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GOVERNANCE STRATEGIC FRAMEWORK AND ACTION PLAN (GAP II)

(2014 – 2018)

Promoting Good Governance and Accountability
for Africa's Transformation

DRAFT REPORT FOR EXTERNAL CONSULTATION

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*** This document was elaborated by a cross-complex multi-disciplinary task team coordinated by OSGE.**

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*

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"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*

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"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 Finance and the Economy, Nigeria, 2012*

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"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 freedoms. 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

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"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.

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"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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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 Africa's public finance; and improving investment and business climate for private sector-led growth. Bank interventions were undertaken at the country, sector and regional levels. The specific needs of fragile states and middle income countries (MICs) were also addressed[1].

2. **Why a new Governance Strategy?** 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 and inflows from remittances and Foreign Direct Investment (FDI) vastly dwarf aid. Increasingly, Africa is getting to a position to use its own resources for development, but needs a strong governance framework to put them into effective use. This underscores the need for refocusing the strategic orientation of the Bank's governance work in RMCs to support a self-reliant continent, capable of mobilizing and utilizing resources for development, consistent with the demands and expectations of its people.

3. To respond to this accelerating transformation on the continent, the new African Development Bank Group Strategy for 2013-2022 (hereafter referred to as the Ten Year Strategy – TYS) was approved by the Board in April 2013. The TYS puts the Bank at the center of Africa's transformation and is built around two core objectives: achieving inclusive growth and transition to green growth. The Strategy has five core operational priorities, including Governance and Accountability (G&A), which is central to the achievement of its vision and objectives. Consistent with the TYS, Governance is being mainstreamed into all Bank operations, and this requires a "One Bank" approach (involving cross-complex collaboration) to the Bank's governance work in RMCs.

4. **Strategic Platform for GAP II:** The TYS, with its twin objectives of inclusive growth and transition to green growth, provides the strategic platform for a new Governance Strategic Framework and Action Plan (hereafter referred to as 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 governance of sustainable infrastructure and natural resources governance.

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

[1] The special need as assessed by GAP I, was building state institutions destroyed by conflicts and strengthening capacity in financial governance in fragile states, while in MICs the focus was on improving economic governance and enhancing BEE. However, work on BEE was extended to all RMCs during the implementation of the Strategy.

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. The Strategy is built around three pillars: (i) public sector and economic management (PSEM), (ii) sector governance and (iii) investment and business climate.

6. Within the work streams of these three strategic pillars, the Bank will build on the achievements of GAP I on PFM and 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 demand, 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 works to ensure that the drivers and impediments to reforms are understood and risks are mitigated, 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 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 (OSGE), delivery of results across all three pillars, will to a large extent, be based on input from all departments dealing with governance issues. Decentralization will bring the Bank closer to its clients, enhance policy dialogue and facilitate responsiveness. This implementation modality will have implications for the current organizational structure and ownership; financial resources; staffing, and capacity development; Bank-wide capacity building and awareness program; monitoring and evaluation, and partnerships. The Bank will use a wide range of lending and non-lending instruments and explore flexibly innovative approaches in implementing GAP II based on country context and circumstances.

8. **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 risk. Management of these risks will be an iterative process, with new risks identified, assessed, prioritized, and dealt with throughout the duration of the Strategy.

9. **Conclusion and Recommendations**: GAP II lays out the strategic direction of the Bank's governance work in RMCs over the period 2014-2018, and embraces a "One Bank" approach, both in its preparation and implementation as a means to ensure that governance is mainstreamed across all Bank operations. Management recommends that the Operations Committee endorses this draft GAP II Main Report for submission to CODE before proceeding on external consultation.

1. INTRODUCTION

1.1 Governance can be defined as a set of processes, policies, laws, behaviours, and institutions that affect the manner in which power is exercised in the management of a country's economic, financial and social resources. The principles of good governance according to the Bank include accountability, transparency, participation, combating corruption, and an enabling legal and judicial framework. In the light of these principles, the Bank prepared its first Governance Strategic Directions and Action Plan (GAP I) in 2008 to support good governance in its Regional Member Countries (RMCs).

1.2 Using a combination of programme based operations (PBOs), institutional support projects (ISPs), technical assistance, policy dialogue and advisory services, the Bank focussed on economic and financial governance. 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 and middle income countries (MICs) received particular attention.

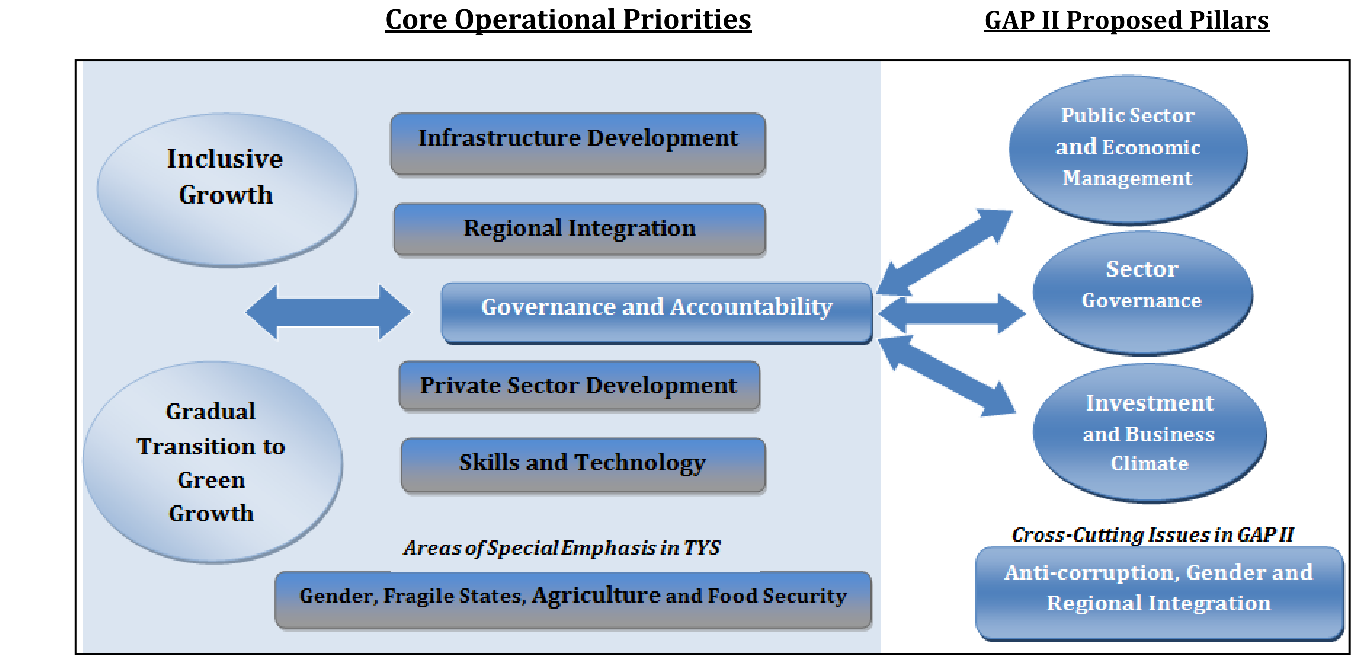
1.3 In addition to the TYS, the design and implementation of GAP II will take into account recent Bank Group thematic and sector policies, strategies and framework papers. These include: Policy on Program Based Operations (PBO), Policy on Disclosure and Access to Information (DAI), Energy Sector Policy, Private Sector Development Policy, Private Sector Development Strategy, Agricultural Development Strategy, Fragile States Strategy, Urban Development Strategy, Regional Integration Strategy, Financial Sector Strategy, Anti-Money Laundering Strategy, Climate Risk Management and Adaptation Strategy, Human Capital Development Strategy, Green Growth Framework, Civil Society Engagement Framework, and the Gender Responsive Budgeting Framework.

Why a new Governance Strategy now?

1.4 **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 use its own resources for development, but needs a strong governance framework to put them into effective use. This underscores the need for refocusing the strategic orientation of Bank's governance work in RMCs to support a self-reliant continent, mobilizing and utilizing resources for development, consistent with the demands of its citizens

1.5 To respond to this accelerating transformation, a new Bank Group's TYS was approved by the Board in April 2013. The TYS puts the Bank at the center of Africa's transformation and is built around five operational priorities (including Governance and Accountability), three areas of special emphasis, and twin core objectives namely, achieving inclusive growth and transition to green growth. The twin objectives of the TYS provide the strategic platform for GAP II, designed to operationalize the G&A agenda of the TYS. Given that the Bank is mainstreaming governance into all its operations, a "One Bank" approach, involving cross-complex collaboration, becomes imperative for 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 OSGE coordinating the consultation process. Members of this Inter-Departmental Working Group (IDWG), cover 20 Bank's departments/units, and have contributed 20 sector and thematic briefing notes, which have 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's Group Strategy for 2013-2022 and the Governance and Accountability Dimension



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

1.6 GAP II is closely aligned with the objectives of the TYS. **Inclusive growth and governance** are closely intertwined and complement each other in a virtuous circle by:

- **Maintaining buoyant growth rates at the regional level 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 BEE and providing public services.** This includes improving the business enabling environment (BEE) and removing barriers to growth of micro, small and medium enterprises (MSMEs) and strengthening the integration between MSMEs and larger enterprises; 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); reform of legislation 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 critical to helping reduce opportunities for corruption and effective policy performance. Putting recipients and beneficiaries at the center of policy 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 also strengthen demand-side accountability.

