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## **ADF-13**

# **The African Development Bank Group's Role in Policy Dialogue with ADF Countries**

**Information Note**

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**ADF-13 Third Replenishment Meeting  
September 2013  
Paris, France**



**AFRICAN DEVELOPMENT FUND**

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## Abbreviations

ADF	African Development Fund
ADF-13	Thirteenth General Replenishment of the African Development Fund
AfDB	African Development Bank
AIDI	Africa Infrastructure Development Index
AIH	African Information Highway
AMV	Africa Mining Vision
APRM	African Peer Review Mechanism
AUC	African Union Commission
AUHIP	African Union High-level Implementation Panel
AWF	African Water Facility
CILSS	Permanent Interstates Committee for Drought Control in the Sahel countries
CPIA	Country Policy and Institutional Assessment
CSP	Country Strategy Paper
DAG	Development Assistance Group
EARC	East African Resource Centre
ERF	Emergency Relief Fund
ESW	Economic and Sector Work
ETFO	Ethiopia Field Office
FSF	Fragile States Facility
GAFSP	Global Agriculture and Food Security Program
GTP	Growth and Transformation Plan
HLF	High Level Forum
ISP	Institutional Support Programs
JYEIA	Joint Youth Employment Initiative for Africa
MBSG	Multi-Donor Budget Support Groups
NEPAD	New Partnership for Africa's Development
NGO	Non-Governmental Organization
NRM	Natural Resources Management
NSO	Non-Sovereign Operations
PAU	Pan-African University
PBA	Performance Based Assessment
PBO	Program Based Operations
PBS	Protection of Basic Services
PIDA	Program for Infrastructure Development in Africa
REC	Regional Economic Community
RISP	Regional Integration Strategy Paper
RMC	Regional Member Country
RSA	Republic of South Africa
SME	Small and Medium Enterprises
STEM	Science, Technology, Engineering and Mathematics
TICAD	Tokyo International Conference on African Development
UNECA	United Nations Economic Commission for Africa

**ADF-13**  
**THE AFRICAN DEVELOPMENT BANK GROUP'S ROLE IN POLICY DIALOGUE  
WITH ADF COUNTRIES**

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## **1. Introduction**

- 1.1. Sustained policy dialogue is an essential part of the African Development Bank Group's (AfDB) engagement with its Regional Member Countries (RMCs). It contributes towards meeting the objectives of the Bank Group's Strategy 2013-2022 to support more inclusive and sustainable growth across the continent. This Note provides an overview of the important role of the AfDB, as an African institution, in policy dialogue, along with concrete examples of how the organization has taken an active role, engaging with RMC governments and other stakeholders on key policy areas critical for the continent's economic and social transformation. This note is not intended to provide an exhaustive presentation on the many areas and levels covered through policy dialogue, but rather give an indication of how it is a critical part of the Bank's work. It provides information on what the Bank is doing to position itself to better harness the opportunities and to tackle important issues in the region through effective and active policy dialogue.
- 1.2. Following this introduction, Sections 2 and 3 set the strategic context. Section 2 expands on the importance of policy dialogue for the Bank and RMCs, while section 3 outlines the comparative advantage of the Bank, as an African institution, in undertaking policy dialogue. Section 4 provides concrete examples of how the Bank has engaged in policy dialogue at the national, regional and international levels, and section 5 presents the different instruments used. Section 6 outlines the challenges faced, while section 7 summarizes the impact of the Bank Group's internal reform process on its policy dialogue role.

