme in this area.

Box 3: Poposed operational programme in the area of Regional Integration

- Support RECs in developing transparent procurement policies and systems (including e-procurement);
- Strengthen trade facilitation by streamlining and simplifying border management systems and procedures supported by an integrated IT system (e-trading). This will involve the use of single windows as an aspect of a coordinated border management system, which will reduce corruption and the time spent at border crossings;
- Support policy convergence, the simplification and harmonization of complex customs policies, procedures and regulations, legal and regulatory frameworks, investment and financial codes, quality assurance and technical certification standards;
- Promote regional financial integration, harmonization of regional payment systems, and support RECs in designing compensation funds to enhance regional free trade arrangements;
- Promote cross-border movement of labor and capital to enhance opportunities for enterprise development and youth employment.
- Promote through RISPs, CSPs and policy dialogue, synergy between national and regional development programs; and appropriate country/regional structures to oversee regional integration arrangements
- Promote the harmonization of regional PFM frameworks (e.g. fiscal framework and payment systems).

³⁰ Botswana (64%), Cape Verde (58%), Seychelles (54%), Rwanda (53%) and Mauritius (52%). The TI perception index is however being increasingly criticized.

³¹ OECD-AFDB (2012) Stocktaking of business integrity and anti-bribery legislation, policies and practices in twenty African Countries, OECD Publishing.

- **Gender** According to the new Bank Group’s Gender Strategy³², “Africa’s gender agenda projects a hopeful and powerful vision of a continent where women and men have equal rights: equal access to justice and protection; equal access to basic services; equal access to, and control over, productive resources; equal pay for equal work; and equal opportunity to benefit from wealth creation”. The strategy recognizes gender equality as a human right and a precondition for development to occur. GAP II’s notion of gender equality is consistent with that of the new gender strategy. While there has been progress in some areas of gender equality in Africa such as labour force participation and political participation, there is still a wide gap between vision and reality. Complex factors (such as culture, religion, social setting and legal framework) limit progress in this area. The legal framework, such as family laws governing marriage, divorce, inheritance, and land rights, limit women’s economic rights, hinder their economic and social decision-making, and restrict their ability to enter into contracts, own, administer, or inherit assets and property. These factors restrict women’s legal status and limit their economic empowerment. Also, there are gender gaps in employment in the areas of pay, labour segregation, and work burden. Women are predominant in lower paying informal sector employment and their workdays are up to 50% longer than men’s³³. Limited access to finance by women entrepreneurs is also a major challenge, so also is prevalence of sexual violence in homes. In line with the gender strategy, the Bank will, through its governance operations, support the institutionalization of gender-sensitive governance in RMCs. Box 4 presents the proposed operational programme in this area.

Box 4: Proposed operational programme in the area of Gender Equality

- Mainstream gender in all Bank Group’s governance operations.
- Strengthen gender responsive budgeting and the collection and use of gender disaggregated statistics in policy and planning for promoting gender equality, and to facilitate results measurement, which gives due consideration to gender;
- Support justice reforms which enhance women’s legal status and human rights, and access to, and control over, productive assets including land, capital and other properties;
- Support legal and policy reforms to promote women entrepreneurs and the specific financial products, which address the social and legal constraints they face;
- Strengthen women’s voice and participation at all levels to enhance their engagement in the policy space and contribution to positive development outcomes.
- Engage in policy dialogue with RMCs to increase awareness of gender equality as a human right, and the imperative of full inclusion of women in the development process as a precondition for development to occur.

Non-Lending Operations

3.21 Economic and Sector Work (Knowledge Products): The Bank will continue to support analytical work to provide a robust knowledge base for its engagements in RMCs. In this context, the Bank will step up upfront analytical work to solidly understand the context, including the political economy dimensions, of the design and execution of its various engagements in RMCs, notably CSPs, RISPs, lending operations, and policy dialogue. A thorough analysis of the overall political economy context (including actors, institutions and structures), is essential for the design of Bank’s projects/programs to be tailored to specific local needs and to identify potential obstacles and opportunities for reforms. The Bank will also continue to promote **joint knowledge products and diagnostic tools** with other development partners including the Public Expenditure and Financial Accountability (PEFA), Country Procurement Assessment Reviews (CPARs), and Country Financial Accountability Assessment (CFAA), to foster a common understanding of the governance challenges in Africa and provide agreed benchmarks and common standards to measure progress. The Bank will also continue to partner with global as well as African institutions and Think Tanks on knowledge work. Examples of such partnerships include: government auditing and accountability tools with AFROSAI; payment systems with ECOWAS, EAC and COMESA; public procurement with UEMOA and COMESA; business law with OHADA, and corruption, illicit capital flows and tax havens with OECD and the World Bank.

3.22 Policy Dialogue and Advisory Services: Policy dialogue is important as an enabler of reforms and an essential tool for sustainable development. It enables the Bank to engage with RMCs on a continuous basis and to understand their development challenges and reform priorities. The Bank Group high franchise value, derived from

³² African Development Bank Group (2014): Investing in Gender Equality for Africa’s Transformation, Bank Group’s Gender Strategy approved by the Board on 22 February 2014.

³³ Ibid.

its African character and its status as RMCs’ “trusted and preferred” partner, grants it legitimacy to act on issues affecting Africa and to gain access to Africa’s top political leadership and senior policy makers. This makes the Bank uniquely positioned to lead sensitive governance policy dialogue in RMCs, while still preserving its “trusted partner” status. The Bank is also well positioned to convene stakeholders, share knowledge, provide critical advice to help countries make informed policy decisions in the areas of the Bank’s strategic and operational priorities, and to drive solutions suited to the specific needs of the continent. Policy dialogue with RMCs over the long-term, will help to sustain the reform momentum. The Bank Group engages in policy dialogue at sector, country and regional levels, using different mechanisms appropriate to the specific context. With a local presence in some 34 African countries, the Bank, through its field offices, is able to understand and contextualize national and regional priorities, the challenges and drivers of reform, and the realities on the ground, which gives increased leverage to its role in policy dialogue. Policy dialogue will in particular be intensified in the context of fragility, where governance shortcomings often lie at the root of state inability to fulfill basic state functions, and will be used to address NRM and gender issues. The major instruments to drive policy dialogue are the CSPs, RISPs, BPOs and participation in joint donor coordination mechanisms, backed by robust economic and sector work, including political economy analysis. The Bank Group’s new private sector lending instruments, such as Partial Risk Guarantees (PRGs) and Partial Credit Guarantees (PCGs) also provide an additional platform for policy dialogue on private sector issues. Policy dialogue on corporate social responsibility is also essential, given that firms should have the responsibility to contribute to the development and welfare of local communities in which they operate.

3.23 The on-going Bank’s **decentralization** process, which is enhancing its country presence, has increased its ability to participate in, and lead, policy dialogue on a continuous basis and to be able to respond to clients’ demands as they emerge. Field offices have been active in promoting policy dialogue in the context of CSPs, RISPs, and PBOs in RMCs. They have engaged country authorities in policy dialogue on different areas of economic and financial governance in collaboration with other development partners in the context of country level multi-donor budget support groups and their sector working groups. At various times in different countries, the Bank had chaired these multi-donor groups and directed their deliberations. To support this process, the Bank has decentralized significant number of governance oriented staff (broadly defined to include governance, PFM, procurement, and financial management specialists) to the field, and this process will continue in the context of the Decentralization Roadmap. In implementing GAP II, the Bank, through the field offices, will step up policy dialogue on governance and other critical reform issues. To give proper guidance to staff on how to approach the critical issue of governance and policy dialogue, specialized training will be organized for staff in this area. Local presence and political economy-based ESW will equip staff to better understand country context and the political economy dimensions. In this regard, the Bank will invest in strengthening staff capacity to conduct political economy analysis, building on good practices and lessons learned from other agencies. Local presence also provides opportunities to expand accountability through the involvement of a wide range of stakeholders, including sub-national authorities, the private sector, CSOs, the media, business associations, and women interest groups in the policy dialogue process. In addition to this country-level policy dialogue by the Field Offices, high level policy dialogue involving the Bank’s Senior Management with RMCs’ political leaders and senior policy makers will also continue with particular focus on challenges holding African countries back from transformational and inclusive development in spite of their high real growth rates, including the sensitive issues of political governance, corruption and transformational leadership. Box 5 presents examples of the Bank’s engagements in policy dialogue on a range of thematic and sector governance issues. More details are contained in Annex 4.

Box 5: Some examples of Bank Group’s engagements in governance policy dialogue

The Bank Group has engaged RMCs in policy dialogue on a range of thematic and sector governance issues to support reforms at country, sector and regional levels. Policy dialogue has targetted specific country contexts. In **Malawi**, the Bank engaged the Government in sustained dialogue in promoting fiscal and macro-economic stability as well as protecting social spending. With the Bank’s and other partners’ support, the Government has implemented bold economic governance reform measures, including in the areas of foreign exchange market and public financial management that have helped to stabilize the economy. In **Guinea**, the Bank has actively pursued policy dialogue on mining sector governance, which has contributed to substantial revisions to the mining code, thereby improving the management of the country’s natural resources. The Bank has also played a significant role in MICs to enhance good governance. In Botswana, the Bank promoted policy dialogue on economic diversification away from over-dependence on diamonds through ESW and the Economic Diversification Support Programme that supported policy reforms in this area. In **Nigeria**, the Bank’s Transport Sector Budget Support Operation, supported policy and governance reforms in the transport sector; while in Swaziland the Bank engaged the Government in policy dialogue to promote fiscal sustainability and improved revenue mobilization through a Fiscal Crisis Response Budget Support Operation and a Revenue Modernization Technical Assistance Operation.

In **fragile states**, the Bank’s role in policy dialogue takes a particular significance by supporting countries in stabilizing and establishing the preconditions for sustained economic growth and development. In such contexts, there are often specific challenges, e.g. the ability of governments

to prioritize, deliver or restore basic public services may be severely compromised. The Bank Group's knowledge, experience and understanding of both political and technical realities on the ground have enabled it to play a critical role in policy dialogue and operational support in the transition process in a number of fragile states including **Liberia, Mali, Sierra Leone, Sudan, South Sudan and Zimbabwe**. Sovereign operations are the usual vehicle for the Bank's policy advisory role. However, the Bank's private sector portfolio and pipeline have also been an entry-point to initiate policy dialogue on issues that affect the enabling environment for private sector development and investment. Privately sponsored projects can have substantial leverage by tackling systemic issues affecting the business enabling environment. In **South Africa**, through a private sector investment project in support of the electricity corporation (ESCOM), the Bank engaged the authorities on policy dialogue on the reform of energy tariffs. The Bank has also undertaken **regional policy dialogue** on local content in the oil and gas sector, spearheaded by the Angola Country Office, as well as the Bank-led program on Land Policy, under elaboration in partnership with the AUC and UNECA.

4. IMPLEMENTING THE GOVERNANCE STRATEGY

4.1 In implementing GAP II, governance will be mainstreamed into all Bank Group's operations in RMCs. While the governance agenda will be led by OSGE, delivery of GAP II results across all three pillars hinges on input from all departments implementing governance operations. Annex 1 presents pillar-related implementation responsibilities across departments.

Organizational Structure and Ownership

4.2 The Bank will pay particular attention to the organizational arrangement (both in OSGE and bank-wide) needed to coordinate and mainstream governance across the Bank and promote a One Bank approach to deliver the vision and objectives of GAP II. To this end, the Bank will put in place the right mechanisms and incentives for cross departmental cooperation and coordination in implementing GAP II, including defining and structuring KPIs that promote inter-departmental collaboration. In this regard, a Governance Oversight Committee (GOC), chaired by a member of the Senior Management, will be created, composed of all Directors of Departments responsible for implementing the Strategy. The committee will meet periodically to monitor progress against the RMF and KPIs; identify risks to delivery and give guidance on design of corrective measures. Annex 2 presents the draft Terms of Reference of the Committee.