1.7 **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 low, though increasing[3], GAP II work streams will focus on both mitigation and adaptation measures and will be informed by the Bank Group Climate Risk Management and Adaptation Strategy (CRMA), especially its pillar 2 activities (Box 1). It will also take into account, the new Bank Group Green Growth Framework, which includes policies and measures on sustainable land management. The work streams on sustainable infrastructure and natural resources governance will support the transition to the 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 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 now prepared a Comprehensive Action Plan to implement the policy, which includes investments of almost 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.

1.8 **Fragile States:** Fragility is a special area of emphasis in the TYS. The Bank Group's intervention in fragile states aims at rebuilding state capacity and transition from fragility. GAP II will build on the Bank's comparative advantage in providing predictable budget finance to fragile states and in engaging them in sensitive dialogues as a "preferred" and "trusted" partner. Efforts will focus on reducing the causes of fragility in each context (for example, unemployment and budgetary exclusion). Going forward, the Bank will improve the flexibility, responsiveness and effectiveness of the operational and resource allocation framework to fragile states and the implementation of the Fragile States Facility (FSF). Specifically, with regard to FSF Pillar I resources, the Bank is considering the possibility of introducing additional qualitative measures for identifying fragile states and for assessing eligibility for assistance from the FSF; as well as pilot a standardized assessment tool, the Country Resilience and Fragility Assessment (CRFA)[4].

1.9 While reflecting the emphasis given to fragile states in the Bank Group Strategy, the GAP will also tailor interventions to the governance needs of Low Income Countries (LICs) and Middle Income Countries (MICs). In LICs, the Bank will emphasize the support needed to put countries on a path of graduation towards middle income status. LICs will also be supported across a broad range of governance interventions, particularly domestic revenue mobilization to increase fiscal space in the budget, and measures to foster private sector growth. The Bank recognizes that MICs will be less reliant on external resources to finance governance interventions but will need knowledge products and technical assistance to better use their own resources, and demonstrate concrete results for their

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[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] ADF-13 Draft Deputies' Report – Supporting Africa's Transformation (Discussion Paper, September 2013, Tunis, Tunisia).

citizens. Therefore in MICs, the Bank will emphasize knowledge products, policy dialogue, technical assistance and mainstream governance in sectors where governments have made significant investments on the basis of their domestic priorities.

Lessons learnt from GAP I and Past Governance Operations

1.10 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's support to RMCs. The summary of the findings of the progress review is presented in Annex 1. The key areas of focus of GAP I: PFM, BEE and mainstreaming of governance in all sector operations remain relevant for GAP II, and provide the selectivity basis for moving forward. The lessons learnt from the review of GAP I and the Bank's governance work in general have guided the design of GAP II and will also guide its implementation. These lessons include the need to:

- Strengthen diagnostics and analysis 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 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 RMC governments;
- Refine the approach to institutional support projects (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; as well as take steps to ensure more efficient implementation.
- Emphasize promotion of gender equality in governance operations;
- Develop strategic partnerships and strengthen current engagements, particularly at the regional and global level, and determine where the Bank can play a leadership role.

1.11 A general lesson from governance in Africa is the importance of political stability for economic progress, as most conflicts and fragility in RMCs are triggered by poor political governance. The Bank is therefore cognizant of the imperative of political stability for the successful implementation of its projects and programs in RMCs. In this regard, an assessment of political stability is a general pre-requisite for the Bank's PBOs. Although the Bank has no political governance mandate, it has strong engagement in the African Peer Review Mechanism (APRM), an initiative that has played an important role in addressing political governance issues in RMCs though self- assessment and peer learning. The fact that more African countries are now experiencing peaceful transition of power through democratic elections is evidence of improved political governance in Africa. The Bank will therefore intensify its engagement in the APRM process during the GAP II period.

1.12 GAP II will build on the achievements of GAP I by deepening interventions in the areas of PFM, BEE and sector governance. Regional integration will be given an enhanced focus by emphasizing it across all the GAP II strategic pillars in collaboration with Regional Economic Communities (RECs). 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; and better focus on results with emphasis on outcome indicators. Consideration will also be given to the core emerging issues of environmental and climate change governance.

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

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

2.1 The current orientation of GAP II is informed by lessons learned from implementing GAP I, a review of the current governance challenges in Africa, the core operational priorities of the TYS and Bank-wide consultations. The final orientation will be sharpened by further guidance by CODE and inputs from external consultations.

Vision and Core Objectives

2.2 The vision of GAP II is that of Africa governed by transparent, accountable and responsive governments and 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 (infrastructure, basic social services and natural resources), and citizens' ability to monitor them; (iii) Promoting the business enabling environment, which supports Africa's socio-economic transformation, job creation and financial inclusion. A cross cutting objective supporting the previous three will aim to reduce corruption in both the public and private sectors,

Bank Group Positioning

2.3 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 preferred partner and gives it legitimacy to act as convener and partner on issues affecting Africa, and in having access and reach into sensitive governance dialogue, (ii) strong convening power, which is increasingly being acknowledged by African leaders and globally, (iii) special mandate on governance by African leaders; (iv) its role as a partner in a wide range of regional initiatives such as the African Peer Review Mechanism (APRM) or 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 and its perceived credibility in providing independent advice on contract negotiation and other NRM issues; and (vii) its local presence, across the continent, to be strengthened through the on-going decentralization process, enables it to develop first-hand knowledge of Africa's governance challenges and the political economy dynamics. These attributes position the Bank 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. With its distinctive African character, the Bank has comparative advantage and is well positioned to support good governance in Africa. Its experience and record in non-sovereign operations (NSO) allows the Bank to draw lessons from its investment operations to inform policy operations for BEE, and engage private sector entities and actors (both domestic and foreign) to convene dialogue on governance issues at national and regional levels. Since governance is at the core of state legitimacy and relationship with its citizens, advancing governance reforms requires a strong relationship of trust between a development partner and the partner country. Box 2 illustrates the Bank's track record in improving governance in Africa.

Box 2: Bank Group's Track Record in Improving Governance in Africa

During the GAP I period (2008-2012), the Bank demonstrated a track record in 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. Using the PBO and ISP instruments, the Bank has been supporting critical areas of governance including: PFM, BEE, natural resources management, institutional infrastructure and regional integration (policy, legal and regulatory reforms) across the continent. The Bank also supported joint knowledge products with other partners. GAP II will consolidate these achievements and scale up those experiences that have been quite positive. The Bank's decentralization process will further enrich these experiences and prove invaluable in stepping-up policy dialogue with RMCs.

Guiding Principles

2.4 In supporting the vision and objectives of GAP II, the Bank's management and staff 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 (Box 2); 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 also be an enabler for the achievement of other Bank operations.
- *Focus on results***:** The Bank's governance operations will be results-oriented with focus on development outcomes, using the new Bank's four-level Results Measurement Framework (RMF).
- *Coordination and complementarity with other donors:* In line with the principles of the Paris Declaration, 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

2.5 In line with 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 the TYS of inclusive growth and transition to green growth (Table 1). In arriving at these three pillars and corresponding work streams, the Bank has followed due process through the mid-term review of GAP I, the review of key governance challenges in Africa, preparation of thematic and sector notes, and consultations undertaken. During the implementation stage further prioritization will be undertaken by applying the selectivity criterion (paragraph 2.4).

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

VISION

Africa governed by transparent and accountable governments and 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 management of public resources (measured by real GDP growth, inflation, internal and external balance, external debt ratio, PEFA scores, CPIA, WGI, TI Corruption Perception and Mo Ibrahim Indices).	Improved natural resources management, institutional infrastructure, and basic social services delivery supporting inclusive and green growth; as measured by improved Revenue Watch Institute (RWI) resource governance index.	An enabling business climate supporting green investment and the development of business enterprises and job creation; and Decline in illicit financial outflows.
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.
MAJOR WORKSTREAMS	Deepening PFM systems at central and sub-national government levels; Strengthening e-governance for improved efficiency such as e-procurement, ASYCUDA to improve customs revenue; and e-justice; Strengthening oversight institutions and demand-side governance; and Strengthening statistical capacity and evidence base for improved policy, planning 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 projects e.g. through e-procurement.	Support to enabling environment for private sector development and green investments; Strengthening trade facilitation through coordinated customs management and integrated IT system; Support to SMEs' development, access to credit and job creation especially for women entrepreneurs; Strengthening financial sector regulation, anti-money laundering, and combating illicit financial flows,
CROSS-CUTTING ISSUES	Anti-corruption; gender; and regional integration.		
KEY INSTRUMENTS	Program based operations; institutional support projects and technical assistance; policy dialogue and advisory services; economic and sector work.		

Pillar 1: Public Sector and Economic Management

2.6 Supporting central government systems and institutions to maintain macroeconomic stability, manage financial and human resources efficiently and effectively will facilitate the creation of a capable state for inclusive and green growth. Many RMCs have taken steps to improve their fiscal frameworks and public financial management (PFM) systems, and there is increasing awareness of the importance of demand-side accountability[5]. Many RMCs now have sound legal and policy frameworks, as well as requisite PFM institutional structures[6]. The credibility of national budgets has improved, while debt management and revenue collection are improving. External oversight institutions such as Supreme Audit Institutions (SAIs), Parliamentary Public Accounts Committees (PACs) or other parliamentary alternatives, and Civil Society Organisations (CSOs), the media, and business associations, are becoming increasingly active in many RMCs.