## **2. Importance of policy dialogue for the Bank Group and RMCs**

- 2.1. Policy dialogue is an important platform for the Bank's engagement with RMC's, to understand their reform priorities, and identify and promote policies that will contribute to sustainable and inclusive economic and social development across the continent. More specifically, engaging in such dialogue enables the Bank to effectively contribute to Africa's transformation by: convening stakeholders, sharing knowledge, and providing advice to help countries make informed policy decisions in the areas of the Bank Group's strategic and operational priorities. Sustained policy dialogue, through working with RMCs over the long-term, also helps to ensure the reform momentum.
- 2.2. In some cases, dialogue facilitates open discussion with the public and private sectors and civil society on critical policy issues and contributes to strengthening domestic ownership of development policies. Through policy dialogue, the Bank has brought together diverse groups of stakeholders to discuss a wide-range of development issues that are of common interest, and formulate practical solutions to complex development challenges (see examples in Section 4).
- 2.3. The participatory approach to problem-solving is important to the Bank and fundamental to policy dialogue in promoting inclusive development processes in RMCs. In addition, policy dialogue has provided entry points for the Bank to provide more targeted support to RMCs through its lending and non-lending operations. The Bank's sustained engagement in policy dialogue also provides an opportunity for RMCs to tap into AfDB's substantial knowledge base, expertise and first-hand experience of good practices and lessons learned across the continent.
- 2.4. For the Bank, successful policy dialogue tends to progress along three broad phases: (i) convener on key development issues for Africa, (ii) information exchange and constructive discussions, and (iii) solution-seeking and consensus building<sup>1</sup>. Policy dialogue helps to build trust, acceptance and ultimately a sense of accomplishment among the parties as being part of shaping the national development trajectory. Policy dialogue also helps to: create policy

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<sup>1</sup> Peter S. Adler and Kristi Parker Celico, "Policy Dialogue" Beyond Intractability. Eds. Guy Burgess and Heidi Burgess. Conflict Information Consortium, University of Colorado, Boulder. Postd: December 2003. <http://beyondintractability.org/bi-essay/policy-dialogue>.

awareness, encourages networking and information dissemination and mobilizes the support of civil society to engage in and influence the policy process.

### **3. Comparative advantage of the Bank Group in policy dialogue**

- 3.1. The Bank Group's comparative advantage in supporting policy dialogue essentially derives from its African character, which makes it a "trusted and preferred" partner, thus giving it legitimacy to act as convener on policy issues affecting Africa. The Bank Group is well respected by African governments, which enables access to senior stakeholders and allows the institution to play a key advisory role, particularly on sensitive or difficult issues.
- 3.2. As a regional institution, with a local presence in several countries, AfDB is able to understand and contextualize national and regional priorities, the drivers of reform and the realities on the ground, which gives increased leverage to its role in policy dialogue. Policy dialogue is specific to country and sector contexts and the Bank Group's local offices provide the expertise for effective dialogue to take place. The Bank's local presence, across the continent, is being further strengthened through the on-going decentralization process. This enables the Bank to develop first-hand knowledge of Africa's governance challenges and its political economy dynamics as well as to guide policy. These attributes position the Bank Group to be a convener of knowledge and peer-learning, as well as an advocate in driving solutions suited to the specific needs of the continent.
- 3.3. The Bank plays an instrumental role in a wide range of regional initiatives, such as: the Program for Infrastructure Development in Africa (PIDA), African Peer Review Mechanism (APRM), Global Agriculture and Food Security Program (GAFSP), the Joint Youth Employment Initiative for Africa (JYEIA)<sup>2</sup> and the Africa Mining Vision (AMV), which have been critical in shaping the policy dialogue in their respective areas.
- 3.4. Within the global context, the Bank, together with the African Union Commission (AUC), and other partners such as the United Nations Economic Commission for Africa (UNECA), brings an African perspective to global issues. Over the years, the Bank's convening power, continues to be acknowledged by African leaders and internationally. There are a number of specific policy areas where the Bank is building a comparative advantage. For example, the Bank's enhanced focus on support to Natural Resources Management (NRM) and its perceived credibility in providing independent policy advice on contract negotiation and other NRM issues is critical for Africa's inclusive and green growth agenda.

### **4. The Bank's engagement in policy dialogue**

- 4.1. The Bank Group engages in policy dialogue across a range of sectors at the country, regional and international levels, using different mechanisms appropriate to the specific context. These are described in more detail in the ensuing sections. The increased importance of policy dialogue, and more broadly knowledge activities, in the Bank's portfolio is evidenced by some RMCs approaching the Bank for assistance on policy issues rather than lending operations (e.g. Angola).

#### ***Country and Sector level policy dialogue***

- 4.2. The Bank Group plays an active role in policy dialogue at the country level and in this context has engaged in a range of sectors to support reforms. For example, in Malawi, the Bank engaged in sustained dialogue with the Government to promote fiscal and macro-economic stability as well as protecting social spending. With support from the Bank, the Government has implemented bold economic governance reform measures, including in the areas of foreign exchange market and public financial management reform that has helped to stabilize the economy. In Tanzania, the Bank Group is a member of the Transport Sector Policy Dialogue

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<sup>2</sup> The JYEIA initiated jointly by the African Union Commission (AUC), the United Nations Economic Commission for Africa (UNECA), the Bank Group (AfDB), and the International Labor Organization (ILO).