4.3 In addition, specific coordination mechanisms are being put in place to ensure delivery in the business enabling environment, NRM and financial sector development work streams. In this regard, the implementation mechanism for GAP II Pillar 3 will be aligned with the one outlined in the PSD Strategy, including the oversight function of the high level Private Sector Development Steering Committee. Also the Bank has established the African Natural Resources Center (ANRC) that will coordinate the work on NRM with other relevant Bank's departments around a unique work plan, and provide a single point of entry for RMCs to engage the Bank on NRM issues. A Financial Sector Department (FSD) has also been established to strengthen Bank's support to the development of Africa's financial systems necessary to support private sector development.

Human Resources, Staffing, and Capacity Development

4.4 The implementation of GAP II will have **human resource implications**. Building on the existing governance expertise in the Bank, the scale of the governance challenges on the continent underscores the need for strengthening Bank's capacity in the area of governance through a mix of deployment, re-skilling and additional staff in the following areas:

- Particular focus will be put on linking pillars 1 and 2, to ensure that building core governance systems translates into improved results at the sector level. In order to do this, **governance issues are being embedded in key sector operations** and incentives will be put in place to ensure that the right expertise is deployed to inform the design of the governance elements. To this end, a small complement of staff, specialized in sector governance (with a focus on infrastructure and basic services delivery), will be built up to support the deepening of sector governance work in these areas. Management will also explore the extent to which this can be achieved through an intensive program of staff specialization and re-training.
- In view of the increasing demands on the Bank in the area of governance of natural resources and the time critical nature of the advice needed, measures are being put in place to ensure adequate staffing of the ANRC. The Bank's expanded focus on private sector development and the pivotal role of governance elements within the sector, call for an increase in PSD positions in the public sector beyond the current limited number, in order to adequately implement Pillar 3 work streams. In leveraging IT solutions in all the three pillars to improve e-governance, using the ICT for Development Program, PBOs, ISPs, Investment projects and other relevant instruments, IT specialists, drawn from OITC and CIMM, will be closely involved in operations having e-governance components.

4.5 **Bank-wide Capacity Building and Awareness Program** will be designed in collaboration with relevant Bank's departments, targeting sector and regional departments, and field offices staff to increase awareness of governance issues and support policy dialogue in RMCs. These will include, but not be limited to, political economy analysis to inform design of CSPs, RISPs, PBOs and policy dialogue; financial sector governance; anti-corruption; governance challenges in natural resources management; gender aspects of governance; investment and business climate; policy dialogue in governance; and environmental and climate change governance. Also, staff exchanges with other organizations would be explored to facilitate partnership building.

Bank's Instruments

A. Lending Instruments

4.6 **Program Based Operations (PBOs):** Program Based Operations (PBOs) will remain an important instrument for policy dialogue and channeling Bank's financial resources for governance operations that help countries implement reform programs and deepen expenditures on poverty reduction priorities. In particular, sector PBOs, which is a good modality for mainstreaming governance in sector operations and for fostering sector policy dialogue, will be emphasized. Following the lessons learnt from OPEV Independent Evaluation of PBOs³⁴ completed in 2011 (see Annex 6, paragraph 4 for details), a new Bank Group PBO Policy (2012), and PBO Guidelines (2013) have been designed, re-shaping PBOs as a "One Bank" instrument, empowering all departments to initiate and implement PBOs, and providing a clear definition of sector budget support. A PBO quality assurance coordinating team, consisting of multi-disciplinary expertise, is envisaged in the policy to quality assure PBOs and ensure compliance with the new PBO Policy and Guidelines. This will enable sector and multi-sector operations to incorporate key governance elements and ensure delivery through the government systems.

4.7 **Institutional Support Project (ISP) and Technical Assistance:** Institutional and human capacity development is an important aspect of the Bank's governance work in RMCs. The OPEV independent evaluation of ISPs³⁵ completed in 2013, affirmed the relevance of ISPs to the Bank's and RMCs' needs and priorities. It indicated improvements in the design of ISPs and its increasing complementarity around PBOs. The evaluation drew a number of important lessons including focusing monitoring and evaluation more on tracking progress towards outcomes, rather than only on project implementation; delivering ISPs in time to build capacity before the arrival of PBO funds; and avoiding spreading projects too thinly across many institutions, though the evaluation admits that governance issues are complex and tend to involve many actors (annex 6, paragraph 5 provides more details). Going forward, lessons learnt from the evaluation will systematically inform the design of investment operations as the Bank steps up the use of ISPs and technical assistance instruments to support national and regional capacity building programs and sustainable indigenous capacity development, with a significant role for local and regional training institutions. The ISP's appraisal process will also provide an additional tool for policy dialogue with RMCs around economic and financial governance.

B. Non-lending Instruments

4.8 **CSPs and RISPs as the Bank Group's key programming instruments,** are entry points for all Bank's interventions in RMCs and RECs. It is therefore important that these documents adequately articulate the governance situation, including political economy dimensions, and strategic partnerships in both the country and regional contexts; and justify the need for governance interventions especially the use of the PBO instrument. There is also the need to ensure synergy between PBOs and investment lending operations in line with the recommendation of OPEV's evaluation of PBOs. Economic and sector work resulting in solid knowledge products (paragraph 3.21) and supporting policy dialogue and advisory services (paragraph 3.22-3.23 and Box 5) are additional non-lending instruments driving Bank Group engagements in RMCs.

Strategic Partnerships

4.9 **The Bank will remain a key player on governance issues in Africa and will also engage in strategic partnerships as an important instrument for implementing GAP II.** To this end, the Bank will strengthen strategic partnerships, which it has built with various stakeholders during GAP I (See Annex 6, Box 3), including

³⁴ African Development Bank, OPEV Evaluation of PBO in the African Development Bank, 1999-2009.

³⁵ African Development Bank, Institutional support projects in the governance sector, 2002-2012, Independent Evaluation by OPEV, September 2013.

with multilateral and bilateral institutions, African Union (AU) and other African institutions, Think Tanks, and non-state actors. Strategic partnership arrangements will continue to be elaborated in CSPs, RISPs, and program/project documents. Specifically, the Bank will pay particular attention to:

- **Partnerships with institutions and special initiatives with a strong African character:** In particular, the Bank will continue to work closely with the African Union and United Nations Economic Commission for Africa (UNECA) within the framework of the Joint Secretariat, with the RECs on regional integration, and the African Peer Review Mechanism (APRM) and African Union Commission (AUC) on political governance. The African Mining Vision (AMV) and ClimDev-Africa present unique opportunity to establish African-owned policy frameworks to leverage extractive industries to pursue broad development outcomes and to overcome the climate change information gap. In its role as one of the AMV implementation support partners, the Bank will support the preparation of Country Mining Vision. The Bank will also deepen its partnership with institutions such as the Investment Climate Facility (ICF) which is a key pan-African initiative supporting BEE reforms, Mo Ibrahim Foundation, and the African Governance Institute (AGI).
- **Partnerships with institutions which will enhance the Bank's knowledge broker role:** The Bank will promote the creation of communities of practice for peer learning and sharing of experiences across Africa. In particular, the Bank will deepen its engagements with networks of specialized knowledge, including the African Tax Administration Forum (ATAF), Making Finance Work for Africa (MFW4A), and the Collaborative Africa Budget Reform Initiative (CABRI).
- **Partnerships with multilateral and bilateral institutions** will be sought in the context of co-financing and joint analytical work, including collaboration with the IMF, World Bank, EU, UNDP, OECD and bilateral partners; the Fund for African Private Sector (FAPA) and the Governance Trust Fund (GTF). The Bank will also deepen partnerships with new donors supporting Africa, including Brazil, China, India, Turkey, as well as global funds, Islamic development funds and private foundations. The Bank's new Resources Mobilization Strategy will establish the framework for new funding collaborations.
- **Partnerships with non-state actors** including the private sector (Chambers of Commerce and business associations), CSOs, media, women and youth organizations, will be strengthened. The Bank Group's partnership with CSOs will build on its Civil Society Engagement Framework. In this regard, the Bank's engagements with CSOs and other non-state actors (including those focusing gender) will put emphasis on enhancing their analytical capacity through collaboration with relevant African Think Tanks to improve the performance of their oversight role and contribution to policy dialogue. In particular, the Bank will create an open platform for interacting with these stakeholders on anti-corruption issues. These partnerships would necessitate mapping studies and diagnostic works to identify genuine development-oriented CSOs and assessment of their capacity needs in collaboration with other African institutions and Think Tanks.

Monitoring and evaluation

4.10 The success of GAP II will depend on the ability of the Bank to effectively measure and track results. Governance outcomes are typically hard to measure, and are subject to slow progress and sudden reversals sometimes as a result of political instability. The GAP II Indicative Results Measurement Framework (RMF) provided in annex 3 is in line with the One-Bank RMF. A key feature of the new RMF is a closer link between levels 1 and 2 focusing on the performance of Africa and the contribution of the Bank.

4.11 As part of the Bank's strategic engagements with the civil society, and in line with the TYS and the Civil Society Engagement Framework, emphasis will be put on mutual accountability. In this respect, management will mandate involvement of CSOs and other non-state actors in the monitoring of the implementation of GAP II. A mid-term review will be undertaken in 2016 to take stock of progress, capture lessons learned from policy dialogue, ESW, supervision mission reports, and PCRs, and consider whether the strategic orientation is still valid or needs to be adjusted in the light of changing economic and political contexts.

5. RISKS AND MITIGATION MEASURES

5.1 There are several risks that could potentially impact the effective implementation of GAP II. The major ones are summarized below, along with suggested mitigation measures. In general, risk management will be an iterative process during the GAP II implementation period, with new risks identified, assessed, prioritized, and dealt with throughout the duration of the Strategy.

Financing risk

5.2 Successful implementation of the Strategy will require additional resources to enable the Bank to make a significant difference, especially in the work streams of enhanced focus (e.g., natural resource management, demand-side governance, and sub-national governance). To finance operational programmes, the three Bank Group financing windows (ADF, ADB and NTF) will provide the required resources, and will be supplemented with Trust Fund resources. As a mitigation measure against the risk of lower than envisaged resource availability, the Strategy places emphasis on the Bank engaging strategically and selectively in RMCs, and building strategic partnerships and synergies to leverage additional resources from other development partners, African governments, the private sector, emerging economies, and philanthropic organizations. Similar to the World Bank's Social Accountability Fund for CSOs, the Bank would explore the possibility of putting in place a dedicated funding facility for non-state actors in addition to the GTF and other trust funds resources.

Government commitment Risk

5.3 In terms of commitment to reforms, there are disparities within and between countries. A significant risk is that partner governments may not put priority on governance reforms, which are diffuse and for which gains take time to realize, over other visible interventions such as large infrastructure projects. Yet, sustained development gains are only possible if good governance underpins investment projects and programs. This risk can be mitigated by focusing on high level policy dialogue with governments through a range of instruments including CSPs, RISPs, and BPOs. Second, with the renewed emphasis on sector governance, the implementation of the Strategy will seek to demonstrate areas where governance gains can deliver quick visible wins in line with country leadership's priorities. Third, by supporting demand-side governance, GAP II will strive to create a virtuous cycle, whereby demand for good governance comes from within a country rather than being championed by outsiders. The ongoing Bank's decentralization process, which is strengthening its presence on the ground, provides an avenue for continuous engagements with RMCs on governance issues.