2.7 **Improved economic management has supported Africa's robust economic growth:** For over one decade (2000-2012), Africa has sustained an average annual real GDP growth rate of over 5%. Due to the global economic and financial crisis, real GDP growth rate fell to 3.1% in 2009, but Africa has since staged a robust recovery reporting real GDP growth rate of 6.6% in 2012[7], despite the persistent slowdown in the global economy.

KEY CHALLENGES

2.8 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 lack the 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 basic service delivery in many RMCs.

- **Demand-side governance and accountability mechanisms remain weak:** In many countries, the capacity of parliamentarians to effectively engage the executive arm of government is weak due to limited 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 limited in many RMCs. CSOs, media and business associations often lack authority and/or capacity to operate effectively in many countries due to unfavourable enabling environment, poor coordination, limited access to public information, and inadequate analytical and staffing capacity/

- **Growth is not inclusive enough:** Strong economic growth has made some impact on poverty reduction but growth is not inclusive enough: Though the proportion of the population living below the poverty line (US$1.25 a day) declined from 51% in 2005 to 39% in 2012[8], Africa's poverty incidence is still about 17% higher than the average for other developing countries (Annex 2). Thus, implementation of PRSPs/NDPs has not met the expectation of deep poverty

[5] 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.
[6] For example, Botswana, Mauritius, Namibia and South Africa have high quality PFM systems and overall governance
[7] With over 30% of RMCs recording over 6% real GDP growth in 2012, Africa has become the fastest growing region globally.
[8] African Development Bank, Annual Development Effectiveness Report (ADER) 2013, page 13

reduction as poverty still remains widespread in many RMCs. High youth unemployment and limited economic opportunities for women further worsen the poverty situation.

- **Africa still faces knowledge and evidence gaps to inform policy development and policy 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 RMCs[9]. Policy formulation remains weakly grounded in evidence, with sector strategies often not being linked to available resources and monitoring and evaluation systems. Going beyond GDP figures, more efforts are needed to build strong database in all sectors to improve policy and strategy formulation, planning and budgeting, and provide reliable baseline data for poverty assessment and results measurement.

GOING FORWARD – OPERATIONAL ACTIVITIES

2.9 Working with partner governments, other development partners and organizations as necessary, the Bank's support for public sector and economic management in RMCs will prioritize PFM, including domestic resource mobilization, and demand-side governance, with focus on transparency and accountability.

(i) Deepening PFM at both national and sub-national level and improving domestic revenue mobilization:

- **Strengthening macroeconomic management and PFM systems at national level** from establishing macro-fiscal frameworks, to revenue collection, budget formulation and execution, including procurement, accounting, and reporting. Particular emphasis will be on capacity building for implementation of PFM reforms, which still remains weak in many RMCs. Special focus will also be on budget transparency through disclosure of revenue and expenditure figures as a pre-condition for stronger transparency and demand-side accountability; strengthening expenditure controls and internal audit functions; and improving enforcement of national procurement laws and procedures (including open procurement and e-procurement). Strengthening ICT application (e-governance) will enhance public administration, PFM and service delivery. The state-building aspect of PFM reform – the need for states to manage public resources effectively and deliver visible results – will be emphasized in fragile states. The Bank's continued support to the collaborative Africa Budget Reform Initiative (CABRI) will enhance capacity building for PFM in RMCs though peer learning and best practices. This type of public finance reform is in line with 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 capacities.

- **Extending PFM work to the sub-national level** will support the ongoing decentralization implementation capacity for reforms so as to improve local level decision making, service delivery, and inclusiveness. Strengthening PFM reforms at the local level will also contribute towards the Urban Development Strategy (UDS, 2011) objectives, specifically its fiscal decentralization, revenue collection, transparency and anti-corruption dimensions. Gender-responsive PFM reforms at all levels of government, which for example, incorporate gender budgeting, will improve inclusiveness, transparency, and accountability. The Bank already has some experience and capacity in supporting sub-national governance. Concrete examples include Ethiopia's Basic Services Program (BSP), a PBO focusing on expanding access and improving quality of decentralized basic services; the ISP in Sierra Leone addressing identified weaknesses in the sub-national level Public Expenditure and Financial Assessment (PEFA) conducted 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. The Bank's ongoing decentralization process,

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

which is enhancing its field presence, will further strengthen Bank's knowledge of sub-national governance issues.

- **Domestic resource mobilization will be prioritized**: Stepping up support for domestic resource mobilization in RMCs will facilitate the use of Africa's own-resources for inclusive growth. The global decline in external development assistance and remittances due to the persistent global financial crisis makes this even more imperative. The strategy will include introduction of sustainable tax systems and systematic analysis of new and innovative ways of mobilizing domestic resources. In this context, the Bank will assist RMCs in reforming their tax systems and in modernizing revenue administration systems including automation of the systems. The Bank will continue to support the African Tax Administration Forum (ATAF) to strengthen networks to enable RMCs build capacity in tax administration through peer learning. The Bank will support RMCs in non-tax revenue mobilization efforts, especially the automated system for customs data (ASYCUDA), customs being a major source of non-tax revenue in RMCs. Better natural resources management to minimize mispricing and illicit outflows, and zero tolerance against corruption are also critical to block leakages and free public resources for socio-economic development.

(ii) Strengthening accountability mechanisms and demand-side governance: To strengthen accountability mechanisms, the Bank will increase support to independent oversight institutions and integrity management systems including the Parliament; Supreme Audit Institutions; judiciary; regulatory institutions; anti-corruption agencies; and procurement, audit and licensing agencies. In remaining engaged with non-state actors, GAP II will build on the Bank's Civil Society Engagement Framework[10] in improving demand-side accountability. To enhance engagement with the civil society, the Bank will support capacity building of CSOs, the media and business associations, with a special focus on women interest groups, through training, with the aim of strengthening citizens' engagement with the Government in the policy dialogue space and improve inclusiveness, voice and accountability. This will assist them to improve their ability to better analyze and interpret information on the budget and government performance, and to build constructive partnerships with the Government and oversight institutions. In the context of this enhanced engagement, the Bank will need to adequately fund this work stream to be able to achieve the expected results. The Bank will use dedicated resources (e.g., dedicated trust funds) for this purpose. While demand-side accountability will be supported as part of strengthening the core state system under this pillar, it will also support the results in the next pillar. For example, the oversight role of SAIs matters both to support dialogue on the overall fiscal performance and financial integrity, and to highlight specific delivery bottlenecks at the sector level (e.g., through performance audits in the health sector). Fostering citizens' voice is particularly important for inclusive growth in situations of fragility, where a perception of exclusion can undermine state legitimacy and foster conflict. Thus, demand-side accountability will be particularly emphasized in fragile states. The Bank will also continue to pay great attention to citizens' rights and engagement (beneficiary participation) in project preparation and implementation.

(iii) Strengthening RMC's planning capacity and evidence-based policymaking through stronger statistics and monitoring and evaluation systems. Availability of reliable and up-to-date statistical data is a pre-requisite for evidence-based policy formulation, strategy development, planning and budgeting, M&E, and results measurement. The Bank will support RMCs' efforts to reform their statistical systems, build statistical capacity and databases to generate reliable and timely statistics, particularly in the TYS priority sectors; and implement better statistical techniques to measure results more effectively giving consideration to gender, employment, environment and climate change. Knowledge work will be deployed for the preparation, guidance and/or review of comprehensive National Strategies for Development of Statistics (NSDS) in RMCs to meet the inclusive and green growth agenda. Particularly in fragile states, serious weaknesses in the statistical systems constitute a major fragility in economic management, which limits government effectiveness. Thus,

[10] Operationally, collaboration with CSOs hitherto aims to assist the Bank in broadening participation and improving the quality of country programming and development effectiveness of its interventions.

the Bank will step up statistical capacity building in fragile states to improve decision-making. The Bank's Statistical Capacity Building (SCB) program in RMCs, underpinned by the assessment and diagnosis of national statistical systems, will provide the basis for moving forward. The Bank will continue its support in this area by applying a country-focused approach, working with National Statistics Offices, Research Institutes and other national organizations, supporting broad capacity building and promoting systematic civil society participation, especially with regards to the formulation of indicators. In order to be close to its clients, the Bank is progressively deploying its Statisticians to the Regional Resource Centers.

Pillar 2: Sector Governance

2.10 The Bank is mainstreaming governance in its sector operations in RMCs, especially in natural resources and infrastructure in order to help RMCs to deliver visible results for their citizens and support the inclusive and green growth agenda. Sector governance will focus on strengthening policies, legal framework, institutions, processes, and incentives to deliver high quality services to the population, and procurement related corruption, which is an issue in many sectors. The natural resources sector has been a key driver of economic growth and a major source of government revenue in Africa's resources-rich countries. The sector holds high potential for future growth and Africa's economic transformation, if harnessed in the context of a robust governance framework, including close attention to environmental and climate change issues. During GAP I, the Bank supported a number of RMCs' compliance with EITI transparency standards[11], and to improve policies and legislations for natural resource management (NRM). Through the African Legal Support Facility (ALSF), hosted by the Bank, RMCs were also assisted with better negotiated contracts and technical advice on NRM. An important issue in the governance of sustainable infrastructure is creating a conducive environment for private sector participation in the provision of infrastructure services (energy, transport services, water and sanitation, ICT etc.). Private sector participation in infrastructure has accelerated in Africa over the last decade[12]. 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.