Working Group, which has played an instrumental role in driving and monitoring reforms in the transport sector. In the water sector, the Bank Group has been participating in sector policy dialogues in all the RMCs where it has water and sanitation projects. During 2011 and 2012, the Bank Group, through its staff in Field Offices, was the co-chair of the water sector policy dialogue/coordination groups in seven countries (Mozambique, Mali, Burkina Faso, Zambia, Uganda, Rwanda and Tanzania). In Guinea, the Bank Group has actively pursued policy dialogue on governance in the mining sector, which has contributed to substantial revisions to the mining code, thereby improving the management of natural resource revenues.

- 4.3. In fragile states, the Bank Group's role in policy dialogue takes on particular significance, supporting countries to stabilize and establishing the preconditions for sustained economic growth and development. In such contexts there are often specific challenges, e.g. the ability of governments to prioritize, deliver or restore basic public services may be severely compromised. The Bank Group recognizes that supporting RMCs in these contexts cannot be 'business as usual', and that fragile situations require a coordinated, multi-stakeholder, cross-sectorial approach that combines support to state building and peace building while minimizing the demands from donors on the time and human resources of already weak government institutions. The Bank Group's knowledge, experience and understanding of both political and technical realities on the ground has enabled the organization to play an active role in policy dialogue in fragile states, to support the reform process in a number of countries, including Mali (where the Bank Group played an active role in the transition process), Liberia, Sudan, South Sudan and Zimbabwe.

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

The Bank's engagement in Sudan focuses on creating the conditions for peace, macroeconomic resilience and stability in the country. The emphasis is on policy dialogue, capacity building and targeted operations, financed through the Fragile States Facility (FSF), the African Water Facility (AWF), the Emergency Relief Fund (ERF) and Bilateral Trust Funds. A range of activities are ongoing in the area of policy dialogue, notably on debt resolution and peace building.

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

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

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

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

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

### *Policy dialogue at the regional and international level*

- 4.5. At the regional level, the Bank Group is well positioned to leverage its mandate to foster regional integration and continental co-operation. The C-10 (the Committee of 10<sup>3</sup> African Ministers and Governors), established during the global financial crisis, with the support of the AfDB and in cooperation with UNECA and the AUC, is an example of how the Bank mobilised influential regional policy dialogue. The C-10 contributed to: (i) effective policy and operational responses by the AfDB to the financing and advisory needs of RMCs; (ii) counter-cyclical responses in African countries, which helped contain the crisis and lay the foundations for longer-term growth; and (iii) amplifying Africa's voice in global economic debates.
- 4.6. Started in 2006, and jointly organized by AfDB, UNECA, and the United Nations Development Programme, the African Economic Conference is an Annual Event that provides a forum for exchange of ideas among academicians, researchers, economists, policymakers and other development professionals with a view to improving access to information and research on economic issues and, as a consequence, the quality of economic policy-making in the region. The last one held in Rwanda in 2012 on the theme Inclusive and Sustainable Development in an Age of Economic Uncertainty. The next one scheduled for October 2013 will dialogue on 'Regional Integration in Africa'. The Bank's Annual General Meetings also continue to provide a forum for dialogue with RMCs on Africa's growth and development.
- 4.7. The Bank has revamped and strengthened its cooperation and partnership with the AUC and UNECA through the establishment of AUC-AfDB-UNECA Joint Secretariat. This serves as a day-to-day dialogue and coordinating mechanism to advance regional integration initiatives and programs such as PIDA, "Boosting Intra-African Trade" and the "Continental Free Trade" agenda. In this regard, at the request of the 18<sup>th</sup> ordinary session of the African Union Assembly Heads of State and Government held in Addis Ababa in July 2012, the Bank alongside the AUC and UNECA is developing the "Agenda 2063 Framework". This collaborative effort is aimed at defining an approach that will outline how Africa should learn from the lessons of the past, build on the progress achieved, and strategically exploit opportunities and resources available in the immediate, medium and long term to ensure tangible socio-economic transformation.
- 4.8. The development of regional infrastructure is key to Africa's transformation. The Bank has undertaken sustained policy dialogue in this area and significant progress has been achieved on major regional infrastructure development programs. The Bank engagement on the Inga Dam is an example of successful strategic policy dialogue involving complex negotiations with many countries and stakeholders.