Implementation risk

5.4 The Bank recognizes that working in diverse country contexts, some emerging from conflict, some with weak institutions, and others with high levels of corruption, inherently carries with it risks that the development outcomes intended by GAP II may not be fully realized. These implementation risks will be addressed through: incorporating greater flexibility in the design and implementation of projects and programs; better understanding of the country context through more robust diagnostics, including political economy analysis; enhanced use of evidence, e.g. lessons learned and good practices of what works in different contexts; and more active supervision of high risk projects. The Bank's ongoing decentralization process will also contribute to managing implementation risk and enable the Bank to be a more responsive and active partner in national development processes. Training will be provided to Departments designing and implementing PBOs incorporating governance issues.

Institutional risk

5.5 As reflected in the TYS, governance is an issue which affects every sector and that is why the implementation of GAP II will emphasize a Bank-wide approach, involving sector departments, regional departments, and field offices. If a theme does not have a custodian nominally identified, then there is a risk that it can become either lost or competed over. To mitigate this risk, annex 1 on pillar-related implementation responsibilities is clear on division of responsibilities among departments and their expected interaction with OSGE.

Capacity risk

5.6 Capacity across the Bank as a whole, in the area of governance will need to be enhanced to keep up with a changing implementation context and this will require additional resources. Enhanced emphasis in specific areas will need to be matched by further building up of appropriate skills and specialized expertise. However, in the context of zero budget growth, additional funding for this purpose may be difficult to secure, and this could constitute a serious risk to the smooth implementation of the Strategy. To mitigate this risk, the Bank will undertake an assessment of staffing requirements and training needs at all levels, and adjust existing gaps in the current human resource skills mix, giving consideration to optimal staff allocation between sector departments, regional departments, and field offices, to allow for an effective implementation of the Strategy in line with the TYS.

Opportunities for staff exchange with other development partners will also be explored to further strengthen staff capacity.

Operational risk

5.7 In implementing the Strategy, a number of operational risks are envisaged deriving from weak capacity, fiduciary systems (procurement, financial management and disbursement), and fraud and corruption at the country level. In managing fiduciary risks, the Bank has designed a fiduciary assessment framework and also employs a range of measures in line with its policies and procedures and the Multilateral Development Banks (MDB) Uniform Framework for Preventing and Combatting Fraud and Corruption. Under GAP II, the Bank will build on existing risk identification and mitigation approaches by: re-assessing how the Bank currently manages operational risks in relation to its governance portfolio; and refining the approach to risk mitigation to enable the Bank assess the effectiveness of its risk mitigation measures.

6 CONCLUSION AND RECOMMENDATION

6.1 GAP II lays out the strategic direction of the Bank Group governance work in RMCs during 2014-2018, with a strong focus on support for Africa's transformation. GAP II Strategic Framework and operational programmes represent a frontal attack on Africa's multi-various governance challenges to enable the Bank to contribute significantly to the promotion of good governance in Africa, and for growth to be inclusive and sustainable. The multi-stakeholders' approach adopted, encompassing the public, private and civil society actors, is anchored on the premise that the full participation of all stakeholders in the affairs of the state, is a pre-requisite for positive governance outcomes. GAP II also takes into account the special needs of MICs, LICs, and Fragile States, as well as interests of women, youth and other disadvantaged groups.

6.2 The preparation of GAP II embraced a "One Bank" approach, which will also inform its implementation since governance is being mainstreamed across all Bank's operations. It also involved wide-ranging external consultations with various stakeholders. Furthermore, the document was posted on the Bank's external web-site in conformity with the Bank Group's Policy on Disclosure and Access to Information (DAI). Participants generally endorsed the orientation of the Strategy during the various consultations, and their feedback enriched its focus.

6.3 The Boards are requested to approve this Governance Strategic Framework and Action Plan, covering the period 2014-2018.

Annex 1: GAP II Pillar-related implementation responsibilities	
Key Policy Targets	Responsible Departments
Pillar 1: Public Sector and Economic Management	
1.1. Strengthening macroeconomic management and PFM systems at the national and the sub-national levels.	OSGE/ORPF/OICT/ ORQR/EDRE/ Regional Departments
1.2. Strengthening Domestic resource mobilization	OSGE/OITC/ECON/Regional Departments
1.3. Strengthening demand-side governance and accountability mechanisms	OSGE/OSHD/ORQR/ORPF/AICD/EADI/Regional Departments
1.4. Strengthening RMCs' planning capacity and evidence-based policymaking through stronger statistical capacity and monitoring and evaluation systems	ESTA/EDRE/OSGE/Regional Departments
Pillar 2: Sector Governance	
2.1. Improving Governance of sustainable infrastructure	ONEC/OITC/OWAS/OPSM /ORPF/OSGE
2.2. Improving Natural resources governance	ONEC/OITC/OWAS/OPSM /ORPF/OSGE
2.3. Improving Governance of basic social services delivery	OSHD/OITC/ORPF/OSGE
2.4. Enhancing Public investment management	OSGE/ONEC/OITC/OWAS/OSHD/OSAN/Regional Departments
Pillar 3: Investment and Business Climate	
3.1. Improving business enabling environment	OPSM/OSGE/ONEC/FSD/OWAS/OICT/ONRI/EDRE/Regional Departments
3.2. Fostering financial sector development	OFSD/OPSM/ONRI/FYTR/OSGE/EDRE/FFMA
3.3. Tackling money laundering, illicit financial flows and recovery of stolen assets	OSGE/IACD /EDRE/GECL/ Regional Departments
Cross-cutting Issues	
1. Combating corruption	OSGE/IACD/ORPF/GECL/ANRC/OITC/ONEC/OSHD/Regional Departments
2. Strengthening regional integration	OSGE/ONRI/EDRE/ Regional Departments
3. Mainstreaming gender in Bank Group's operations	ORQR/OSHD/ONEC/OWAS/OSAN/OPSM/OSGE/OITC/Regional Departments
Non-Lending Operations	
Stepping up policy dialogue and advisory services	Senior Management/Regional Departments/ Field Offices/ OSGE/ ONRI/ EDRE/ OSHD/ ONEC/ OWAS /OSAN/ OPSM/ ANRC/OITC
Producing knowledge products (ESW)	OSGE/ ONRI/ EDRE/ OSHD/ ONEC/ OWAS /OSAN/ OPSM/ ANRC/ OITC/ESTA

ANNEX 2: DRAFT TERMS OF REFERENCE OF THE GOVERNANCE OVERSIGHT COMMITTEE (GOC)

1. PURPOSE

- 1.1 The objective of this Terms of Reference (TOR) is to set out the functions, composition and operational modalities of the Governance Oversight Committee (the “Committee”) to ensure that a structured, continuous and collective mechanism is in place for the successful implementation of GAP II.

2. FUNCTIONS

- 2.1. The Committee shall be a senior-level and strategic organ providing appropriate oversight for the implementation of GAP II, especially the mainstreaming of governance in all Bank Group operations, thereby ensuring that the Strategy is translated into concrete results. The Committee will also promote dialogue between the Bank and its regional member countries (RMCs) in the area of good governance.
- 2.2 The functions of the Committee shall include the following:
- (i) Enhancing coherence, coordination, planning, consultation and dialogue between the Bank and its RMCs, regional economic communities (RECs), civil society, development partners, and other stakeholders in supporting the common objective of promoting good governance in Africa.
 - (ii) Ensure Bank-wide coordination and coherence in the use of **policy dialogue** as an important instrument for implementing GAP II and for fostering good governance in RMCs in support of Africa’s transformation agenda.
 - (iii) Providing recommendations on: (a) mainstreaming governance issues as a core objective in Bank Group operations, and (b) ensure that governance issues, including political economy dimensions, are adequately addressed in the Bank’s ESW, CSPs, RISPs and policy dialogue.
 - (iv) Monitor progress against the identified priority areas of GAP II in line with its Results Measurement Framework (RMF), ensure adequate follow up, identify risks and give guidance on the design of corrective measures.
 - (v) Ensure that staff capacity in the area of governance, including political economy analysis and policy dialogue, is adequately strengthened.

3. MEMBERSHIP

The Committee shall be composed of the following Members, namely:

Chairperson: The First Vice President/Chief Operating Officer (COO)

Members:

- The Vice-President, Operations II, OSVP, (Alternate Chairperson);
- The Vice-President, Operations I, ORVP;
- The Vice-President, Operations III, OIVP;
- The Chief Economist, ECON;
- The General Counsel, Legal Services Department (GECL);
- The Bank Group Chief Risk Officer, GCRO; and

- The Directors of all relevant departments responsible for implementing GAP II: OSGE, OSHD, ONEC, OITC, OSAN, OWAS, ANRC, OFSD, OPSM, ORFS, ONRI, ORPF, EDRE, ESTA, ORQR, COSP, and Regional Departments

4. MEETINGS

- 4.1 The Committee shall meet on a bi-annual basis or as often as the Chairperson may decide. When required, the Chairperson may invite any other person or organizational unit of the Bank to participate in the meetings of the Committee.
- 4.2 Members are expected to attend in person. Members have the responsibility to obtain the required technical advice and carry out appropriate consultations, which would inform the discharge of their duties. Each Member has a personal responsibility to perform his/her duties as a member of the Committee independently and impartially and act in the best interests of the Bank.
- 4.3 All meetings shall be convened and chaired by the Chairperson or in his/her absence, by the Alternate Chairperson. Quorum for meetings shall be half of all Members. .
- 4.4 When required, the Committee may create working groups, task forces and other temporary task teams to examine specific issues.

5. SECRETARIAT AND REPORTING

- 5.1 The Director, Governance, Economic and Financial management Department (OSGE) shall be the Secretary and shall perform all secretarial functions for the Committee.
- 5.2 The Secretariat shall prepare annual reports on the work of the Committee. The reports shall be submitted to the Boards of Directors for information.

6. GENERAL PROVISIONS

- 6.1 The Committee shall be established by a Presidential Directive (PD), following the approval of GAP II by the Boards of Directors.
- 6.2 The President may terminate the functioning of the Committee at any time.

Annex 3: Indicative Results Measurement Framework for GAP II (2014-2018)

LEVEL 1 - What progress is Africa making in Governance?