KEY CHALLENGES

2.11 **Natural resource management (NRM)**: The hiatus between abundance of natural resources and development outcomes in Africa has been attributed to poor governance[13]. 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 got from aid and foreign investments (US$62.4 billion)[14]. Moreover, extractive industries have developed as enclaves with little economic linkage to the rest of the economy; they 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 often leads to the expropriation of local communities, and significant social and environmental consequences of natural resources exploitation. Companies have the obligation to

[11] Out of 23 EITI compliant countries globally, 12 are in Africa. These include Burkina Faso, Cote d'Ivoire, Ghana, Liberia, Mali, Mozambique, Niger, Nigeria, Republic of Congo, Tanzania, Togo and Zambia); while four others (Cameroon, Central Africa Republic, Chad, and Sao Tome) are candidates.

[12] World Bank's Private Participation in Infrastructure (PPI) database

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

[14] Report of Africa Progress Panel - Equity in Extractives, page 7.

contribute to the development of the local communities and to sustainable development. The presence of resource rents, matched with grievances among local communities, is a factor driving resource-rich countries towards situation of fragility and conflict. Unsustainable management of natural resources (i.e. land, forests and bio-diversity resources) results in environmental degradation and aggravates the impact of climate change. Poor management of shared natural resources (such as water, forest and biodiversity resources), poses significant threat of over-consumption, and regional conflict.

2.12 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%[15], there are specific challenges in the area of "institutional infrastructure", for example in transport and the energy sectors (Annex 1, Box 2). These pressing governance challenges include: weak policy, legal and regulatory frameworks for infrastructure development especially for PPPs; failure to identify priority investments; inability to make adequate 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 Urban Development Strategy (UDS) highlights the impact of growing urbanization on public infrastructure, resulting in inadequate service delivery and worsening urban poverty. The increasing level of urban pollution, if overlooked, will negatively affect the green growth agenda.

GOING FORWARD – OPERATIONAL ACTIVITIES

2.13 Working with partner governments, other development partners and organizations as necessary, the Bank's support to sector governance in RMCs will prioritize **natural resources management,** which is becoming a big driver of growth in Africa and **infrastructure** with focus on transparency and accountability, given that **infrastructure** constitutes over 70% of the Bank Group portfolio in RMCs. The Bank also recognizes the need to deliver basic social services (education, health and social safety net) in line with the principles of transparency, accountability, value for money, efficiency, responsiveness, and inclusiveness, but this will be handled through the demand-side side governance work stream and policy dialogue in RMCs. GAP II will also complement the Bank Group Human Capital Strategy (HCS), under preparation, which places emphasis on strengthening governance and accountability in the social sector by ensuring that resources allocated to the sector are used efficiently, and that citizens are empowered to demand greater accountability in both access and delivery of social services.

- **Natural resource governance:** In view of its enhanced emphasis on NRM, the Bank has established an African Natural Resources Center (ANRC), to enhance its capacity to support RMCs in the efficient management of their natural resources. The Bank will continue to support the transparency agenda, including compliance with the new EITI standards; the IMF Guide to Resource Revenue Transparency, and the implementation of the African Mining Vision (AMV) at the country level. The way forward for Africa, is not simply seeking compliance with standards, but securing more revenue from their natural resources and better utilizing the resources to secure better development outcomes. This will create jobs and generate additional incomes for RMCs for their inclusive growth agenda. Specifically, the Bank will support RMCs to: (i) further improve policies, legal and regulatory frameworks for sustainable NRM; (ii) build economic linkages between the natural resources sector and the wider economy to improve value chain development; (iii) combat corruption in NRM and build domestic capacity for contract negotiation to minimize trade mispricing and illicit financial outflows; (iv) acquire natural resources information to address the problem of information asymmetry and overcome climate change

[15] African Development Bank: Private Sector Development Strategy, 2013-2017; July 2013.

information gap; (v) support environmental and social mitigation measures to alleviate the negative impact of natural resources exploitation on the host communities and in particular pay particular attention to the issue of corporate social responsibility; and (vi) improve management of renewable natural resources (land, forests, fisheries, and bio-diversity) to reverse environmental degradation. The Bank will foster community/CSOs' oversight of NRM to promote accountability and inclusiveness; and intensify its technical assistance and advocacy role for regional collaboration in the management of shared and trans-boundary natural resources. The PFM work stream will help to ensure tax administration that prevents tax evasion, public investment management that delivers benefits to citizens, macroeconomic framework that ensures fiscal stabilization; and auditing practice that promotes the role of SAIs in auditing contract execution. Particular emphasis will be given to governance of natural resources in fragile states, with focus on addressing its political economy dynamics. The potential of natural resources to further support self-reliance in MICs will be promoted through knowledge products and advisory services.

- **Governance of sustainable infrastructure:** The Bank will support RMCs' efforts in designing appropriate infrastructure sector policies, strategies and regulatory frameworks, with special emphasis on energy, transport, water and sanitation, and customs administration to ensure that infrastructural services deliver real benefits to citizens. In view of the growing importance of PPPs, the Bank will support the design and implementation of policies, legal, financial and regulatory mechanisms to enhance private sector participation in infrastructure investment and provision, as well as enable RMCs to derive optimal benefits from these arrangements. To improve efficiency of state-owned infrastructure public utilities, the Bank will support corporate governance reforms in these organizations and strengthen fiduciary standards and safeguards to mitigate corruption risk (especially in procurement and cash management) through for example e-procurement in infrastructure projects. To promote inclusiveness, the Bank will mandate external oversight of project/program implementation, including those undertaken by CSOs, communities and beneficiaries in terms of monitoring performance and checking corruption. Another area where the Bank will want to ensure progress at country level is regulatory reform to provide for due process and an evaluation framework for unsolicited bids. In many countries, this mode of procurement is likely to remain significant. As project preparation and development could amount to up to 15% of total project costs, this is an area where greater alignment of risks and rewards between the public and private sectors is desirable.

2.14 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 and adequate budgetary provisions are made for new investments, and for 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

2.15 A large and vibrant private sector is an engine of growth and job creation. It can also serve as a strong advocate for policy reforms and a driver for good governance. Over the last decade, Africa has developed a more business-friendly environment, reaping significant returns in terms of investments and trade. Some countries have streamlined business licensing procedures to reduce the cost and delays associated with establishing new ventures; and set-up one-stop border posts to improve regional trade. The 2013 ADER[16] showed that the cost of business start-up 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

[16] African Development Bank, Annual Development Effectiveness Report (ADER) 2013, page 15

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 many cases, they tend to be "one stop" desks, unable to deal with all the 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 the region as a whole, foreign direct investments have increased fivefold since 2000[17], although a large proportion has been in the extractives industries.

KEY CHALLENGES

2.16 **Although achievements have been made, there are still significant challenges in the investment and business environment in RMCs, which need to be addressed.** One major private sector challenge is its inability to create significant amount of jobs for the large number of unemployed youths, thus preventing Africa to capture the demographic dividend of its increasingly better educated youths[18]. Youth unemployment rate in Africa is estimated at around 40% per annum. Other labour market challenges impeding private sector development include poor quality and quantity of skills and skills mismatch[19], and restriction on cross-border movement of labour. Corporate governance issues include weak legal framework, lack of transparency, accountability and risk of corruption, with corruption being a key barrier to the establishment and growth of businesses, especially MSMEs. The financial infrastructure and capital markets essential to support private sector investment and growth are at nascent stages of development[20], resulting in predominant cash-based economies, which impede financial intermediation. Lack of access to credit, especially long-term finance, constrains business growth, especially development of MSMEs, with women entrepreneurs particularly facing greater difficulties due to their unfavourable legal status. Uncertainty in property rights, and especially access to land, hinders investment and growth. Weak corporate governance frameworks, and concerns about financial market integrity remain a disincentive for investors. Illicit financial flows and money laundering rob many African countries of potential investment capital. Furthermore, Africa's infrastructural deficiency (particularly energy, customs administration, transport services, and ICT), imposes high costs on industries and reduces competitiveness[21].

GOING FORWARD - OPERATIONAL ACTIVITIES

2.17 GAP II is consistent with the Bank's PSD Policy (2013) and builds synergy with the PSD Strategy (2013-2017); and support the three PSD Strategy pillars (Annex 1, Box 1)

2.18 Working with partner governments, other development partners and organizations, Pillar 3 of GAP II will focus on the following work streams:

- **Improving BEE:** The Bank's support to RMCs in this work stream will focus on: (i) improving the policy, legal and regulatory frameworks for BEE and PPPs, including the analytical capacity for PPPs selection, preparation, monitoring and evaluation; (ii) enhancing reforms of business enabling environment especially those relating to ease of starting a business, registering properties, securing construction permits; and trading across borders; (iii) strengthening judicial systems (for example through e-justice) to enhance contract enforcement and resolution of commercial disputes to improve security of investments, as well as legislations and regulations promoting the establishment and growth of women-owned businesses; (iv) strengthening policy

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[17] ADER, 2013, page 15

[18] 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.

[19] 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)

[20] 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.

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

and legal framework and capacity building support to MSMEs' by improving their access to business development services, skill development, and training (e.g., entrepreneurship and small business management) and enhance their contribution to employment generation, (v) expanding private sector job opportunities and employability of youths through support to labour market observatories, leveraging private sector internships and mentorship programs; provision of business development services for entrepreneurship and employment; vocational training programs for the youth, women, and people living with disability; and promoting job-creating innovations to promote inclusive growth; (vi) improving 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; and (vii) support to public-private dialogue to empower the private sector as a demand side advocate for policy reform; (viii) broaden financial inclusion with particular focus on ensuring access to credit to MSMEs, especially women-owned businesses; and (ix) Strengthening financial sector regulators (e.g. African Association of Central Banks) and other non-bank financial regulators to enhance the performance of the African financial systems.

