Draft Dated; September 24, 2013

Language : English
Original : English

AFRICAN DEVELOPMENT
BANK GROUP

***QUESTIONS ON THIS DOCUMENT SHOULD BE DIRECTED TO:**
Mr. I. LOBE NDOUMBE Director OSGE.0 Extension 2077

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

Promoting Good Governance and Accountability for Africa's Transformation

SUMMARY REPORT FOR ADF DEPUTIES

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

Introduction

1. The Governance Strategic Directions and Action Plan, 2008-2012, (hereafter referred to as GAP I), underpinned by the Bank Group's Medium Term Strategy (2008-2012), provided the overall strategic framework for the Bank Group governance work in its regional member countries (RMCs) since 2008. GAP I, focused on strengthening policies and institutions towards improved public financial management (PFM); and business enabling environment (BEE), addressing these issues at three levels – country, sector, and regional. The Bank carried out its interventions in RMCs using a combination of programme based operations (PBOs), institutional support projects (ISPs), technical assistance, economic and sector work, policy dialogue and advisory services. The specific needs of fragile states and middle income countries (MICs) received particular attention. These core operational focus areas of GAP I remain relevant and provide the strategic and selectivity basis for GAP II moving forward. Both the Bank's Medium-Term Strategy and GAP I came to an end in December 2012. The lessons learnt from the review of the implementation of GAP I and the Bank's governance work in general, have guided the design of this new Governance Strategic Framework and Action Plan, 2014-2018 (GAP II), and will also inform its implementation. These lessons are presented in Box 1 below.

Box 1: The lessons learnt from the review of GAP: These include the need to:

(i).Strengthen diagnostics and analysis to improve the quality of programming and guide policy dialogue at the country and regional levels;
(ii). Increase the focus on results and re-assess the results framework;
(iii). Pay better attention to mainstreaming of governance in sector operations; an enhance cross-sector collaboration to better address governance at the sector level, particularly through PBOs, and ensure stronger engagement in sector policy dialogue;
(iv). Ensure stronger engagement in policy dialogue through more knowledge products an decentralization of expertise for ongoing dialogue with RMC governments;
(v) 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;
(vi) Emphasize promotion of gender equality in governance operations; and
(vii) Develop strategic partnerships and strengthen current engagements, particularly at the regional and global levels, an determine where the Bank can play a leadership role.

2. The new Bank Group's Strategy for 2013-2022 (hereafter referred to as the Ten Year Strategy - TYS), was approved by the Board in April 2013. In addition to the TYS, the design of GAP II also takes 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 Strategy, Green Growth Framework, Civil Society Engagement Framework, and Gender Responsive Budgeting Framework. The design of GAP II also takes into account lessons learnt in implementing GAP I (Box 1) and review of key governance challenges in Africa (paragraph 8).

Why a new Governance Strategy now?

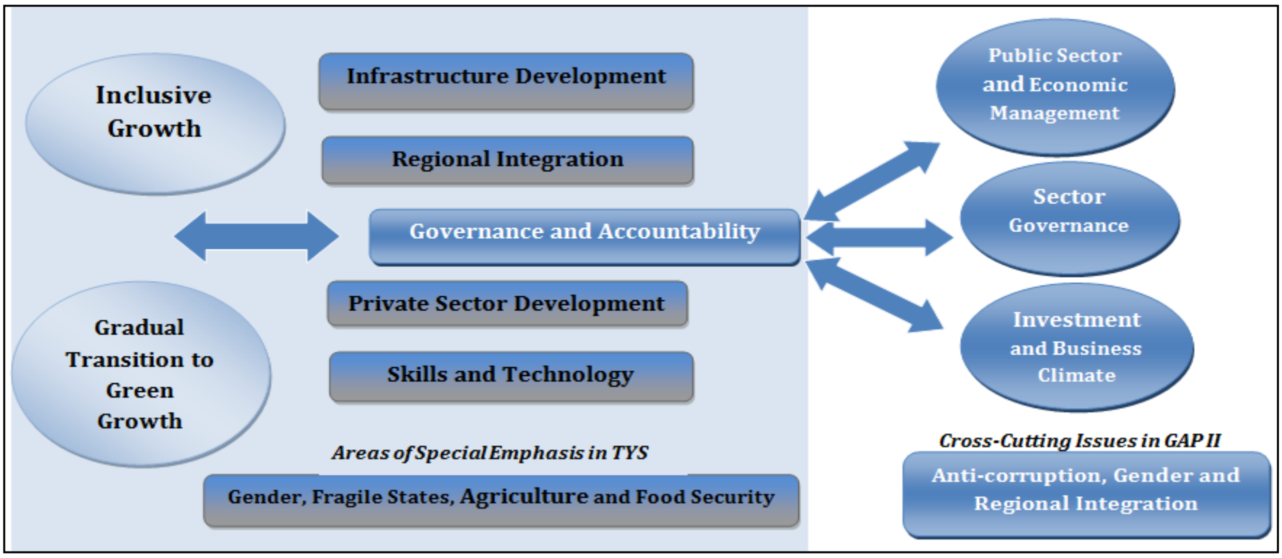
3. **Over the past decade, Africa has been undergoing a significant transformation process,** with sustained economic growth, more peaceful transition of power through democratic elections; and an increase in the middle class who pay taxes and demand improved services. Revenues from natural resources, 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. It was to respond to this accelerating transformation that the TYS was prepared. 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 (Figure 1)