		Average for all African Countries			
		Baseline 2012	Mid-Term 2016	Completion 2018	Source
1.	Inclusive Growth				
	Real GDP per capita (USD)	953	960	980	AEO
	Income inequality (Gini index) (%)	46	45	44	AEO
	Poverty (population living below the poverty line) (%)	37	37	36	Human Dev. Report (HDR)
	Policies for social inclusion/equity (CPIA cluster C) (1-6)	3.9	4.0	4.2	CPIA
	Share of youth unemployment in total unemployment (%)	60	58	56	HDR
	Gender equality (Mo Ibrahim Gender sub-Index) (1-100)	53.8	55	58	IIAG
2.	Gradual Transition to Green Growth				
	Institutional capacity for environmental sustainability (Sub indicator of CPIA)	3.6	3.7	3.8	CPIA
	Production efficiency (Kg CO2 emissions per USD of GDP)	1.4	1.4	1.4	ORQR
	Renewable energy (% of total electricity produced)	17	20	20	ORQR
3.	Pillar 1: Public Sector and Economic Management				
	Real GDP growth rate (%)	6.6	6.6	7.0	AEO
	Public sector management and institutions (CPIA Cluster D-Governance Ranking) (1-6)	3.37	3.4	3.5	CPIA
	Open Budget Index – % of African countries surveyed disclosing significant and extensive information (i.e. scores from 41-100).(a)	32	35	36	IBP
	Statistical Capacity Indicator (Mo Ibrahim sub-sector index) (1-100)	57.6	59.0	62.0	IIAG
4.	Pillar II: Sector Governance				
	Infrastructure Development Index (Mo Ibrahim sub-sector index) (1-100) (b)	32.6	35	40	IIAG

	Resource Governance Index (% of African countries achieving partial standard) (c)	25	30	30	RWI
	Human Development Index (Mo Ibrahim index) (1-100)	58.3	60	62	IIAG
5.	Pillar 3: Investment and Business Climate				
	Global Competitiveness Index	3.6	3.7	3.8	World Economic Forum (WEF)
	Overall Doing Business Index (1-100)	49.1	50.0	52.0	World Bank
	Business Regulatory Environment (CPIA Cluster B - Indicator 6) (1-6)	3.26	3.4	3.5	CPIA
	Logistics Performance Index (1-5) (d)	2.48	2.6	2.8	World Bank
	Intra-African Trade (billion USD)	130	135	140	UNCTAD/IMF

Explanatory Notes:

(a) **Open Budget Index** based on Open Budget Survey carried out by the International Budget Partnership (IBP) scores the quality and type of information available to the public in a country's budget documents on a scale of 1-100, and place countries in four categories: extensive information (81-100), significant information (61-80), some information (41-60), minimal information (20-40), and scant or no information (1-20). For 2012, the index covered 100 countries including 25 African countries. Of these 25 African countries, only two (South Africa and Uganda) were placed in the first category; six (Namibia, Malawi, Ghana, Kenya, Tanzania and Mali) in the second category; four (Sierra Leone, Morocco, Angola and Burkina Faso) in the third category, and 13 countries (Zimbabwe, DRC, Nigeria, Egypt, Algeria, Tunisia, Cameroon, Senegal, Rwanda, Zambia, Niger, Chad and Benin) in the last category.

(b) **Infrastructure Development Index**, a sub-sector of Mo Ibrahim Sustainable Economic Opportunity Index published annually, measures the level of infrastructure development in a country. The index, scored on a scale of 1-100, evaluates the development of "hard infrastructure" including electricity, road network, rail network, air transport, telephone and IT infrastructure, and digital connectivity.

(c) **The Resource Governance Index (RGI)** compiled by the Revenue Watch Institute (RWI) measures the quality of governance in the oil, gas and mining sectors of 58 resource-rich countries, including 20 African countries. The future of these countries largely depends on how well they manage these non-renewable natural resources. The RGI assesses the quality of four key governance components: institutional and legal setting, reporting practices, safeguards and quality control, and enabling environment. The index assigns a numerical score to each country and divides them into four performance ranges: satisfactory (71-100), partial (51-70), weak (41-40), and failing (0-40). Globally, only 11 countries or less than 20% have satisfactory standards of transparency and accountability, indicating a major governance deficit in natural resources management around the world, in countries where nearly half a billion people live in poverty despite resource wealth. No African country achieved satisfactory standard and only 5 of the 20 or 25% (Ghana, Liberia, Zambia, Zambia, South Africa and Morocco) have partial standard.

(d) **Logistic Performance Index (LPI)** derived from data from the LPI surveys conducted by the World Bank analyses performance in terms of efficiency of country logistics system including border procedures and time; the quality of service, costs and speed of clearance processes; quality and competence of core logistics service providers; and satisfaction with infrastructure services. The LPI is based on six indicators: the efficiency of the clearance

process, the quality of trade and transport related infrastructure, the ease of arranging competitively priced shipment, the competence and quality of logistics services (transport operators, customs brokers etc.), the ability to trace consignments, and the frequency with which shipments reach the consignees within the scheduled or expected delivery time. The index compiled by the World Bank's International Trade Department every two years since 2007, on the scale of 1-5, covered 155 countries including 48 African countries in 2012. The LPI is used by the World Bank and other international organisations in their advisory and implementation work on trade facilitation in developing countries.

LEVEL 2 — How well is AfDB contributing to Governance in Africa?

		Countries in which the Bank intervened			
		Baseline Delivered 2010-2012	Delivered 2014-2016	Delivered 2014-2018	Source
1.	PILLAR 1: PUBLIC SECTOR AND ECONOMIC MANAGEMENT <i>Countries in which the Bank Group intervened in the governance sector with improved:</i>				
	- Quality of budgetary and financial management (%)	43	44	45	Project Completion Report (PCR)
	- Quality of public administration (%)	25	26	27	PCR
	- Transparency, Accountability and anti-Corruption in the Public Sector (%)	48	50	52	PCR
	- Procurement systems (%)	63	64	65	PCR
	- Statistical capacity index (% of RMCs with existing and functional national strategy for development of statistics)	85	90	95	ESTA
2.	PILLAR 2: SECTOR GOVERNANCE Natural Resources Management				
	Transparency standard (No. of EITI compliant countries)	14	16	18	EITI Web-site
	Social Services Delivery				
	Public expenditure on education (% of GDP) (2010) +++	4.6	6.0	8.0	ESTA
	Public expenditure on health (% of GDP) (2010) +++	2.4	3.0	4.0	ESTA
	People benefitting from better access to education (number) ++++ of which women (%)	3 157 000 45	TBD	TBD	ORQR
	People benefitting from better access to health services (number) ++++ of which women (%)	18 990 000 n/a	TBD	TBD	ORQR

3.	PILLAR 3: INVESTMENT AND BUSINESS CLIMATE				
	Doing Business: Time required for business start-up (days)	23	22	20	World Bank (DBR)
	Doing Business: Time required to pay taxes (days)	254	250	248	World Bank (DBR)
	Doing Business: Time required to enforce a contract (days)	614	600	580	World Bank (DBR)
	Doing Business: Access to credit (% of population)	2.3	4.0	10.0	World Bank (DBR)
	Jobs created ++++	232 000		TBD	
of which women (%)	12	TBD		ORQR

Explanatory Notes:

Latest figures on Doing Business outcome indicators linked to Bank's operations are for 2011 (Source: AfDB: Development Effectiveness Review 2012 – Governance)

+++ Funding, which is a macro level indicator, is included since this can directly be influenced by the Bank's PBOs. Improved budgetary allocations for social services delivery (education and health) will in turn facilitate improved access to these basic services.

++++ The 2012 base-line figures (for people benefiting from access to education, health and job created are derived from the One Bank RMF, which is a commutation of PCRs of all Bank operations rather than those for governance portfolio alone. It is arguable however that governance operations indirectly benefit or support these operations at country level.

n/a Data not available

LEVEL 3 – Is AfDB managing its governance operations effectively?

				Governance Portfolio	
		Baseline 2012	Mid-Term 2016	Completion 2018	Source
1.	ENHANCING QUALITY AT ENTRY				
	Average readiness review rating for project appraisal reports (1-6)	4.92	5.0	5.0	ORQR
	New projects with gender-informed design (at least one gender indicator in the logframe for ISPs) (%)	71.4	90	100	Project Appraisal Report (PAR)
	Knowledge products delivery (No. of ESW and related papers prepared to underpin operations)	24	25	25	OSGE
	PBOs involving Inter-departmental collaboration (number)	1	TBD	TBD	OSVP/OIVP
2.	IMPROVING PORTFOLIO MANAGEMENT				
	Time from approval to first disbursement (months)	9.0	7.0	6.0	OSGE
	ISP disbursement ratio – ongoing projects (%) for the year	14.6	25	30	OSGE
	PBO disbursement (disbursed amount/disbursement obligation for the year (%))	44	50	60	OSGE
	Active projects supervised at least twice a year (%)	78	80	85	OSGE
	Projects at risk in ongoing portfolio(%)	11.0	10	8	OSGE
	Ongoing operations eligible for cancellation (%)	14.0	12	10	OSGE
	Timeliness of PCR (% of PCR finalized within six months of project closure)	100	100	100	OSGE
	PCR rated satisfactory (%)	90	95	100	OSGE
3.	PARIS DECLARATION ON AID EFFECTIVENESS				
	Use of country systems (PBOs) (%)	100	100	100	OSGE
	Use of country system (ISPs) (%)	0**	10	20	OSGE

Explanatory Note:

**In implementing GAP II, the Bank will step up the use of country systems for ISPs on a case-by-case basis where fiduciary risks are low, while assisting RMCs in strengthening their country systems.

LEVEL 4 — Is AfDB Governance Department managing itself efficiently?

		Baseline 2012	Mid-Term 2016	Completion 2018	Source
1.	DECENTRALIZATION				
	Governance professional staff based in Field Offices (%)	33.3	40	50	OSGE
	Projects task-managed by field offices (%)	28.0	50	55	OSGE
	Project supervision led by field offices (%)	42.3	50	55	OSGE
2.	HUMAN RESOURCES				
	Governance professional staff (number)	30	35	40	OSGE
	Share of female professional staff (%)	23.3	30	40	OSGE
3.	VALUE FOR MONEY – IMPROVING COST EFFICIENCY				
	Average Cost of preparing and appraising a project (UA ‘000)	60	60	60	OSGE
	Average Cost of supporting project implementation (UA ‘000)	60	60	60	OSGE

ANNEX 4: BANK GROUP'S ROLE IN POLICY DIALOGUE IN RMCs

Introduction

1. Policy dialogue is an important platform for the Bank to engage with RMCs to understand their challenges and reform priorities. More specifically, engaging in policy dialogue enables the Bank to effectively contribute to Africa's transformation by: convening stakeholders, sharing knowledge, and providing advice to help countries make informed policy decisions in the areas of the Bank Group's strategic and operational priorities. Sustained policy dialogue, through working with RMCs over the long-term, will help to sustain the reform momentum. The Bank Group's comparative advantage in supporting policy dialogue essentially derives from its African character, which makes it a "trusted and preferred" partner, thus giving it legitimacy to act as convener on policy issues affecting Africa. The mutual respect between the Bank and its member countries, grants the Bank access to senior policy makers facilitating its advisory role, particularly on sensitive or difficult policy issues. As a regional institution with a local presence in several countries, the Bank is also able to understand and contextualize national and regional priorities, the challenges and drivers of reform, and the realities on the ground, which give increased leverage to its role in policy dialogue. These attributes position the Bank Group to be a convener of knowledge and peer-learning, as well as an advocate in driving solutions suited to the specific needs of the continent. The Bank Group engages in policy dialogue at sector and country level as well as at regional and global level, using different mechanisms appropriate to the specific context.

Policy dialogue at country and sector level

2. The Bank Group has engaged in a range of thematic and sectors issues to support reforms at country and sector level. For example, in Malawi, the Bank engaged in sustained dialogue with the Government in promoting fiscal and macro-economic stability as well as protecting social spending. With support from the Bank, the Government has implemented bold economic governance reform measures, including in the areas of foreign exchange market and public financial management reform that have helped to stabilize the economy. In Tanzania, the Bank Group is a member of the Transport Sector Policy Dialogue Working Group, which has played an instrumental role in driving and monitoring reforms in the transport sector. In the water sector, the Bank Group has been participating in sector policy dialogues in all the RMCs where it has water and sanitation projects. During 2011 and 2012, the Bank Group, through its Field Offices, co-chaired the water sector policy dialogue/coordination groups in seven countries namely, Mozambique, Mali, Burkina Faso, Zambia, Uganda, Rwanda and Tanzania. In Guinea, the Bank Group has actively pursued policy dialogue on mining sector governance, which has contributed to substantial revisions to the mining code, thereby improving the management of the country's natural resource revenues.