- **Tackling illicit financial flows and money laundering:** The joint AfDB-Group and Global Financial Integrity report (2013)[22] provides a useful starting point for tackling illicit financial flows issues in Africa by raising awareness, building capacity, and deepening research to consider the drivers of illicit financial flows in country-specific contexts. The report considers the interactions between illicit financial flows and the policy environment, particularly tax regimes, and underlines the importance to address the tax moral and its promoting factors such as an equitable tax regime, an effective tax administration and the level of corruption. The Bank is in the process of updating its Strategy on Money Laundering and Anti-terrorism financing to extend it to cover illicit financial outflows, especially in NRM. The Bank will emphasize illicit financial flows and money laundering issues into its CSPs, RISPs, and ESWs, and build internal capacity to effectively drive policy dialogue on these issues in RMCs and at the sub-regional level. Through its governance work, the Bank will 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 illicit financial flows and money laundering issues.

Cross-Cutting Issues

2.19 In delivering the work streams in the three pillars, the Bank will give special emphasis to three issues essential to inclusive growth namely, anti-corruption, gender, and regional integration.

- **Anti-corruption:** Corruption[23] remains a major challenge in many RMCs both in the public (national, and sub-national governments, and in the sectors) and in the private sector. The internal drivers of corruption in RMCs include poor governance, poverty and inequality. Corruption also has an external dimension in the form of money laundering and illicit financial flow, where Africa needs collaborative global effort and support in addressing the issue. Corruption raises the cost of doing business and disproportionately affects the poor who can least afford to pay for services. Of the 174 countries covered in the Transparency International (TI) corruption perception index in 2012, only 5 African countries scored over 50%, with the average for the continent at 30%[24]. The Bank will adopt a comprehensive approach towards anti-corruption, by mainstreaming it in all Bank Group's operations through strengthening of fiduciary safeguards, increasing independent scrutiny, and strengthening transparency and accountability. The Bank will support RMCs' efforts to improve the performance of anti-corruption agencies (ACAs) in preventing, investigating and sanctioning corrupt practices, and will also blend the direct support to ACAs with a diffused approach supporting a broad range of oversight and integrity institutions and processes in

[22] AfDB and Global Financial Integrity, Illicit Financial Flows and the Problem of Net Resource Transfers from Africa (1980-2009), March 2013.
[23] World Bank defines corruption as "the abuse of public office for private benefits" (World Bank, 2012).
[24] Botswana (65%), Cape Verde (60%), Mauritius (57%), Rwanda (53%) and Seychelles (50%).

addressing corruption. Specifically, the Bank will emphasize aspects of PFM work that are particularly relevant to the prevention of corruption (e.g., transparent procurement systems) and leverage its work on demand side governance to support anti-corruption activities by encouraging CSOs/community/beneficiary participation in the fight against corruption. The Bank will 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 reduce corruption. The Bank will provide capacity support including anti-corruption training to integrity and oversight institutions, including CSOs, on fraud indicators, procurement red flags, sanctions, cross debarment, and other integrity risk tools.

- **Regional integration:** Regional integration is important for Africa to participate more effectively in the global economy, and to share the benefits of an increasingly connected global marketplace. To this end, the Bank will continue to promote harmonization of regional policies and of regional payment systems in the context of RECs. However multiplicity of RECs and overlap in their membership tend to limit their efficiency and effectiveness in driving Africa's regional integration agenda. The unique COMESA/EAC/SADC Tripartite Arrangement and the strong support for the process by the Bank is a good example of how to tackle this problem. In the context of the Bank Group's Regional Integration Strategy and RISPs, the Bank will continue to support RECs in the "soft" aspects of regional integration including development of transparent procurement systems (including e-procurement); and streamlining and simplifying border management systems and procedures supported by an integrated IT system (e-governance). This will involve the use of single windows as an aspect of a coordinated border management system, which reduces corruption and the time spent at border crossings. The Bank will support the simplification and harmonization of complex trade and customs procedures and regulations, investment and financial codes, quality assurance and technical certification standards. The Bank will also promote policy convergence, regional financial integration, harmonization of legal and regulatory frameworks including for cross-border movement of labor and capital to enhance opportunities for youth employment and enterprise development. In the context of CSPs and RISPs, policy dialogue with RMCs and RECs will emphasize the need for synergy between national and regional development programs; and for appropriate country structures to oversee regional integration arrangements.

- **Gender:** In line with the TYS and the Bank's Gender Strategy, promotion of gender equality and women's economic empowerment is a cornerstone of inclusive growth, which will be mainstreamed in all governance operations of the Bank. Gender responsive budgeting and the collection and use of gender statistics in policy and planning are useful tools for promoting gender equality in governance. Robust gender disaggregated database will also facilitate results measurement which gives due consideration to gender. Strengthening women's voice and participation at all levels, will enhance their contribution to positive development outcomes. Focusing on gender equality in the Bank's policy dialogue with RMCs will increase awareness of women's rights as an essential element of inclusive growth. The Bank will support women entrepreneurs through specific financial products, which address the social and legal constraints they face. The Bank's support to legal reforms will in particular focus on women's access to and control over productive assets including land, capital and other properties.

III IMPLEMENTING THE GOVERNANCE STRATEGY

3.1 In order to achieve the objectives of the 2013-2022 Bank Group's Strategy, a collective cross-departmental effort is needed in mainstreaming governance in all Bank Group operations. While the Governance agenda will be led by OSGE, delivery of GAP II results across all three pillars hinges on input from all departments dealing with governance issues.

Organizational Structure and Ownership

3.2 In order to support Africa's transformation, senior management will pay particular attention to the organizational arrangement needed to mainstream governance across the Bank and promote a One Bank approach to deliver the vision and objectives of the Strategy. This One Bank approach underlines the importance of management putting in place the right mechanisms and incentives for cross departmental cooperation and coordination in implementing GAP II. This will also necessitate defining common targets across departments for each operation, and structuring KPIs that promote strong governance input into operations. To this end, an oversight committee will be created, composed of all Directors of Departments responsible for implementing the Strategy (see Annex 4 for a division of responsibilities), chaired by the First Vice President, Chief Operating Officer. The committee will meet quarterly to monitor progress against the RMF; and identify risks to delivery and design corrective measures.

3.3 In addition, specific coordination mechanisms will be put in place to ensure delivery in two pillars of the Strategy. The implementation mechanisms for the GAP Pillar II will be aligned with the ones spelled out in the PSD strategic Pillars, including the oversight function of the high level Private Sector Development Steering Committee. Secondly, for natural resources management (NRM), Management has established a Natural Resources Management Center (NRMC) that will: (i) coordinate the work in NRM in the Bank around a unique work plan, (ii) provide a single point of entry for RMCs to engage the Bank on issues of NRM; and (iii) has the capacity to mobilize expertise and provide advisory services to RMCs in a flexible and responsive manner. It is important that this Center is well resourced to be able to effectively perform its tasks.

Human Resources, Staffing, and Capacity Development

3.4 The implementation of the GAP II will have **human resource implications.** Building on the existing governance expertize in the Bank, the scale of the governance challenges in the continent call for an increase in the number of specialist staff in governance across the Bank , to be achieved through a mix of deployment, re-skilling and net increases in three main areas:

- First, particular attention will be put to link pillars 1 and 2, to ensure that building core governance systems translates into results at the sector level. In order to do this, it will be important that **governance issues are embedded in all sector operations**, by creating the incentives 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 service delivery) will be built up to support the deepening of sector governance work. Management will also consider to what extent this can be achieved through an intensive program of staff specialization and re-training.

- Second, 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 which is currently limited, in order to adequately implement Pillar 3 activities.

- Third, the increased demands on the Bank in the area of governance of natural resources and the time critical nature of the advice needed, call for an increase in specialist skills in NRM, and particularly in the extractives sub-sector, where current staff complement is limited. Given the highly specialist nature of the sector, management will give consideration to arrangements that allow the Bank to recruit highly specialized experts (consultants) in a flexible manner, while retaining a core of in-house staff complement.

- Fourth, the Bank will invest in IT solutions in all the three pillars, to improve e-governance, using its ICT for Development Program, PBOs, ISPs, Investment projects and other relevant instruments.

3.5 **Bank-wide Capacity Building and Awareness Program** will be designed in cooperation with the Bank's African Development Institute (EADI) targeting sector and regional departments, and field offices staff to increase awareness of governance issues, and leveraging the impact of policy dialogue in RMCs. These will include, but not be limited to, political economy analysis to inform design of Country Strategy Papers (CSPs), Regional Integration Strategy Papers (RISPs), and operations; financial sector governance; anti-corruption programs; economic and governance challenges in natural resources management; gender aspects of governance; investment and business climate; policy dialogue in governance; and environmental and climate change governance. Staff exchanges with other organizations would also be emphasized to facilitate partnership building.

The Bank's Instruments

A. Lending Instruments

3.6 Program Based Operations (PBOs): Program Based Operations (PBOs) will remain an important instrument for channeling Bank's financial resources to 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. The Bank Group PBO policy (2012), has re-shaped PBOs as a "One Bank" instrument, empowering all departments to initiate and implement PBOs, and also provides a clear definition of sector budget support. A PBO quality assurance coordinating team, consisting of a multi-disciplinary expertise, shall be put in place to quality assure PBOs and ensure compliance with the new PBO policy and guidelines, so that sector and multi-sector operations have key governance elements to allow the instrument to deliver through the government systems[25].