<sup>3</sup> Algeria, Botswana, Cameroon, Egypt, Kenya, Nigeria, South Africa, Tanzania, the Central Bank of West African States (CBWAS), and the Central Bank of Central African States (CBCAS).

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

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

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

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

- 4.9. The Bank's regional level policy dialogue has also included critical issues such as the severe recurrent droughts and chronic food insecurity that affect the Horn of Africa and Sahel regions. The Bank has significantly contributed to building consensus and commitment for action through its persistent policy dialogue over the years in this area. For example, as part of its dialogue, the Bank, supported countries to develop strategies and programs towards building drought resilience, and to align their policies on livestock, environment and natural resources, food security and gender with existing regional policies.
- 4.10. In addition, the Bank has played a catalytic role in assisting the AUC and Regional Economic Communities (RECs) in aligning skills and development policies in higher education and research to the needs for economic transformation. As a result of this dialogue, resources and commitments have been made available for the establishment of a Pan African University (PAU). The PAU will help provide Africa with the skills needed to enhance its competitiveness and sustainable growth. Through the post graduate programs in Science, Technology, Engineering and Mathematics (STEM), the PAU will help constitute a critical mass of talent in priority areas for Africa, while enhancing regional cooperation and integration in training and research in higher education as well as ensuring gender diversity for social inclusion.
- 4.11. Another avenue through which the Bank Group conducts policy dialogue and demonstrates results is at the international level. Indeed fora such as the G20 provide a high-level strategic platform to discuss issues relating to Africa. The Bank Group played a key role in shaping the Busan Aid Effectiveness Agenda, brokering the Tunis consensus to establish a common vision for Africa's development, and in building a collective vision for the African position on the post-2015 development framework. Recently, the Bank facilitated high level policy dialogue on youth employment, which continues to be a key development challenge for the continent. This initiative builds on the 2012 high-level policy dialogue in Zambia on this topic and earlier policy analysis.
- 4.12. The Bank played an important role during the two-day Somalia conference, co-convened by British Prime Minister David Cameron and the Somali President Hassan Sheikh Mohamud, which was attended by participants from 54 countries as well as the President of the Bank Group. This conference provided a forum for high-level strategic exchanges on Somalia's action plan 2013-16.

## 5. Bank Group Instruments and Approaches to Support Effective Policy Dialogue

- 5.1. The Bank Group's instruments are designed to support effective dialogue with RMCs. The Country Strategy Papers (CSPs) and the Regional Integration Strategy Papers (RISPs) are key Bank Group policy dialogue instruments, which inform country and regional programming. In the course of the preparation of CSPs and RISPs, the Bank Group undertakes extensive consultations with country and regional stakeholders on policy and regulatory reforms required

to enhance development outcomes. The CSP also forms the framework for engagement with the country during the 5 year period of validity and sets out the topics for dialogue and the instruments that will be employed. RISPs provide an effective participative platform for policy dialogue with RECs and Specialized Regional Entities such as River Basins and Power Pools.

- 5.2. Program-Based Operations (PBOs) provide a particularly conducive platform to promote policy dialogue, as they fundamentally transform the relationship between the Bank Group and recipient RMCs by using government systems to deliver results, and widen the scope of dialogue to support a broad range of objectives under the national development strategy. Dialogue in the context of PBOs is undertaken jointly with other partners through participation in Multi-Donor Budget Support Groups (MBSG) and country-level thematic sector working groups. Participation in thematic sector working groups facilitates policy dialogue on sector policy reforms. Flexible use of general or sector PBOs allows dialogue to focus on specific sector issues or broader economic management issues depending on the country needs.

#### **Box 4: The Bank's Policy Dialogue Role as Chair of Multi-Donor Budget Support or Sector Working Groups**

The Bank, through its Ethiopia Field Office (ETFO), plays an active role in aid coordination and policy dialogue under the aegis of the Development Assistance Group (DAG), which serves as the main platform for donor coordination in Ethiopia. Currently, ETFO co-chairs the DAG, which is comprised of twenty six (26) bilateral and multilateral members, and became a permanent member of its Executive Committee since November 2010.