Figure 1

The Bank's Group Strategy for 2013-2022 and the

Governance and Accountability Dimension

Core Operational Priorities **GAP II Proposed Pillars**



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

Alignment with the Bank Group's Ten Year Strategy, 2013-2022 (TYS)

4. The TYS provides the strategic platform for GAP II. The first and overarching objective of the TYS is to make growth more inclusive by promoting buoyant growth rates through prudent and effective macroeconomic policies; broadening access to economic opportunities for more people, countries and regions, while protecting the vulnerable groups (women, youth, people living with disabilities, and fragile states); and bolstering voice and accountability. The second objective is to make growth sustainable by helping the continent to gradually transition to green growth. The TYS articulates the green growth agenda along three prongs: managing natural assets efficiently, promoting sustainable infrastructure, and building resilience. 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; and the 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.

5. **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, budgetary exclusion, etc). 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)[1].

6. 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 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.

Bank Group Positioning

7. 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

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

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.

Key Governance Challenges in Africa

8. The key governance challenges in Africa are summarized below across the three strategic pillars: public sector and economic management, sector governance, and investment and business climate.

(i) Public Sector and Economic Management Challenges

- **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 a major key challenge.

- **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 also often lack authority and/or capacity to operate effectively in many countries.

- **Growth is not inclusive enough:** Strong economic growth has made some impact on poverty reduction but Africa's poverty incidence declined from 51% in 2005 to 39% in 2012[2], Africa's poverty incidence is still about 17% higher than the average for other developing countries. Thus, implementation of PRSPs/NDPs has not met the expectation of deep poverty reduction.

[2] African Development Bank, Annual Development Effectiveness Report (ADER) 2013, page 13

- **Information Gap:** Africa still faces knowledge and evidence gaps to inform policy development and policy planning: Policy formulation remains weakly grounded in evidence, with sector strategies often not being linked to available resources and monitoring and evaluation systems.

(ii) Sector Governance Challenges

- **Infrastructural challenges**: In the infrastructure sector, apart from challenges due to poor and inadequate physical infrastructure, these are pressing governance challenges including: weak policy, legal and regulatory frameworks for infrastructure development including 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

- **Basic Social Services Delivery**: The provision of basic social services (education and health) in many RMCs still presents some challenges. There are severe deficiencies in both access and quality of basic services, especially in light of high population growth rate, rapid urbanization and costs are sometimes beyond the reach of the poor. The poor, both in the rural and urban areas, are particularly vulnerable. Demand-side accountability is weak; households are at times forced to pay bribes to obtain services[3]. Such illicit charges act as a regressive tax on the poor, limit social inclusion, and disproportionately affect women and girls. Procurement-related corruption is also an issue in social sector projects/programs.

- **Natural Resource Management (NRM)**: Lack of strong macroeconomic management has left 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 also been unable to receive their adequate share of revenues from natural resources. 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. Local communities also suffer from the social and environmental consequences of natural resources exploitation.

(iii) Investment and Business Climate Challenges.

- 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. 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, and restriction on cross-border movement of labour. Corporate governance issues include weak legal framework,

[3] World Bank, 2002, Improving Governance for Service Delivery.

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, 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[4].

(V) Corruption, Regional Integration and Gender

- Corruption 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. 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%[5].

- 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 has been promoting 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.

- Gender: Gender inequality is a critical problem in Africa in terms of women's legal status in society, access to resources, e.g., credit and land. There are also unfavourable laws affecting women entrepreneur.

GAP II Guiding Principles

9. 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

[4] Infrastructure Consortium for Africa (ICA), 2005, Africa's Infrastructure: A time for transformation, Washington DC.
[5] Botswana (65%), Cape Verde (60%), Mauritius (57%), Rwanda (53%) and Seychelles (50%).

partners and areas in which the Bank has comparative advantage and in which it has established track record (paragraph 9 and 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).

- *Harmonization 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

GAP II Vision, Core Objectives, and Strategic Pillars.

10. **Vision:** 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.

11**.** **Core Objectives:** GAP II has three core objectives: (i) Strengthening governments' capacity for transparent and accountable use of public resources and citizens' ability to hold Governments to account; (ii) Improving outcomes in the sectors (infrastructures, basic social services, and natural resources), and citizen's' 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 three core objectives will aim to reduce corruption in both the public and private sectors. Based on these vision and objectives, the three strategic pillars of GAP II are presented in Table 1.