3.7 **Institutional Support Project (ISP) and Technical Assistance**: Institutional and human capacity building is an important aspect of the Bank's governance work in RMCs. To this end, the Bank will step up the use of ISPs and technical assistance instruments to support national capacity building programs and sustainable indigenous capacity development, with a significant role for local and regional training institutions. The Bank's support will be strategic and responsive to clients' needs, complement PBOs and focus on results; while capturing synergies with other Bank's country and regional portfolio. The technical assistance instrument will be used to facilitate Bank's rapid response to clients' needs. ISPs' appraisal process also provides additional tool for policy dialogue, especially around economic and financial governance issues in RMCs and for regional integration. Some activities that would be difficult to fund under traditional lending instruments, such as direct support to non-state actors for demand-side accountability, will be supported through dedicated trust funds.

B. Non-lending Instruments

3.8 **CSPs and RISPs** are programming instruments, which are entry points for all Bank Group interventions in member countries and regional economic communities. It is therefore important that these documents should adequately articulate governance situation in the country and regional context; and justify the need for governance interventions especially the use of PBO. There is also the need to ensure synergy between PBOs and Investment lending in line with the recommendation of OPEV's evaluation of PBOs.

3.9 **Economic and Sector Work**: The Bank will support analytical work to provide a robust knowledge base for the development of national strategies and programs, the design of Bank's operations, and inform policy dialogue in RMCs. Promoting the use of **joint knowledge products, diagnostics and standards** across the continent[26] will foster a common understanding of the

[25] This scope will go beyond a fiduciary risk assessment, which continues to be carried out by ORPF.
[26] Across the development community, there is increasing recognition of the importance of undertaking robust diagnostics in order to: contribute to a shared understanding of the political context and how it affects the overall aid strategy; inform better policy and programming, through the identification

governance challenges in Africa and provide agreed benchmarks to measure progress. The Bank will partner will global and/or regional initiatives to promote common standards, for example in government auditing and accountability tools (AFROSAI); payment systems (ECOWAS, EAC and COMESA); public procurement (UEMOA and COMESA); and business law (OHADA). In addition, the Bank will continue to develop its own governance knowledge products, for example, the African Governance Outlook flagship report. The Bank's support will also continue for the development of diagnostic tools such as the Public Expenditure Financial Accountability Assessment framework, the Country Procurement Assessment Review, and Country Financial Assessment Accountability reviews, among others. A thorough analysis of the local context, including actors, institutions and structures (the overall political economy context) is also inevitable for the design projects/programs that are tailored to the specific local needs and to identify potential obstacles as well as opportunities. These knowledge products will also further improve policy dialogue.

3.10 **Advocacy, Policy Dialogue and Advisory Services:** In driving GAP II implementation, the Bank will put greater focus on policy dialogue as a reform enabler. Policy dialogue offers a platform to deepen the relationship between the Bank and its clients, and secure buy-in for reform. It will also enable the Bank to better understand country needs, the political economy and constraints. In addition, it will provide an opportunity to expand accountability through the involvement of a wide range of stakeholders, including sub-national authorities, the private sector, business associations, women interest groups, civil society, and the media. Policy dialogue is particularly important in the context of fragility, where governance shortcomings often lie at the root of state inability to fulfill basic state functions. As an African institution, the AfDB is well positioned to understand and contextualize national and regional priorities, the drivers of reform, and the realities on the ground. The introduction of new private sector lending instruments such as Partial Risk Guarantees (PRGs) and Partial Credit Guarantees (PCGs) will provide an additional platform for policy dialogue on issues of business environment and enterprise development. Policy dialogue will also be used to address gender issues in its multiple aspects. The Bank will also use its convening power and positioning in a range of continental and global initiatives to advocate for policy reform and good governance, and to contribute a strong African voice in global fora.

3.11 The on-going Bank's **decentralization** process, which is enhancing country presence, will further increase the Bank's ability to lead effective policy dialogue on a continuous basis and to be able to respond to clients' demand as it emerges. It will also further deepen the Bank's understanding of the political economy underpinning governance outcomes. The Bank has decentralized significant number of governance oriented staff (broadly defined to include economic governance, PFM, procurement, and financial management staff), and this process will continue in the context of its decentralization roadmap.

Strategic Partnerships

3.12 As part of its delivery strategy the Bank will strengthen strategic partnerships with key organizations, institutions and initiatives active in Africa, in order to exploit their comparative advantage and develop an effective partnership for good governance and accountability. During GAP I the Bank has already built strategic partnerships with a number of African organizations, network of professional organizations, and United Nations organizations (see Annex 1, Box 3). Strategic partnership arrangements are normally elaborated in CSPs for individual countries, RISPs, and program/project documents and this practice will be enhanced during the implementation of GAP II. Furthermore, in identifying partners in implementing GAP II, the Bank will give particular attention to:

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of realistic solutions to development challenges; support risk management by helping to identify the critical factors that are likely to impede change in the future; and broaden the scope with donors and country partners around the key political challenges and opportunities at the country and sector level. There is also increasing recognition that reform is fundamentally a political process.

- Empowering **institutions and special initiatives with a strong African character:** In particular the Bank will continue to work with the African Union and UNECA within the framework of the Joint Secretariat, and with the RECs on strategic initiatives, building on the success of the African Peer Review Mechanism. The African Mining Vision (AMV) and ClimDev-Africa present a unique opportunity to establish an African-owned policy framework 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 implementing partners, the Bank will support the preparation of Country Mining Vision. The Bank will also support RMCs in building capacity for implementing transparency standards, including the new EITI standards, and also deepen its partnership with the Investment Climate Facility (ICF) as a key pan-African initiative supporting BEE reforms, or with the Mo Ibrahim Foundation. While political governance is not within the scope of this strategy and within the Bank's mandate and competitive advantage, the Bank will partner with institutions active in the area, such as the UN and the AUC, and also carry out its own political analysis, to inform the activities of GAP II with a thorough understanding of the political drivers and context.

- Acting as a knowledge broker in the continent, the Bank will facilitate the **creation of communities of practices, peer learning and sharing of experiences**. In particular, the Bank will deepen its engagement 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 development partners** will be sought in the context of co-financing and funding instruments, including collaboration with the World Bank, EU, UNDP and bilateral partners; the Fund for African Private Sector (FAPA) and the Governance Trust Fund (GTF). The Bank will also seek partnerships with new donors supporting Africa, including Brazil, China, India, Russia, Turkey and Singapore, as well as global funds, Islamic funds and private foundations. The Bank's forthcoming Resources Mobilization Strategy will establish the framework for new funding collaborations.

- **Partnership with civil society organizations:** The partnership with CSOs (including NGOs, and the media) will be guided by its Civil Society Engagement Framework. Bank's support will focus on enhancing their analytical capacity to improve their performance their oversight role and in the policy dialogue space. The Bank will create an open platform for interacting with stakeholders including CSOs especially on anti-corruption issues.

Monitoring and evaluation

3.13 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 current GAP II Results Measurement Framework (RMF) provided in annex 5 is tentative, and will be refined in line with the One-Bank RMF. A key feature of the new RMF is a closer link between level 1 and level 2, to better demonstrate the extent of the contributions of the Bank's governance operations.

3.14 As part of the Bank's strategy of engagement with civil society, and in line with the TYS emphasis on mutual accountability, management will consider mechanisms to involve African civil society in monitoring the implementation of GAP II. A mid-term review will be undertaken in 2016 to take stock of progress and consider whether the strategic orientation is still valid or needs to be adjusted in the light of changing economic and political context.

IV. RISKS AND MITIGATION MEASURES

4.1 There are several risks that could adversely 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 GAP II duration, with new risks identified, assessed, prioritized, and dealt with throughout the duration of the Strategy.

Financing risk

4.2 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). The Strategy assumes that there will be adequate resources to fund the Bank's governance operations, from both the ADF and ADB windows; and that the Bank will maintain its Triple-A rating. 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. The new indirect financing instruments (PRG and PCG) will crowd in commercial financing for transactions investments and policy/governance reform in RMCs.

Government commitment Risk

4.3 In terms of commitment to reforms, Africa still lags behind emerging economies in Asia and other regions and there are wide 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 and RISPs. Second, with its 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 the Bank. The ongoing decentralization process, which is strengthening the Bank's presence on the ground, will provide avenue for continuous engagement with RMCs on emerging governance issues.

Implementation risk

4.4 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 the Governance Action Plan may not be fully realized. These implementation risks will be addressed through: incorporating greater flexibility in the design and implementation of projects; better understanding of the country context through undertaking 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 also be provided to Departments designing and implementing PBOs on the importance of governance driving the wider reform process.

Institutional risk

4.5 As reflected in the TYS, governance is an issue which affects every sector and therefore implementation of GAP II requires a Bank-wide approach, involving sector departments, regional departments, field offices and Regional Resource Centers. 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, GAP II annex on division of responsibilities (Annex 4) will be substantially clear regarding the role of each departments and their expected interaction with OSGE.

Capacity risk

4.6 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 impede 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

4.7 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. In managing fiduciary risk, the Bank currently 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 efforts.