3. The Bank Group also has also been playing a significant role in middle income countries (MICs) to enhance good governance. In Botswana, the Bank promoted policy dialogue on economic diversification away from over-dependence on diamond through its ESW and the Economic Diversification Budget Support Operation that supported reforms in this area. In Nigeria, the Bank's Transport Sector Budget Support Operation supports reforms in the transport sector; while in Swaziland the Bank engaged the government in policy dialogue to promote fiscal sustainability and improved revenue mobilization through a Fiscal Crisis Response Budget Support Operational and a Revenue Modernization Technical Assistance Operation. In South Africa, through a private sector investment project in support of ESCOM's operations, the Bank was able to engage the corporation on policy dialogue on reform of energy tariffs.

4. In fragile states, the Bank Group's role in policy dialogue takes on particular significance, supporting countries in stabilizing and establishing the preconditions for sustained economic growth and development. In such contexts, there are often specific challenges, e.g. the ability of governments to prioritize, deliver or restore basic public services severely compromised by the fragility situation. The Bank Group recognizes that supporting RMCs in these contexts cannot be 'business as usual', and that fragile situations require a coordinated multi-donors, multi-stakeholder, cross-sectorial approach that combines support to state building and peace building while minimizing the demands from donors on the time and human resources of already weak government institutions. The Bank Group's knowledge, experience and understanding of both political and technical realities on the ground have enabled it to play a critical role in policy dialogue in a number of fragile states including Mali, Liberia, Mali, Sierra Leone, Sudan, South Sudan and Zimbabwe, where the Bank played an active role in the transition process. The Bank also played an important role during the two-day Somalia conference, co-convened by British Prime Minister and the President of Somalia. The conference provided a forum for high-level strategic exchanges on Somalia's Action Plan 2013-16.

Box 1: The Bank's Role in Policy Dialogue in the context of fragility: Sudan and South Sudan

The Bank's engagement in Sudan and South Sudan focuses on creating the conditions for peace, macroeconomic resilience and stability in the two countries. The emphasis is on policy dialogue, capacity building and targeted operations, financed through the Fragile States Facility (FSF), the African Water Facility (AWF), the Emergency Relief Fund (ERF) and Bilateral Trust Funds. Policy dialogue is also ongoing on debt resolution and state building.

The Bank continues to support the African Union High Level Implementation Panel (AUHIP), which mediates between Sudan and South Sudan on negotiations on post-secession issues. The signing, on March 2013 of the implementation matrix (of the September 2012 Agreement) bodes well for normalizing relations between the two countries, which is key to improving economic conditions. The representation of the Bank at the AUHIP by a Senior Staff member was highly appreciated by both governments. The two countries are now on track to permanently resolve their differences which is important for progress and development.

5. Sovereign operations are the natural vehicle for the Bank's policy advisory role. However, its private sector operations portfolio and pipeline are also an entry-point to initiate policy dialogue on issues that affect the enabling environment for private sector development and investment. Privately sponsored projects can have substantial leverage by tackling systemic issues affecting the business enabling environment. The Bank also undertakes regional policy dialogue on local content in the oil and gas sector, spearheaded by the Angola country office, as well as the Bank-led program on Land Policy, under elaboration in partnership with the AUC and UNECA.

Box 2: The Bank's Role in Policy Dialogue for Private Sector Development

In the case of the Sendou Power Project in Senegal, supported by the Bank Group through a non-sovereign senior loan, the costs associated with the registration of the Lender's Securities could have created a financing shortfall of over EUR 10 million for the project. This would have dramatically affected project feasibility and delayed the provision of reliable power for the Senegalese population.

In order to overcome the prohibitively high costs associated with registering multiple securities on behalf of the lenders (i.e. pledge over the equipment, pledge over the company shares, pledge over the bank accounts), the AfDB undertook policy dialogue with the Senegalese Ministry of Finance and the Ministry of Justice to right-size registration tariffs. This motivated a Presidential Decree, streamlining the security registration regime, in light of its costs and benefits for the national budget and international best practice. The new Decree introduces a cap for the costs associated with security registration process of large investments, thereby having a positive impact on infrastructure projects of national importance to Senegal, but also for the overall enabling environment in Senegal and the region.

Policy dialogue at the regional and international level

6. At the regional level, the Bank Group is well positioned to leverage its mandate to foster regional integration and continental co-operation. The C-10 (the Committee of 10³⁶ African Ministers and Governors), established during the global financial crisis, with the support of the AfDB and in cooperation with UNECA and the AUC, is an example of how the Bank has mobilised regional policy dialogue. The C-10 contributed to: (i) effective policy and operational responses by the AfDB to the financing and advisory needs of RMCs; (ii) counter-cyclical responses in African countries, which helped contain the crisis and lay the foundations for longer-term growth; and (iii) amplifying Africa's voice in global economic debates.

7. The African Economic Conference, initiated by the AfDB in 2006 and jointly organized with the UNECA, and the United Nations Development Programme (UNDP), is an Annual Event that provides a forum for exchange of ideas among academicians, researchers, economists, policymakers and other development professionals with a view to improving access to information and research on economic issues and, as a consequence, the quality of economic policy-making in the region. The last one was held in October 2013 in South Africa on the theme: 'Regional Integration in Africa'. Seminars during the Bank's Annual General Meetings also provide a forum for dialogue with RMCs on development issues.

8. The Bank has revamped and strengthened its cooperation and partnership with the AUC and UNECA in the context of the AUC-AfDB-UNECA Joint Secretariat. This serves as a day-to-day dialogue and coordinating mechanism to advance regional integration initiatives and programs such as "Boosting Intra-African Trade" and the "Continental Free Trade" agenda. At the request of the 18th ordinary session of the African Union Assembly of Heads of State and Government held in Addis Ababa in July 2012, the Bank alongside the AUC and UNECA is developing the "Agenda 2063 Framework". This collaborative effort is aimed at defining an approach that will outline how Africa should learn from the lessons of the past, build on the progress achieved, and strategically exploit opportunities and resources available in the immediate, medium and long term to ensure

³⁶ Algeria, Botswana, Cameroon, Egypt, Kenya, Nigeria, South Africa, Tanzania, the Central Bank of West African States (CBWAS), and the Central Bank of Central African States (CBCAS).

tangible socio-economic transformation. The Bank's regional level policy dialogue has also included critical issues such as the recurrent severe droughts and chronic food insecurity that affect the Horn of Africa and Sahel regions. The Bank has significantly contributed to building consensus and commitment for action through its persistent policy dialogue over the years in this area. For example, as part of its dialogue, the Bank, supported countries to develop strategies and programs towards building drought resilience, and to align their policies on livestock, environment and natural resources, food security and gender with existing regional policies.

9. The development of regional infrastructure is key to Africa's transformation. The Program for Infrastructure Development in Africa (PIDA), task-managed by the Bank, has been an important African Union initiative to promote regional infrastructure development on the continent. The Bank has undertaken sustained policy dialogue in this area and significant progress has been achieved on major regional infrastructure development programs. The Bank's engagement on the Inga Dam is an example of successful strategic policy dialogue involving complex negotiations with many countries and stakeholders.

Box 3: The Bank's Role in Policy Dialogue on Regional Infrastructure

The Bank Group engaged in high-level policy dialogue with the authorities of the Democratic Republic of Congo (DRC) to reach key decisions regarding the development of the Inga site. In addition, several consultative meetings were organized at national and international levels involving potential investors, development partners and project stakeholders.

The Bank initiated monthly coordination meetings among development partners in order to build synergies between funding institutions for the smooth implementation of a comprehensive study, financed through the ADF window, to examine the optimal phasing of the hydropower development on the Inga Site

The first phase will be developed within the framework of the treaty signed on 7 March 2013 between the Government of the Republic of South Africa (RSA) and the Government of DRC. As a key partner, RSA will purchase 2,500 MW of the 4,800 MW of power produced by the Inga Dam. This achievement is partly due to the support provided by the Bank to the DRC Government in the form of the needed technical assistance of a consortium of legal and financial advisers, which ultimately will finalize the institutional structuring of the project and the selection process of a private developer.

10. In addition, the Bank has played a catalytic role in assisting the AUC and Regional Economic Communities (RECs) in aligning skills and development policies in higher education and research to the needs for economic transformation. As a result of this dialogue, resources and commitments have been made available for the establishment of a Pan African University (PAU), which will provide Africa with the skills needed to enhance its competitiveness and sustainable growth. Through the post graduate programs in Science, Technology, Engineering and Mathematics (STEM), the PAU will help produce a critical mass of talent in priority areas for Africa, while enhancing regional cooperation and integration in training and research in higher education as well as ensuring gender diversity for social inclusion.

11. The Bank Group also conducts policy dialogue and demonstrates results at the international level. For example a forum like the G20 provides a high-level strategic platform to discuss issues relating to Africa. The Bank Group played a key role in shaping the Busan Aid Effectiveness Agenda, brokering the Tunis consensus establishing a common vision for Africa's development, and in building a collective vision for the African position on the post-2015 development framework. Recently, the Bank facilitated high level policy dialogue on youth employment, which remains a key development challenge for the continent. This initiative builds on earlier policy analysis and the 2012 high-level policy dialogue in Zambia on this issue.

Bank Group Instruments and Approaches to Support Policy Dialogue

12 The Bank Group's instruments are designed to support effective dialogue with RMCs. The Country Strategy Papers (CSPs) and the Regional Integration Strategy Papers (RISPs) are key Bank Group policy dialogue instruments, which inform country and regional programming. In the course of the preparation of CSPs and RISPs, the Bank Group undertakes extensive consultations with country and regional stakeholders on policy and regulatory reforms required to enhance development outcomes. The CSP also forms the framework for engagement with the country during the 5 year period of validity and sets out the topics for dialogue and the instruments that will be employed. RISPs provide an effective participative platform for policy dialogue with RECs and Specialized Regional Entities such as River Basins and Power Pools. Economic and Sector Work (ESW) provides a robust knowledge base for CSPs, RISPs and project/program formulation and also inform policy dialogue. Program-Based Operations (PBOs) provide a particularly conducive platform to promote policy dialogue, and transform the relationship between the Bank Group and recipient RMCs by using government systems to deliver results, and widen the scope of dialogue to support a broad range of objectives under the national development strategy. Dialogue in the context of PBOs is undertaken jointly with other partners through participation in Multi-Donor Budget Support Groups (MBSGs) and country-level thematic sector working groups. Participation in thematic sector working groups facilitates policy dialogue on sector policy reforms. The Bank has chaired MBSGs in a number of countries at different times, e.g., in Ethiopia, Burkina Faso, Rwanda etc. Often PBOs are complemented by Institutional Support Projects (ISPs), which provide opportunities to build institutional capacity to deliver on reforms as well as provide an additional entry point for policy dialogue. The various instruments, which the Bank uses to

facilitate policy dialogue in RMCs, are presented in Table 1 below.