<table>
<tr><th colspan="4">Table 1: Strategic Orientation of GAP II (2014-2018)</th></tr>
<tr><td colspan="4">VISION
Africa governed by transparent and accountable governments and institutions capable of driving inclusive and sustainable growth.</td></tr>
<tr><td colspan="4">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.</td></tr>
<tr><td>PILLARS</td><td>1. Public Sector and Economic Management</td><td>2. Sector Governance</td><td>3. Investment and Business Climate</td></tr>
<tr><td>EXPECTED OUTCOMES</td><td>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).</td><td>Improved institutional infrastructure, governance of basic service delivery, and natural resources supporting inclusive and green growth; as measured by improved Revenue Watch Institute (RWI) resource governance index.</td><td>An enabling business climate supporting green investment and the development of business enterprises and job creation; and Decline in illicit financial outflows.</td></tr>
<tr><td>OUTPUTS</td><td>Robust policy, legal and institutional framework; Implementation capacity for PFM and debt management; Increased domestic revenues; and Improved databases supporting improved policy, strategy, planning and budget formulation and implementation.</td><td>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 .</td><td>Improved policy, legal and regulatory frameworks for private sector interventions across sectors.</td></tr>
<tr><td>MAJOR WORKSTREAMS</td><td>Deepening macroeconomic frameworks and PFM systems at central and sub-national government levels; Strengthening e-governance; Improving domestic revenue mobilization; Strengthening demand-side governance and accountability mechanisms; and Strengthening planning tools statistical capacity and evidence base.</td><td>Strengthening policy, legislation and regulatory frameworks for infrastructure development, including PPPs framework; Improving human and financial resource management in basic social services delivery; Supporting e-governance in sector operations; and Strengthening natural resources transparency standards and policy and legislative frameworks.</td><td>Support to enabling environment for private sector development and green investments; Strengthening coordinated customs management supported with integrated IT system (e-governance); Support to SMEs' development and job creation especially for women entrepreneurs; Financial sector development including financial inclusion; support to combating illicit financial flows/anti-money laundering initiatives; strengthening business associations.</td></tr>
<tr><td>CROSS-CUTTING ISSUES</td><td colspan="3">Anti-corruption; gender; and regional integration.</td></tr>
<tr><td>KEY INSTRUMENTS</td><td colspan="3">Program based operations; institutional support projects and technical assistance; policy dialogue and advisory services; economic and sector work.</td></tr>
</table>

12. **Strategic Pillars:** GAP II is based on three strategic pillars: (i) public sector and economic management; (ii) sector governance, and (iii) investment and business climate. Within the work streams of these three strategic pillars, the Bank will build on the achievements of GAP I on PFM, BEE and sector governance. Enhanced focus will be put on regional integration by mainstreaming it in all the three strategic pillars. Annex 1 summarizes the salient elements of these strategic pillars.

- **Pillar 1: Public Sector and Economic Management:** This pillar will support the deepening of macroeconomic frameworks and PFM systems at central and sub-national government levels; strengthening e-governance; improving domestic revenue mobilization; and enhancing demand-side governance and accountability mechanisms. It will also support strengthening of statistical capacity, planning tools, and evidence-based governance.

- **Pillar 2: Sector Governance** (infrastructure; basic social services delivery namely education, health and social protection; and natural resource management): This Pillar will involve strengthening policy, legislation and regulatory frameworks for infrastructure development, including PPPs framework; improving human and financial resources management in basic social services delivery; supporting e-governance in sector operations; strengthening natural resources transparency standards, building RMCs' negotiation capacity, overcoming information symmetry which hampers negotiation ability. The NRM work stream will also strengthen policy and legislative frameworks to enhance the linkages of the natural resources sector with the wider economy, improve global value chain and increase development outcomes of the natural resources sector, as well as support collection of climate change information.

- **Pillar 3: Investment and Business Climate**: This pillar will support enabling environment for private sector development and green investments; strengthening of coordinated customs management supported with integrated IT system (e-governance); support to policies strengthening SMEs' development and job creation especially for women entrepreneurs; financial sector development for financial inclusion; support to combating illicit financial/anti-money laundering initiatives; and strengthening of business associations to enhance private sector involvement in policy dialogue with the government.

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.

Cross-Cutting Issues

14. 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.

Implementing GAP II

15. GAP II will be implemented in the context of a "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 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.

Risks and Mitigating Measures

16. There a number of 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. In the context of zero budget growth, smooth implementation of the strategy could be threatened.

Proposed Next Steps

17. The document will be revised incorporating comments and guidance provided by CODE, and will thereafter be published on the Bank's external web-site in compliance with the Bank's Disclosure and Access to Information (DAI) Policy. Thereafter, management will proceed to external consultations before finalizing the document for Board presentation.