V. CONCLUSION AND RECOMMENDATION

5.1 GAP II lays out the strategic direction of Bank's governance work in RMCs during 2014-2018, and embraces the "One Bank" approach both in its preparation and implementation (Annex 4) since governance is being mainstreamed across all Bank operations. Following the endorsement of the draft document by the Committee for Development Effectiveness (CODE) for external consultation, the Bank now solicits input from its external stakeholders into the Strategy. The document will also be posted on the Bank's external web-site in conformity with the Bank Group's Policy on Disclosure and Access to Information (DAI).

5.2 Specifically, the Bank welcomes feedback on three key issues: (i) Does GAP II identify the key governance challenges confronting Africa? (ii) Are the three strategic pillars and associated work streams (operational activities) adequate to address the identified challenges? and (iii) How does the strategy complement and reinforce the governance work of other development partners in Africa and how can partners work together to leverage additional resources for the continent's development?

ANNEX 1: 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
	UA(m)		*Percentage of amount*		*Number of operations*	
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 support[27]. 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 Banks governance work conducted in 2012[28] 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

[27] Among these projects, approximately one-fourth (25%) were in fragile states at an amount representing 12% of the total commitment value.
[28] The Governance Annual Development Effectiveness Review, 2012

notes, and participation in the preparation of PEFAs, country governance profiles, joint donor evaluations, the African Economic Outlook, and Africa Competitiveness Report.

4. The Bank's Evaluation Department (OPEV) has evaluated the two main Bank's instruments for its governance interventions. 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 PBOs[29], with the possible exception of cases where the Bank had chaired donor budget support groups. The valuation 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 on-going OPEV's evaluation of ISPs, has revealed some important preliminary findings. It suggests that the design of ISPs has improved and its complementarity is increasing around PBOs, implementation performance is improving and projects tend to deliver intended outputs, and Bank's support is responsive. However it has also revealed some weaknesses including the need to be more strategic and more focused by covering fewer institutions, capture synergies, focus more on outcomes, and be more flexible in applying Bank's procurement rules and procedures to take into account alignment with partners' procedures and best practices[30]. Experience has also 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 in its new operations. Additional opportunity for policy dialogue around critical issues in RMCs provided by the ISP appraisal process 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

[29] 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.

[30] The findings and recommendations of OPEV evaluation of ISPs are tentative, subject to management opinion and formal official release.

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.

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 (AFROSAI); 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;

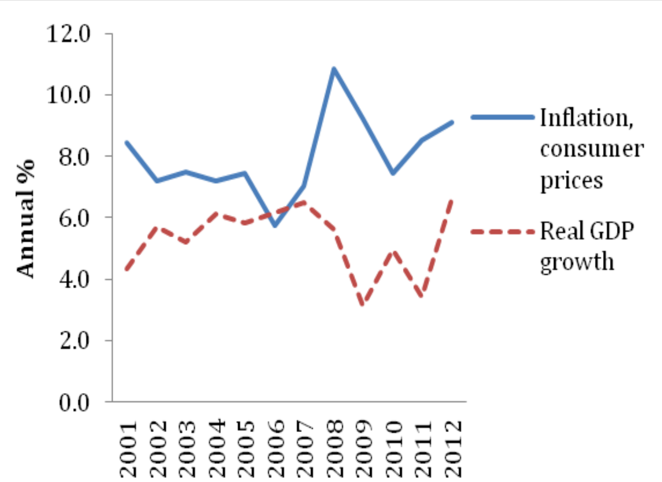
- Ensure a comprehensive approach to deliver results and enhance cross-sector collaboration to better address governance at the sector level, particularly through PBOs, and to ensure stronger engagement in sector policy dialogue;

- 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.

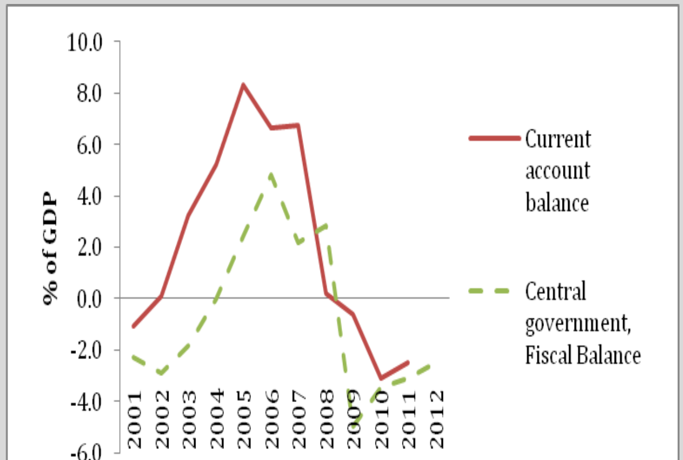
ANNEX 2: TRENDS IN MACROECONOMIC INDICATORS IN AFRICA (2001-2012)

1a. Real GDP Growth Rates vs Inflation



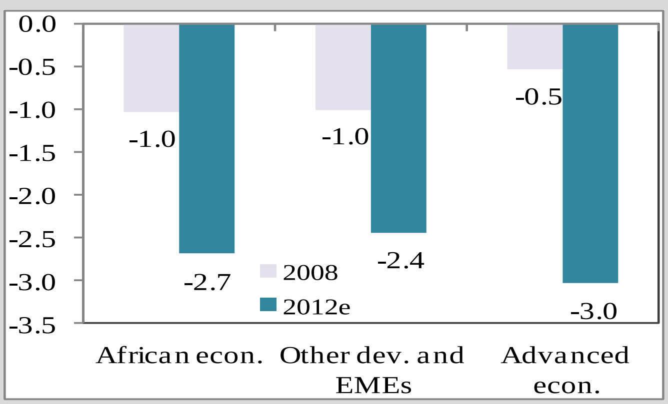
Africa's GDP growth rate averaged over 5% in the last decade, inflation remained largely at one-digit level

1b. Current Account vs Fiscal Balance

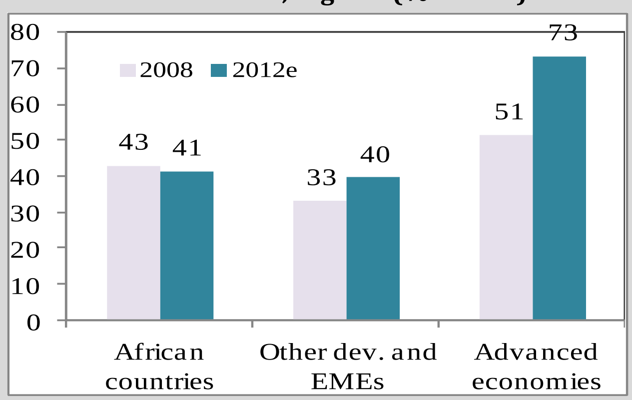


Both Current Account and Fiscal Balance remained positive for most of the decade but have shown a declining trend in recent years

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 3: COMPARATIVE SOCIO-ECONOMIC INDICATORS ON AFRICA

	Year	Africa	Developing Countries	Developed Countries
Basic Indicators				
Area ('000 Km^2)	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 Km^2)	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

Sources : AfDB Statistics Department Databases; World Bank: World Development Indicators; UNAIDS; UNSD; WHO, UNICEF, WRI, UNDP; Country Reports. Last Update: June 2012

Note : n.a. : Not Applicable ; … : Data Not Available.

Annex 4: Summary of Proposed Institutional Arrangements for Implementation of GAP II

Governance, Economic and Financial Management Department (OSGE) will lead in:

- overseeing the implementation of GAP II 2014-2018
- conducting dialogue and providing advisory services and technical assistance to RMCs and RECs on good governance, macro-economic stewardship and financial sector reforms;
- management of policy-based and institutional support financing operations. The department will also provide technical support to other operations departments, on governance aspects of operational strategies, projects and programs.

Sector Departments (SDs) namely OSAN, OSHD, ONEC, OITC, OWAS. ANRC, and Financial Sector Development Department (FSDD) will lead in:

- mainstreaming the Bank's governance priority areas in the preparation and implementation of Sector Strategies of the Bank Group, in collaboration with OSGE
- conducting sector-specific policy dialogue with RMC and sub-regional stakeholders for enhanced governance in RMCs;
- preparing and managing the Bank Group's financing operations – including sector policy-based operations and institutional support projects – contributing to implementation of the Bank's Governance Strategy through improving Public Financial Management and Public Service Delivery as well as the business enabling environment.
- SDs will provide OSGE with specific expertise on project design, implementation and monitoring for enhanced governance in their specific sectors and in accordance to their sector strategies, for example:
    - ***OSAN*** will support in improving governance in agricultural infrastructure and increasing efficiency in the use and management of renewable natural resources etc.;
    - ***OSHD*** will support in fostering accountability in the provision and delivery of social services; support towards youth employment amongst others.
    - ***ONEC*** will support in addressing emerging issues of environmental and climate change governance for green and sustainable development etc.
    - ***OITC*** will contribute in improving governance in all of their infrastructure projects in both rural and urban settings;
    - ***OWAS*** will provide support towards addressing governance challenges in water projects
    - **ANRC** will coordinate the work on natural resources management in the Bank
    - **FSDD** will lead the Bank's work in the development of the financial sector including anti-money laundering and illicit financial flows.

Private Sector Department (OPSM) will play a key role in:

- Collaborating with OSGE in implementing pillar 2 of GAP, aligned with pillar 1 of the PPSD Strategy
- collaborating in operations supporting the development of micro, small and medium scale enterprises (MSMEs);
- collaborating with ECON, OSGE and ONRI in supporting RDs in the identification and assessment of impediments in the business environments in RMCs and sub-regions and proposing improvements; assisting SDs in identifying and appraising private sector development opportunities and proposing approaches to exploiting them; and collaborating

with ECON in knowledge generation and dissemination on private sector development and business interaction with other regions of the world.