As co-chair of the DAG, the Bank co-leads other development partners on policy dialogue with the Government through the High Level Forum (HLF) organized at least bi-annually to discuss key policy and development issues. The Bank's engagement has also enabled regular reviews of the Government's Growth and Transformation Plan (GTP) under the Annual Progress Review (APR) meetings. These provide a platform to review the performance, challenges and opportunities for effective implementation of the GTP. Concrete outcomes have resulted from the dialogue. For instance, during the recent HLF held in June 2013, the Government and its Partners agreed on several actions to accelerate private sector development, including the strengthening of the One-Stop Service facility for investors, enhancing access to finance for small and medium enterprises, and improving transport and logistics. Further, the aid coordination architecture in Ethiopia has been restructured and streamlined, which is contributing to more effective policy dialogue and monitoring of implementation strategies for key sectors.

The Bank was also instrumental in the establishment of the Joint Task Force on Aid Effectiveness. Through this mechanism, Government and Development Partners are implementing measures to meet the aid coordination targets, particularly on improving the use of country systems, enhancing aid predictability, and broadening stakeholder participation in Ethiopia's development process. Also, through the Protection of Basic Services (PBS) program, the Bank played a catalytic role in mobilizing other partners that have collectively contributed over US\$1 billion to the third phase of the PBS.

- 5.3. Often PBOs are complemented by Institutional Support Projects (ISPs), which provide opportunities to build institutional capacity to deliver on reforms as well as provide an additional entry point for policy dialogue.
- 5.4. Furthermore, the Bank Group's Economic and Sector Work (ESW) provides a robust knowledge base to inform policy dialogue and the development of national strategies and programs and enhance evidence based policy. For example, the Bank produces indices such as the Africa Infrastructure Development Index (AIDI) which is released annually and the Inclusive Growth Index (currently being developed). At a national level the Bank produces substantive ESWs, which inform dialogue and make a concrete contribution to national development. For example, in Zambia, a study undertaken by the Bank Group (the *Zambian Skills Study* report) resulted in the Government developing strategies and action plans to implement a local skills development program for growth sectors in the economy, specifically in the mining sector. In Ethiopia, a range of ESWs are under preparation including: the Energy Flagship, Public-Private Partnership study and Transport Sector Diagnostic. These are expected to inform policy, institutional reforms and strategy development as well as guide the design of future operations of the Bank and other development partners in Ethiopia.

### Box 5: Economic and Sector Work: A Key Tool for Enhanced Policy Dialogue

The Bank's knowledge work program in 2012 for Rwanda was designed to support effective policy dialogue. Three studies were undertaken and completed jointly with the Government to meet this objective: Energy Sector Review and Action Plan; Transport Sector Review and Action Plan; and Leveraging Capital Markets for SME Financing in Rwanda. The energy and transport studies resulted in the development of a road map for implementing the country's identified short, medium, and long-term energy and transport investment needs. The SME financing study identified instruments and other options to facilitate SMEs' access to long-term financing through the capital markets and will provide a good reference document for the Rwanda Capital Markets Authority.

- 5.5. The Country Policy and Institutional Assessment (CPIA) is another in-depth, country-specific knowledge product, produced annually as part of the Performance-Based Allocation process. The CPIA assessment has increasingly been used to prepare CSPs and RISPs as well as Bank projects. In addition, the Bank will produce an annual CPIA report as of 2014 that will be widely disseminated among RMCs. This report will analyse trends in CPIA for each of the 54 countries and 5 regions of the continent. More in-depth CPIA summary reports will also be produced for a number of countries each year, to track progress and challenges in terms of policies. Adding a new cluster of questions to the CPIA questionnaire, as proposed by Management in the context of ADF-13, would broaden the scope of the assessment and thus reinforce the breath and quality of policy dialogue at both the regional and the country level. It would strengthen the Bank Group's dialogue specifically in the areas of infrastructure development and regional integration, since policies and institutions that support those sectors would be better rewarded in the process of allocating ADF resources.
- 5.6. Good quality, timely and reliable statistics are important in supporting informed policy dialogue which would in turn foster evidence-based decision making. The Bank Group currently has several activity-related Data Portals installed in RMCs, as well as its flagship African Information Highway (AIH) dedicated to serving the data needs of RMCs. These Data Portals provide a user-friendly tool for extracting data, creating, and sharing customized reports, and visualizing data across themes, sectors and countries through tables, charts, and maps. The Data Portals therefore offer a unique opportunity for policymakers to gain access to reliable and timely data on RMCs. The Data Platforms provide an evidence-based source that informs and supports the discussion thus providing an enabling environment for more meaningful policy dialogue.
- 5.7. In addition the Bank hosts a number of conferences and meetings which provide a forum for sustained policy dialogue with RMCs. The Bank Group runs a program on 'Networking with Think-Tanks for Policy Dialogue', which brings together RMCs, the leading think tanks in Africa, global think tanks, and the Bank to debate topical policy issues, including during the African Economic Conference and the Annual Meetings of the Bank (e.g. Governors' Dialogues).
- 5.8. The high level policy dialogues organized by the Bank's Research and Operations Departments with RMCs focus on challenges and opportunities faced by a country and/or region, while drawing on lessons from other countries. They bring together policy-makers, representatives of the private sector, academia, NGOs, media, and development partners with a view to dialogue also on the vision for RMCs' future. The recent influential high level policy dialogues were on 'Infrastructure and Structural Transformation' in Nigeria, 'Youth Employment in Africa' in Zambia, and 'Revenue Mobilization' in Mozambique.