Table 1: Summary of Instruments used by the Bank Group to support dialogue

Bank Group Instruments	Outputs	Outcomes
A. Lending		
(a) Program Based Operations (i.e., general, sector, crisis response budget support).	Policies to curtail fiscal deficits and budgetary shortfalls	Macroeconomic stabilization for better designed policies to build economic resilience.
(b) Institutional Support Projects	Training programs and increased capacity of RMCs to improve the formulation of policies and service delivery.	Increased institutional capacity in critical areas of national interest.
(c) Investment Projects	Sector specific interventions aimed at improving specific sector policies (agriculture, human development and infrastructure).	The associated analytical work to inform project design often includes reforms in critical policy areas in different sectors.
B. Non-Lending		
(d) Technical Assistance	Provision of specific expertise needed to strengthen country capacity in critical policy areas (e.g., Technical Assistance for Designing the Regulatory Framework of the Oil and Gas Sector in Kenya).	Improved policies and increased capacity in areas of strategic national interest.
(e) Advisory Services	Participation in Multi-Donor Working Groups to implement joint development frameworks, e.g., AfDB Group's role as chair of budget support working groups in different RMCs and member of sub-thematic working groups on different sectors and themes, in collaboration with other donors.	Increased interaction with government and donors on policy related issues result in increased donor coordination and harmonization.
(f) Knowledge products	<ul style="list-style-type: none"> Economic and Sector Work (reports stemming from operations, working papers and economic briefs) Flagship Publications (AEO, ADR, journal) Policy papers and briefs (notes for Governor's dialogue, KOAFEC, TICAD V, C-10, G-20 etc.) Statistical analysis and databases (open data platform, AIDI) 	<p>Strong, up-to-date and evolving knowledge base to:</p> <ul style="list-style-type: none"> Generate evidence for informed policy-making Gather and analyze good practices /lessons learned so as to advise on policy choices Follow trends impacting RMCs and advice how to leverage or mitigate them <p>Support the reform implementations by analyzing and identifying their likely impediments</p>
(g) PBA system and CPIA exercise	Strong institutions and good policies are taken into account in the performance factor of the PBA formula	Creation of incentives for appropriate reforms at the country level

Challenges in policy dialogue

13. The Bank Group views policy dialogue as a continuous engagement with Governments and other stakeholders in order to build a relationship where issues of critical importance can be addressed jointly. Notable results have been achieved, but there have also been challenges. Discussions on important but sensitive policy issues sometimes fail because the affected groups have problems getting organised or because there is no mutually agreed solution to policy issues. Changing political contexts and economic externalities are also realities that can lead to important shifts in priorities and policy agenda at the country and regional level, often at the expense of previous gains and results achieved through policy dialogue. Sustaining an effective and relevant policy dialogue, in the face of such changing contexts and demand, requires substantial presence, flexibility and ability to respond appropriately, without the guarantee of immediate results. The Bank Group acknowledges the need to continue its efforts in strengthening its role in policy dialogue, backed by its non-lending and lending instruments. Undertaking successful dialogue requires strong capacity and skills at a senior level in order to engage effectively with a wide variety of stakeholders from government, the private sector and civil society. The Bank will therefore continue to invest in building capacities in this area.

Conclusion

14. The Bank Group, through its strong relationship with its RMCs, has demonstrated that it is well positioned to engage in dialogue with Governments and other stakeholders on policy and reform issues of shared concern at country, regional and international levels. Through its pool of expertise across a number of sectors, and its wealth of experience from working across the continent, it is able to support Governments in identifying the appropriate and relevant policies to be pursued, with the added advantage of being able to support their implementation through non-lending and lending activities. It is clear that the Bank's decentralization agenda has been an important contributing factor towards the Bank's increased policy dialogue at the country level. Going forward it is recognized that there is a need to continue to invest in the Bank's capacity to support the policy dialogue process in RMCs and continue to work to develop strategic approaches to policy dialogue, allocating adequate resources to fully harness the Bank's ability to contribute to the continent's transformation.

ANNEX 5: GAP II PREPARATION AND CONSULTATION PROCESS

The preparation of GAP II embraced the “One Bank” approach and involved wide-ranging consultations. The consultation process was undertaken at three levels: internal consultations within the Bank, web consultation, and external consultations with partner institutions, regional member countries, RECs, private sector, CSOs and other non-state actors including the media, women groups and Think Tanks.

Internal consultations

A Bank-wide inter-departmental multi-disciplinary team, led by OSGE, was tasked with the elaboration of GAP II. The IDWG was composed of 31 staff members from 20 departments of the Bank. Internal consultations at the departmental and inter-departmental levels were undertaken to inform the preparation of both GAP II approach paper and the main GAP II document. The working group members prepared 20 briefing notes on critical governance issues in their areas of expertise to inform the elaboration of the document. Working group members also participated in the review of the approach paper and the main document.

Web-consultation

The draft GAP II main document was posted on the Bank’s external web-site from early November 2013 to end of January 2014 (more than the required 60 days) in conformity with the Bank Group’s Policy on Disclosure and Access to Information (DAI) in early November 2013, to elicit contributions from the general public into the new Bank Group’s Governance Strategy. A range of useful feedback was received, which enriched the final draft document.

External consultations

Following the clearance of the draft GAP II document for external consultations on 23 September 2013, by the Committee for Development Effectiveness (CODE), an abridged version of the document was shared with the ADF Deputies during their final meeting on the ADF-13 replenishment on 25-26 September 2013. Thereafter, the Bank has organized two external consultations during the IMF-World Bank Annual Meetings in Washington on October 12, 2013, and in Tunis on December 16, 2013. The purpose of the external consultations was to obtain the contributions of the Bank’s external stakeholders namely, RMCs, RECs, partner institutions, private sector, CSOs and other non-state actors including the media, women organizations, and Think Tanks. These consultations also helped to validate the orientation of the Strategy.

Outcomes of External Consultations

1. The Washington Consultative Meeting (October 12, 2013)

Participants made up of colleagues from the World Bank and the IMF as well as regional member countries participated in the meeting. Discussions primarily focused on the governance challenges on the continent and the need to deepen collaboration among development partners especially in the context of in-country donor coordination forums, including sector working groups and the Multi-Donor Budget Support Groups. Participants also stressed the need to pay particular attention to the needs of countries with weak governance systems especially fragile states. Sharing its experience, the World Bank revealed that it has realized that it is often erroneous to believe that once analytical work is done, policy recommendations derived, and appropriate technology is put in place, governments will adopt the policies and technology. Experience has however shown that in reality, things often turn out differently. Close attention therefore needs to be paid to the importance of culture, behavioral change and the political economy context in which governance reforms are being implemented. The World Bank also shared its experience in engaging with civil society organizations in terms of the need for a dedicated funding facility. In this regard, the World Bank has put in place the Social Accountability Fund, to facilitate direct funding of CSOs.

Regarding the governance of natural resources, the Bank used the occasion to announce the establishment of the African Natural Resources Center (ANRC) to step up its work on natural resources management (NRM) in view of its increasing importance for the inclusive and green growth agenda. The Center will provide technical assistance, training and advisory services to RMCs on country and regional policy development and implementation. This would include advice on policy, legal and tax frameworks, policies for economic diversification and building economic linkages; and provision of training and capacity building to specialized agencies tasked with NRM and non-state actors involved in the sector. The new Center will complement the African Legal Support Facility (ALSF) hosted by the Bank, and work with regional and global initiatives including the African Mining Development Center (AMDC) charged with the implementation of the African Mining Vision (AMV). Participants welcomed this Bank's initiative, which will go a long way to improve the management of Africa's natural resources.

2. The Tunis Consultative Meeting (December 16, 2013)

Twenty-nine RMCs participated in the Tunis consultative meeting. Participants included Ministers and other senior government officials, as well as executives of African Institutions and civil society organizations. Key issues that emanated from the meeting are summarized below.

- **Definition of Governance:** While it was realized that there is no single precise definition of governance, some participants were of the view that the definition provided in the document is too process-focused, and suggested that the definition should be broadened. For positive outcomes, good governance requires effective involvement of the public, private and non-state actors (the civil society, media, business associations, women groups and the youth etc.) in the affairs of the state. The definition has been broadened accordingly (see paragraph 1.1).
- **Political governance:** Participants raised the issue of political governance which has serious implications for economic performance in RMCs. The point that the Bank does not have political governance mandate was underscored. However, the Bank is cognizant of the implications of good political governance for economic progress. Consequently, the Bank collaborates with partner institutions with such a mandate, such as the African Union, on this important aspect of governance. The Bank also undertakes analytical work, such as the African Governance Outlook, which is based on political economy analysis. Furthermore, Bank's presence in 34 RMCs provides opportunities to better understand the political context on the ground, thus enabling it to develop programs appropriate to the local context to assist RMCs to deliver results.
- **Key findings of the 2013 Mo Ibrahim Index** on African Governance (IIAG) was also presented during the consultation. The findings, based on data from 200-2012, revealed that African countries have experienced overall governance improvements since 2000. Most improvement has been seen in human development and sustainable economic opportunity and, to a lesser extent, participation and human rights; but safety and rule of law have seen average deterioration since 2000 across the continent.
- **Engagement with CSOs and other non-state actors:** A number of issues relating to engagement with non-state actors (including CSOs, media, women groups, and African Think Tanks, etc.) were raised. These include the need for the Bank to strengthen collaboration with CSOs and other non-state actors to facilitate their effective participation in the affairs of the state. Participants want the document to indicate practical ways the Bank will engage with CSOs, for example, the availability of a dedicated funding facility for CSOs, mapping studies to identify genuine development-oriented CSOs, capacity needs assessment, capacity building, and diagnostic studies to deepen the Bank's understanding of CSOs' needs. A comment was also made about the need for the Bank to develop its comparative advantage/niche in relation to CSOs and consider how it could work with others partners to support CSOs and where possible, develop instruments to

enable it to work more effectively with CSOs. For example, how would the Bank's interventions be different or complement the work of UN agencies and the World Bank in this area? These comments helped to further strengthen the revised GAP II document.

- **Collaboration with local institutions including African Think Tanks:** The role of the Bank in supporting analytical work, e.g. through supporting African Think Tanks was also raised. It was indicated that the Bank has been collaborating with Think Tanks and undertakes joint analytical work with global, regional and local institutions at the country level.
- **Private sector:** Participants indicated the role of the private sector as the engine of growth and critical for regional integration and employment creation especially for the youth. Other issues raised include the need for the Bank to support PPPs and private sector actors especially the Chambers of Commerce. A number of participants pointed out the importance of the rule of law and its link with business enabling environment and requested that this should be elaborated in the Strategy. These aspects were further strengthened in the revised GAP II document.
- **Corruption:** Participants acknowledged corruption as a monumental challenge in Africa citing Transparency international Corruption Perception Index, corruption in procurement, and lack of political will to fight corruption. They indicated the need for the document to also make reference to the United Nations Convention Against Corruption (UNCAC). They stressed the need for concerted effort by all stakeholders, including working with CSOs and other non-state actors, African Think Tanks and the African Parliamentary Network Against Corruption. They also want the Bank to assist with the strengthening of anti-corruption commissions. It was also mentioned that bribery is also an issue which needs to be addressed in relation to service delivery. To buttress its collaborative anti-corruption work, the Bank cited the joint OECD-AfDB initiative on stocktaking of business integrity and anti-bribery legislations, policies and practices in 20 African countries, which formed the basis of developing an Anti-Bribery and Business Integrity Course of Action for Africa.
- **Collaboration among development partners:** Participants indicated that the Bank should pay close attention to creating synergy and coordination with other development partners. In this regard, participants were informed that *Coordination and complementarity with other donors* is one of the guiding principles of the Strategy, in line with the principles of the Paris, Accra and Busan Declarations. Thus, the Bank will work with RMCs and partner institutions to build synergies in donors' governance interventions in RMCs. This is particularly important in fragile states which have weak capacity.
- **Management of Natural Resources:** Participants were of the view that extractive industries have been well put in the GAP II proposal and what remains is to make the GAP II solutions more interactive by ensuring participation by Chambers of Commerce and CSOs and other non-state actors. The Bank should also enhance its support to countries for review the legal documents of parastatals managing natural resources. The issue of illicit financial flows was also raised. Participants were informed that the Bank has recently established an African Natural Resources Center (ANRC) to step-up its activities in the area of NRM to assist resource-rich RMCs to derive more benefits from their natural resources and deliver concrete outcomes to their citizens. The Center will complement the African Legal Support Facility (ALSF) hosted by the Bank and the AMDC implementing the AMV.
- **Performance Management:** Participants suggested that there was a need to beef up the section on results so that the anticipated impact of GAP II will be clear. Responsibility for implementation should also be clarified. Participants were informed that the Bank is currently in the process of finalizing the GAP II Results Management Framework (PMF), and the revised RMF will be included in the revised document. The attention of participants was also drawn to annex 5 of the document on institutional arrangement for delivery of GAP II.