Regional Departments (RDs) and Field Offices (FOs) will lead in the following activities:

- mainstreaming governance in CSPs and RISPs; and advise Sector Departments and OSGE on national and regional development priorities;
- identification and justifying governance programmes in CSPs and RISPs; and
- conducting dialogue with partners and government actors to identify RMCs' strengths and weaknesses, opportunities and threats, and to deliver governance results;
- through the portfolio review exercise, monitor the performance of Bank Group's country and sub-regional governance operations.

Statistics Department

- Building data base and statistical capacity of RMCs for evidence-based strategy development, planning and budgeting, monitoring and evaluation, and results measurement.

Operations support departments will take the lead in mainstreaming governance issues in their areas of focus:

- **The Fragile States Department (OSFD)** will collaborate with RDs and Field Offices in programming policy dialogue, policy-based assistance, and sector operations toward improving the management of public resources, the delivery of public services and in enhancing the business environments of post-conflict and other fragile countries.

NEPAD and Regional Integration and Trade Department (ONRI) will:

- conduct diagnostic studies on the performance of regional integration initiatives on key goals (including market integration and trade development) and advise the RDs, SDs, and the Governance, Economic and Financial Reforms Department on the regional cooperation, integration and trade issues. Also, ONRI will lead in policy dialogue, on private sector development issues, with regional economic communities (RECs) and specialized regional organizations.

Chief Economist's Complex (ECON) will be responsible for:

- analytical, policy advisory and dissemination activities, including knowledge generation and dissemination on the governance context and private sector enabling environment, in collaboration with OSGE and other SDs and RDs;
- serving as the Bank's key knowledge broker on good governance; and
- assessment of the expected impact and value added by the governance aspects of Bank Group operations, including assessment through ex-ante additionality and development outcomes assessment (ADOA) of financing operations. The Complex will play a leading role in generating differentiated knowledge products on governance and a supportive role in conducting policy dialogue and in the design and implementation of policy-based financing operations, including institutional support.

Financial Complex (FNVP) Departments will continue to lead in:

- the mobilization of financial resources for Bank operations and the management of liquidity through treasury operations;
- use of such operations to support the development of national/sub-regional capital markets;
- developing operational guidelines for the Bank's financing products and instruments; and
- providing fiduciary management of Bank financing operations.

Procurement and Fiduciary Management Department (ORPF) will continue to oversee:

- implementation of the rules and procedures on the procurement of goods and contracts for works financed by the Bank Group;
- the fulfilment of fiduciary safeguards by the beneficiaries of Bank's financing. To increase the use of country systems, ORPF will support capacity building of RMCs and with inadequate institutional competence for procurement and fiduciary management; but the department will provide oversight until country systems are assessed to be sufficient. ORPF will advise on effective application of the rules and procedures to increase local firms' participation in the supply of goods, services and works procured from Bank Group financing.

The General Counsel and Legal Department (GECL) will:

- continue to review legal issues affecting, or arising from, Bank Group operations and advise OSGE and other SDs.

Environment and Social Departments will:

- provide guidance and oversight on the fulfilment of environment and social safeguards in the preparation and implementation of governance operations financed by the Bank Group, including policy-based operations and institutional support programs.
- The units will rely on country environmental and social oversight institutions, where these have adequate monitoring and evaluation capacities. The Bank's Environment and Social units, therefore, will support capacity-building for RMCs, financial intermediaries, and private business operators on environment and social impact assessment, mitigation planning and implementation, and safeguards monitoring and evaluation.

Specialized Support Departments and Units:

- A number of organizational units provide back-office support to Bank Group Governance operations.

Governance Oversight Committee

- In order to promote a "One Bank" approach in delivering the vision and objectives of this strategy, senior management will mainstream governance by defining common targets and structuring KPIs that promote strong governance input in operations. To ensure accountability for delivery, an oversight committee will be created, composed of all Directors of Departments responsible for implementing the Strategy to be chaired by the First Vice President and Chief Operating Officer. The committee will meet periodically to monitor progress against the RMF, identify risks to delivery and design corrective measures.

Annex 5: Indicative Results Measurement Framework for GAP II (2014-2018)

AfDB's Governance Results Measurement Framework

Source: AfDB Sector Development Effectiveness Review – Governance, 2012.

A significant number of indicators used in the SDER-Governance, 2012 only have baseline data for 2011. It is highly likely that 2012 data will become available in the 3rd/ 4th quarter of 2013. There may be need for the team to streamline the key indicators for each of the 4 levels presented for consistency with a similar exercise that was conducted by OSGE and ORQR in March 2013. Hereafter, we can source the latest data for the selected indicators.

Level 1: What is Africa's Progress on Governance Indicators

PUBLIC FINANCIAL MANAGEMENT

Public Expenditure and Financial Accountability score	(1 to 7)
Country Policy and Institutional Assessment (CPIA) score	(avg. CPIA)

BUSINESS ENABLING ENVIRONMENT

Doing Business - Time required to pay taxes	(hours per year)
Doing Business - Cost of business start-up	(% GNI per capita)
Doing Business - Time required for business start-up	(days)
Doing Business - Property registration procedures	(days)
Doing Business - Contract enforcement	(days)
Global competitiveness index	(1 to 7)
Global competitiveness index institutions	(1 to 7)
Business sophistication and innovation	(1 to 7)

MACROECONOMIC MANAGEMENT

Inflation	(% of GDP)
External account balance, including grant	(% of GDP)
Government deficit as percentage of GDP (Cash surplus/deficit)	(% of GDP)
Debt (Central government debt, total)	(% of GDP)

POLITICAL GOVERNANCE

Worldwide governance indicators - Voice and accountability	(-2.5 to 2.5)
Mo Ibrahim index - Participation and human rights	(1 to 100)

RULE OF LAW, TRANSPARENCY AND CORRUPTION

Transparency International - Corruption index	(1 to 10)
Extractive Industries Transparency Initiative score	(1 to 100)
Open Budget Index	(1 to 100)

GOVERNANCE EFFECTIVENESS

Mo Ibrahim Index	(1 to 100)
Worldwide Governance Indicators avg. score	(-2.5 to 2.5)
Mo Ibrahim Index - Human development	(1 to 100)
Worldwide Governance Indicators - Governance effectiveness	(-2.5 to 2.5)

Source: AfDB, Governance Development Effectiveness Review, 2012

Level 2: How AfDB Contributes to Strengthening Governance in Africa

PUBLIC FINANCIAL MANAGEMENT	
Tax revenue	(% of GDP)
Total tax rate	(% of commercial profits)
CPIA - Quality of budgetary and financial management	(1 to 6)
THE BUSINESS ENABLING ENVIRONMENT	
Foreign direct investment, net inflows	(% of GDP)
Time required to start a business	(days)
Time required to pay taxes	(hours per year)
CPIA - Property rights and rule based governance	(1 to 6)
Time required to enforce a contract	(days)
MACROECONOMIC MANAGEMENT	
Fiscal balance	(% of GDP)
Current account balance	(% of GDP)
Inflation	(annual %)
Total debt service	(% of GNI)
External debt stocks, public and publicly guaranteed (PPG)	($, billion)
Reached HIPC completion point debt relief	(number of countries)
GOVERNANCE	
CPIA - Transparency, accountability and corruption in public sector	(1 to 6)
CPIA - Quality of public administration	(1 to 6)
CPIA - Equity of public resource use	(1 to 6)
Transparency Internationl corruption perception index	(1 to 10)

Source: AfDB, Governance Development Effectiveness Review, 2012

Level 3: How well AfDB manages its Governance Operations

PORTFOLIO PERFORMANCE	
Operations formally supervised twice a year[1]	(%)
Projects at risk in ongoing portfolio	(%)
Disbursement ratio of ongoing portfolio for institutional support projects[2]	(%)
Disbursement ratio of ongoing portfolio for programme-based operations	(%)
Operations eligible for cancellation	(%)
Budget support disbursed on schedule	(%)
QUALITY AT ENTRY	
Time elapsed from approval to first disbursement[2]	(months)
Operations rated satisfactory	(%)
PARIS DECLARATION INDICATORS OF EFFECTIVE AID	
Use of country systems	(%)
Parallel project implementation units	(number)
KNOWLEDGE MANAGEMENT	
Exiting projects with a timely project completion report[2]	(%)
Project completion reports rated satisfactory	(%)
Cumulated economic and sector work and related papers	(number)
GENDER MAINSTREAMING	
Project completion reports with gender-disaggregated data	(%)
New projects with at least one gender indicator[3]	(%)

Source: AfDB, Governance Development Effectiveness Review, 2012

Level 4: How Efficient is AfDB in supporting Governance Initiatives

DECENTRALISATION	
Projects supervision led by field offices	(%)
Projects task-managed from field offices	(%)
Professional staff based in field offices	(%)
HUMAN RESOURCES	
Share of women in professional staff	(%)
Operations professional staff	(number)
BUSINESS PROCESSES AND PRACTICES	
Administrative costs per UA 1 million disbursed by the Governance Department	(UA thousands)

Source: AfDB, Governance Development Effectiveness Review, 2012

Annex 6: Indicative Processing Schedule, Description of Activities, and Milestones