## 6. Challenges in policy dialogue

- 6.1. The Bank Group views policy dialogue as a continuous engagement with Governments and other stakeholders in order to build a relationship where issues of critical importance can be addressed jointly. Notable results have been achieved, but there have also been challenges.
- 6.2. Discussions on important but sensitive policy issues sometimes fail because the affected groups have problems getting organised or because there is no mutually agreed solution to policy issues. Changing political contexts and economic externalities are also realities that can lead to important shifts in priorities and policy agenda at the country and regional level, often at the expense of previous gains and results achieved through policy dialogue. Sustaining an effective and relevant policy dialogue, in the face of such changing contexts and demand, requires

substantial presence, flexibility and ability to respond appropriately, without the guarantee of immediate results.

- 6.3. The Bank Group acknowledges the need to continue its efforts in strengthening its role in policy dialogue, backed by its non-lending and lending instruments. Undertaking successful dialogue requires strong capacity and skills at a senior level in order to engage effectively with a wide variety of stakeholders from government, the private sector and civil society. The Bank will therefore continue to invest in building capacities in this area.

## 7. Impact of the Bank Group's reforms on policy dialogue

- 7.1. Decentralization and the strengthening of field offices' capacity have had a strong and positive impact on the Bank Group's participation in policy dialogue. Early this year, the Bank Group's Quality Assurance and Results Department (ORQR) undertook a Bank Group-wide survey on aid effectiveness, including the extent of policy dialogue and aid coordination in RMCs. The findings indicated that decentralization has contributed to the strengthening of the Bank Group's country level dialogue, as reflected by the number of working groups<sup>4</sup> the Bank Group is actively participating in. Decentralization has further enhanced closer working relations with the regional and national institutions to support measures that deepen regional integration through trade liberalization and facilitation and improving cross border connectivity for freer movement of persons, goods and services.
- 7.2. In turn, the Bank Group's more effective dialogue and closer relations with its clients through its Field Offices has reduced processing time for requests from RMCs. This has improved portfolio management; reduced time for project effectiveness; and enhanced project completion targets. The result is the reduction of commitment charges RMCs pay due to delays in project implementation, thereby making the Bank Group the partner of choice for RMCs.
- 7.3. On-going reforms will further increase the Bank Group's ability to engage RMCs in policy dialogue over the course of ADF-13. First, the on-going decentralization process, by strengthening the Bank Group presence on the ground, will promote continuous engagement on emerging issues affecting RMCs. Second, the 2012 PBO policy emphasizes the role of policy dialogue as an input in a PBO (as a lesson learned from the 2011 evaluation of PBO operations). By putting particular emphasis on multi-year approaches to PBOs, the new policy creates room for greatly enhanced policy dialogue by supporting a medium term program of reforms. The implementation guidelines for the PBO policy, which are currently being prepared, will further embed the principles of the policy in the Bank Group's *modus operandi* and strengthen the framework for policy dialogue by guiding staff and spelling out roles and responsibilities across departments and between headquarters and field offices. Finally, the proposed adjustments to the PBA system, more specifically the CPIA questionnaire, would be an important stage in the consolidation of policy dialogue with RMCs as they provide broader assessment and country level dialogue on infrastructure development and regional integration, two core priorities of the Bank Group's Strategy 2013-2022.

## 8. Conclusion

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

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<sup>4</sup> Which are respectively 275 in 2013 compared to 160 in 2011.

## Annex I: Instruments used to support dialogue

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