- **Gender:** Participants underscored the emphasis on gender and inclusivity of the poorest in society e.g., rural women in GAP II and urged further action in this regard.. The Bank indicated that gender is a cross-cutting issue in the Bank's Ten Year Strategy, 2013-2022, as well as in GAP II. Furthermore, gender is mainstreamed in the entire GAP II document and attention is also paid to the vulnerable groups.
- **Public sector reform:** Participants suggested that public service reform, especially reforms of parastatals should be included under pillar 1. Participant were informed that the issue of parastatals reform is sub-summed under pillars 2 and 3. As stated in the document, "work on reform of state-owned enterprises (SOEs), will support results in sector governance (e.g., energy utilities) or in the financial sector of business enabling environment work stream (e.g., DFIs)".

3. Conclusion

Participants at both consultative meetings and comments received on the web-site generally endorsed the orientation of GAP II and praised the Bank for producing an excellent piece of work, which captures most of Africa's governance challenges, apart from political governance in which the Bank has no mandate. The Bank thanked the participants for coming and assured them that their contributions will be reflected in the revised document, bearing in mind that the Bank has to be selective in its interventions since it cannot possibly cover all aspects of governance, apart from the fact that it does not have the resources to do so.

ANNEX 6: GOVERNANCE STRATEGIC DIRECTIONS AND ACTION PLAN (GAP I) 2008-2012: SUMMARY OF ACHIEVEMENTS AND LESSONS LEARNED

1. GAP I provided the strategic foundation for more focused and enhanced Bank support to economic and financial governance across RMCs. A review of the implementation of GAP I, concluded in March 2012, confirmed that, by the end of 2011, economic and financial governance had become a priority area of Bank support, using a combination of PBOs, ISPs, and analytical and advisory services with a focus on PFM and BEE, implemented at country, sector and regional levels. Particular attention was paid to the specific needs of fragile states and MICs. Funding to governance projects during the GAP I period totaled UA 4.169 billion, of which UA 3.96 billion (USD 6 billion) was used to finance 76 PBOs and UA 209 million for 43 ISPs, twice the amount in the pre-GAP period 2002-2007 (see Table below).

AfDB financing for governance, economic and financial reforms in RMCs (2008-2012)

Year	Program Based Operations	Institutional Support Projects	Program Based Operations	Institutional Support Projects	Program Based Operations	Institutional Support Projects
	<i>UA(m)</i>		<i>Percentage of amount</i>		<i>Number of operations</i>	
2008	635	34	95	5	16	4
2009	1,995	9	99	1	24	3
2010	263	42	86	14	11	16
2011	685	18	97	3	16	7
2012*	382	106	83	17	9	13
Overall	3960	209	95	5	76	43

Source: AfDB, Governance, Economic and Financial Management Department (February, 2013)
**2012 figure amounting to about UA488 million takes into account governance operations of other departments.)*

2. There was a significant increase in the use of PBOs, including in fragile states, as a favored instrument for governance support³⁷. All the operations financed during this period applied the Good Practice Principles of Conditionality and ensured that the requisite conditions were in place before Board approval, i.e. government commitment to poverty reduction, macroeconomic stability, satisfactory fiduciary risk assessment, and political stability; and harmonization with other development partners. In line with the selectivity focus of GAP I, the majority of these operations (76%) supported PFM reforms, and from 2011, an increasing amount of programs also targeted BEE, with 50% of total approvals in 2011 addressing private sector development. An analysis of the Bank's governance work conducted in 2012³⁸ revealed that in the countries where the Bank provided support, the related governance indicators at the outcome level such as PEFA, Doing Business and CPIA ratings showed improvements. However, this result cannot be attributed to the Bank alone since the country itself and other development partners contributed to it. Moving forward, GAP II would refine the results measurement framework for governance.

3. The Bank also supported thematic analytical work which provided an evidence base to inform its operations. This included economic and sector work (ESWs), development of policy notes, and participation in the preparation of PEFAs, country governance profiles, joint donor evaluations, the African Economic Outlook, and Africa Competitiveness Report.

³⁷ Among these projects, approximately one-fourth (25%) were in fragile states at an amount representing 12% of the total commitment value.

³⁸ The Governance Annual Development Effectiveness Review, 2012

4. The Bank's Evaluation Department (OPEV) has evaluated the two main Bank's instruments for its governance interventions, namely PBOs and ISPs. The evaluation of PBOs completed in 2011 suggested that while diagnostic works helped to improve the designs of operations, they have not been fully utilized to support policy dialogue at the country level around PBOs³⁹, with the possible exception of cases where the Bank had chaired donor budget support groups. The evaluation also showed that the Bank's capacity to engage in sector policy has been particularly constrained by the lack of senior level technical staff in Field Offices, and that potential synergies between the Bank's engagement in PBOs and the rest of the Bank's operations, especially the investment lending, needs to be better exploited. For the Bank to deliver more on PBOs, the evaluation proffered the following recommendations: (i) develop guidance for the design of PBOs and identify results based on a more fully developed model of the intervention logic for PBOs; (ii) consolidate existing Bank PBO policies and guidelines into a single policy; (iii) identify potential synergies between Bank's engagements in general budget support and related PBOs and other Bank's programmes, especially investment operations; and (iv) provide comprehensive training for staff on PBOs that is specifically tailored to the needs of this instrument. A new PBO Policy has since been approved and new guidelines are being developed. The Policy strengthens the link between analysis and knowledge generation and puts a prominent focus on policy dialogue.

5. The OPEV independent evaluation of ISPs during 2002-2012 in the governance sector completed in 2013⁴⁰ revealed improvements but also some weaknesses in the use of this instrument. From 2008, projects approved each year increased dramatically, efforts to make ISPs complementary to other operations (particularly PBOs) are evident, co-ordination with other development partners has improved, and Bank's experiences working with more integrated or joint implementation units have been positive. However, the timing of ISPs to build capacity in time for the arrival of PBO funds is a concern, while the use of joint funding and management arrangements has been limited. The evaluation drew a number of important lessons including the need for more effort to ensure: (i) in-depth assessment to understand political economy or capacity needs context; (ii) clarity of objectives and flexibility in implementation to permit amendment to projects mid-course as necessary, (iii) strengthening partners' ownership and leadership, (iv) focusing monitoring and evaluation more on tracking progress towards outcomes not only project implementation, (v) strengthening the quality of engagement including field offices, (vi) streamlining procedures to avoid implementation delays, (vii) avoiding spreading projects too thinly across many institutions, though the evaluation admits that governance sector is complex and involves many actors, and (viii) realistic project implementation time-frame. Experience has shown that ISPs take longer to implement than envisaged at appraisal and therefore need closer monitoring and supervision. During the GAP II period, the Bank will address the observed weakness in the use of these two core instruments and systematically apply the lessons in its new operations. Additional opportunities for policy dialogue around critical issues in RMCs provided by the ISP and PBO appraisal processes will also be better explored. In the case of BEE, this could provide a strong additionality to the Bank's private sector operations.

Box 1: GAP II Support to PSD Strategic Pillars

The Bank Group's PSD strategy aims to contribute to sustainable development in Africa by promoting broad based economic growth, employment and inclusive development through private sector development. It operates across three pillars: i) investment and business climate; ii) access to social and economic infrastructure; and iii) enterprise development. GAP II will complement and support implementation of the Private Sector Development Strategy. In particular, Pillar 3 of GAP II is closely aligned with Pillar 1 of the PSD Strategy, both of which focus on investment and business climate. The other two pillars of GAP II will also positively impact the objectives of the PSD Strategy. For example, improved procurement systems as part of PFM reforms under Pillar 1 of GAP II will also enhance the business environment; while activities strengthening governance in the sectors under Pillar 2 of GAP II will support access to social and economic infrastructure. Through its support to policy and capacity building for MSMEs and provision of business development services, Pillar 2 of GAP II also complements Pillar 3 of the PSD Strategy on enterprise development. New instruments such as Partial Credit Guarantees and Partial Risk Guarantees will provide a platform to strengthen policy dialogue. The complementarities between these two strategies will help to deepen the synergy between the Bank's public and private sector operations.

³⁹ African Development Bank, OPEV Evaluation of PBO in the African Development Bank, 1999-2009. However, since the evaluation, increasing presence of the Bank at the field level has provided further opportunity to heighten engagements in policy dialogue.

⁴⁰ African Development Bank, Institutional support projects in the governance sector, 2002-2012, Independent Evaluation by OPEV, September 2013.

6. In terms of sector governance, mainstreaming governance across sectors, most importantly the infrastructure sector, was an objective of GAP I. The progress review showed that this objective was only partially achieved partly because it was perceived mainly in terms of increasing sector operations. Thus, only a few of the sector strategies developed during the GAP I period addressed sector governance issues. However, in terms of the extractives sector governance, some successes were recorded. From 2008-2012, the Bank approved 18 projects in 14 countries in support of the implementation of the EITI, with the primary source of funding being the Fragile States Facility (FSF), as 8 of the 14 beneficiary RMCs were fragile states. Guidance notes were also prepared on addressing governance of the extractive industries in private sector operations and governance and corruption risks in infrastructure projects. During GAP II, greater emphasis will be put on mainstreaming governance in sector operations, with a special focus on addressing the challenges in the energy sector, in view of the multiply effect of efficient energy supply on the economy (Box 2).

Box 2: Addressing Africa's Energy Sector Governance Challenges

Inadequate access to modern energy services, such as electricity, constitutes an obstacle to poverty reduction effort in Africa. Much of Africa lacks access to electricity, and those who have access often have to cope with intermittent power outages. Transmission and distribution energy losses and unreliability of services complicate the accessibility problem. Weak governance and regulatory framework at the national and sub-regional levels is a major challenge, so also is the environmental and climate change impact. Specific energy sector governance and regulatory challenges include: (i) poor management which has generally led to deterioration of facilities, inadequate maintenance, poor performance of utilities and low quality of services; (ii) inefficient pricing policies focused on making services affordable to users and little attention to cost recovery; (iii) monopoly privileges enjoyed by public utilities shielded from market competition; and (iv) lack of autonomy of public utilities which is often difficult to hold them accountable for poor performance. At the sub-regional level, lack of consistency across legal and regulatory frameworks impede the process towards regional integration and development of effective power pools.

In addressing these governance and regulatory challenges, especially at the country level, the Bank Group Energy Sector Policy proposes assistance to RMCs: (i) At the national level, creating and maintaining an enabling environment by promoting political stability, sound fiscal and legal policies, and improved public sector performance; and (ii) At the sector level, designing and implementing clear and coherent sector management policies and regulatory framework that protect users and investors, while fostering inclusive pricing systems and targeted subsidies.

In view of the growing importance of independent power producers, putting in place appropriate policy, legal and regulatory frameworks for IPPs and concession agreements are also essential. Governments have to take critical decisions on the right energy mix to ensure security of supply, affordability, and environmental protection. The needed governance and regulatory reforms are often sensitive in nature and need to be addressed carefully, sensibly and sustainably. Upfront close involvement of the public in the reform process, a good energy public relations (PR) strategy, and an effective media campaign will help to create awareness about the need for these reforms, and secure the required buy-in and confidence of citizens and investors in the energy policy reform process.

Source: Adapted from the African Development Bank: Energy Sector Policy.

7. In the area of regional integration, the Bank has been supporting a number of important regional, continental and global initiatives focusing on strengthening economic and financial management (see Box below). The GAP I progress review showed that the Bank needs to be more strategic in its support and identify areas in which it could play a leadership role.

Box 3: Partnership Arrangements and Bank's Support to Regional Governance Initiatives

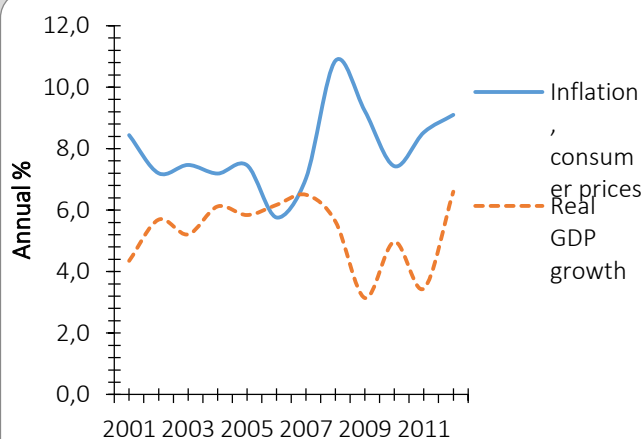
In implementing its governance programs, the Bank has built strong strategic partnerships with the African Union (AU) and other African institutions including the African Governance Institute (AGI), MO Ibrahim Foundation, the African Capacity Building Foundation (ACBF), and the Investment Climate Facility (ICF). The Bank has also built strategic partnerships with the United Nations Organizations. The Bank collaborates very closely with a number of UN organizations, including UNECA, FAO, UNFPA, UNDP and UNICEF. The Bank has been collaborating with RECs such as ECOWAS, COMESA, SADC and WAEMU to strengthening procurement systems, and to strengthen regional payment systems in RECs (ECOWAS, COMESA and EAC). The Bank is supporting the networks of financial and economic governance professional (e.g., networks of budget officers and Tax Commissioners, including supporting the collaborative Africa Budget Reform Initiative (CABRI) and ATAF, Accountant Generals, and Auditor Generals); adoption of international professional standards and codes; and regional harmonization of government auditing through the African Association of African Supreme Auditing Institutions (AFROSAD); anti-money laundering; and harmonization of business law in Francophone countries (OHADA); African Legal Support Facility (ALSF). The Bank also hosts the Making Finance Work for Africa (MFW4A) partnership, whose primary goal is to support the development of Africa's financial sector. The Bank has also been participating in the African Peer Review Mechanism (APRM) and supporting the African Technical Assistance (AFRITAC) in collaboration with the IMF. During GAP II implementation, these strategic partnerships will be strengthened. The Bank's decentralization process is also strengthening Bank's strategic partnerships at both the country and regional levels in the context of collaboration with RECs, General Budget Support Groups (GBSGs) and their working groups. Staff will be further encouraged to play stronger role in this process

8. Overall, GAP I was successfully implemented and the key areas of focus in GAP I (PFM and BEE, remain relevant and offer lessons for moving forward. These lessons include the need to:

- Strengthen diagnostics and analysis to improve quality of programming and guide policy dialogue at the country and regional levels;
- Increase focus on results and re-assess the results framework to facilitate and systematize the monitoring and assessment of the Bank's contribution to governance;
- Ensure a comprehensive approach to deliver results and enhance cross-sector collaboration to better address governance at the sector level, particularly through PBOs, and to ensure stronger engagement in sector policy dialogue;
- Refine the approach in ISPs to better ensure sustainability of capacity building and enhance the linkage to wider public sector reforms, including engaging with local, indigenous and regional organizations for capacity building; and
- Develop strategic partnerships and strengthen current engagements, particularly at the regional level as well as internationally, and determine where the Bank can play a leading role.

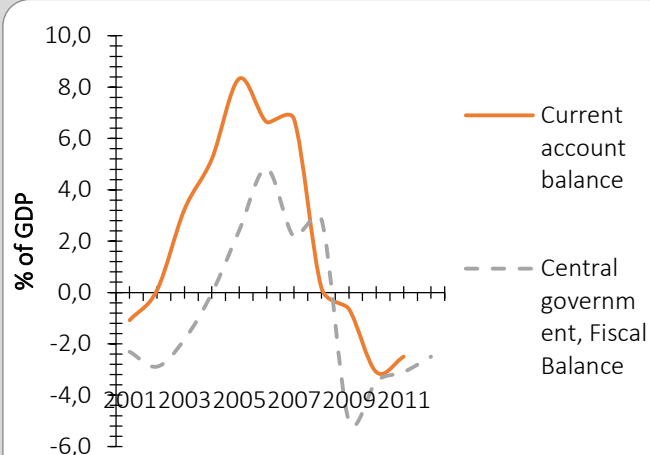
ANNEX 7: TRENDS IN MACROECONOMIC INDICATORS IN AFRICA (2001-2012)

1a. Real GDP Growth Rates vs Inflation



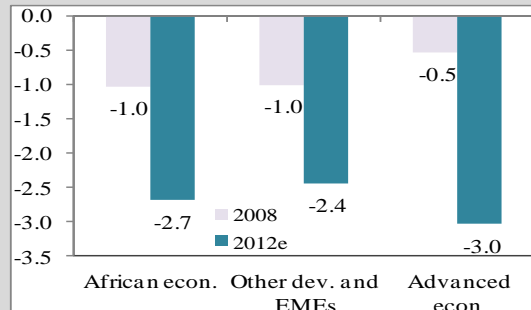
Africa's GDP growth rate averaged over 5% in the last decade, inflation remained largely at one-digit level

1b. Current Account vs Fiscal Balance

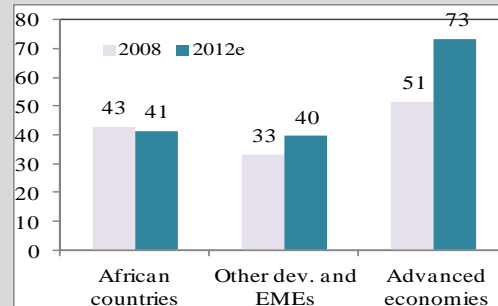


Both Current Account and Fiscal Balance remained positive for most of the decade but have shown a declining trend in recent years

1c: Fiscal Balances, regions (% of GDP)



1d. Public Debt, regions (% of GDP)



Source: Mthuli Ncube and Zuzana Brixiova, "Debt Sustainability and Development in Africa", ECON Complex Seminar Paper (May 2013); AfDB African Economic Outlook (AEO) and IMF World Economic Outlook (WEO) database; and calculations by the African Development Bank's Statistics Department (April, 2013).

ANNEX 8: COMPARATIVE SOCIO-ECONOMIC INDICATORS ON AFRICA

	Year	Africa	Developing Countries	Developed Countries
Basic Indicators				
Area ('000 Km²)	2011	30,323	80,976	54,658
Total Population (millions)	2011	1,044.3	5,733.7	1,240.4
Urban Population (% of Total)	2011	40.4	45.5	75.4
Population Density (per Km²)	2011	36.1	59.9	36.5
GNI per Capita (US \$)	2010	1 549	3 304	38 657
Labor Force Participation - Total (%)	2011	74.7	65.0	60.4
Labor Force Participation - Female (%)	2011	42.5	49.2	50.2
Gender -Related Development Index Value	2007	0.502	0.694	0.911
Human Develop. Index (Rank among 187 countries)	2011
Population Living Below \$ 1.25 a Day (% of Pop.)	2007	40.0	22.4	...
Demographic Indicators				
Population Growth Rate - Total (%)	2011	2.3	1.3	0.4
Population Growth Rate - Urban (%)	2011	3.4	2.3	0.7
Population < 15 years (%)	2011	40.4	28.7	16.5
Population >= 65 years (%)	2011	3.4	5.9	16.2
Dependency Ratio (%)	2011	78.1	53.0	48.6
Sex Ratio (per 100 female)	2011	99.5	103.4	94.6
Female Population 15-49 years (% of total population)	2011	24.4	26.2	23.6
Life Expectancy at Birth - Total (years)	2011	57.7	77.7	67.0
Life Expectancy at Birth - Female (years)	2011	58.9	68.9	81.1
Crude Birth Rate (per 1,000)	2011	34.5	21.1	11.4
Crude Death Rate (per 1,000)	2011	11.1	7.8	10.1
Infant Mortality Rate (per 1,000)	2011	76.0	44.7	5.4
Child Mortality Rate (per 1,000)	2011	119.5	67.8	7.8
Total Fertility Rate (per woman)	2011	4.4	2.6	1.7
Maternal Mortality Rate (per 100,000)	2010	530.7	230.0	13.7
Women Using Contraception (%)	2007-09	28.6	61.2	72.4
Health & Nutrition Indicators				
Physicians (per 100,000 people)	2007-09	57.8	112.0	276.2
Nurses (per 100,000 people)*	2007-09	134.7	186.8	708.2
Births attended by Trained Health Personnel (%)	2007-09	53.7	65.3	...
Access to Safe Water (% of Population)	2010	65.7	86.3	99.5
Access to Health Services (% of Population)	2007-09	65.2	80.0	100.0
Access to Sanitation (% of Population)	2010	39.8	56.1	99.9
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2009	4.3	0.9	0.3
Incidence of Tuberculosis (per 100,000)	2010	241.9	150.0	14.0
Child Immunization Against Tuberculosis (%)	2010	85.5	95.4	...
Child Immunization Against Measles (%)	2010	78.5	84.3	93.4
Underweight Children (% of children under 5 years)	2007-09	30.9	17.9	...
Daily Calorie Supply per Capita	2007	2 462	2 675	3 285
Public Expenditure on Health (as % of GDP)	2009	2.4	2.9	7.4
Education Indicators				
Gross Enrolment Ratio (%)				

Primary School - Total	2010	101.4	107.8	101.4
Primary School - Female	2010	97.6	105.6	101.3
Secondary School - Total	2010	47.5	64.0	100.2
Secondary School - Female	2010	44.3	62.6	99.8
Primary School Female Teaching Staff (% of Total)	2010	44.3	60.7	81.7
Adult literacy Rate - Total (%)	2007	67.0	80.3	98.4
Adult literacy Rate - Male (%)	2007	75.8	86.0	98.7
Adult literacy Rate - Female (%)	2007	58.3	74.9	98.1
Percentage of GDP Spent on Education	2010	4.6	4.1	5.1
Environmental Indicators				
Land Use (Arable Land as % of Total Land Area)	2009	7.6	10.7	10.8
Annual Rate of Deforestation (%)	2007-09	0.6	0.4	-0.2
Forest (as % of Total Land Area)	2010	23.0	28.7	40.4
Per Capita CO2 Emissions (metric tons)	2009	1.1	2.9	12.5
<p><i>Sources : AfDB Statistics Department Databases; World Bank: World Development Indicators; UNAIDS; UNSD; WHO, UNICEF, WRI, UNDP; Country Reports. Last Update: June 2012</i></p> <p><i>Note : n.a. : Not Applicable ; ... : Data Not Available.</i></p>				