AFRICAN DEVELOPMENT BANK GROUP

STRATEGY FOR ECONOMIC GOVERNANCE IN AFRICA (SEGA)

2021–2025

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Acronyms and Abbreviations

ADF	African Development Fund
AfCFTA	African Continental Free Trade Area
AFROSAI	African Organization of Supreme Audit Institutions
AIF	Africa Investment Forum
ALSF	African Legal Support Facility
AU	African Union
AUCPCC	African Union Convention on Preventing and Combating Corruption
BEPS	Base Erosion and Profit Shifting
CPIA	Country Policy and Institutional Assessment
CSO	civil society organization
DBDM	Development and Business Delivery Model
DRM	domestic resource mobilization
DSSI	Debt Service Suspension Initiative
ECGF	Governance and Public Financial Management Coordination Office
ECST	Statistics Department
ECVP	Economic Governance and Knowledge Management
EITI	Extractive Industries Transparency Initiative
FDI	foreign direct investment
GAP-I	Governance Strategic Direction and Action Plan
GAP-II	Governance Strategic Framework and Action Plan
GCI	General Capital Increase
GDP	gross domestic product
HIPC	Heavily Indebted Poor Countries
ICT	information and communications technology
IFF	illicit financial flow
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
MDRI	Multilateral Debt Relief Initiative
MSME	micro, small, and medium-size enterprise
OECD	Organization for Economic Co-operation and Development
PBO	Program-Based Operation
PCR	Project Completion Report
PFM	public financial management
PIM	public investment management
PPP	public–private partnership
RBF	Results-Based Financing
REC	Regional Economic Communities
RMC	regional member country
SDG	Sustainable Development Goal
SEGA	Strategy for Economic Governance in Africa
SOE	state-owned enterprise
TSA	Treasury Single Account
TYS	Ten-Year Strategy
UN	United Nations
UNECA	United Nations Economic Commission for Africa
WASH	water, sanitation, and hygiene
WGI	Worldwide Governance Indicators

Executive Summary

1. The Strategy for Economic Governance in Africa (SEGA) (2021–25) is a timely response by the Bank to the evolving economic landscape in Africa that seeks to reinforce the institutions, processes, policies, behaviors, and regulatory settings required to manage the economies of the Bank's regional member countries (RMCs). The strategy involves boosting public financial management (PFM), promoting transparency and accountability in public service delivery, stimulating government effectiveness, building business enabling environments, fighting corruption, and enhancing the institutional frameworks required to efficiently manage the economy at the national and sub-national levels. The focus of SEGA is *economic* governance, not necessarily *political* governance, which lies outside the remit of the Bank. SEGA succeeds the Governance Strategic Framework and Action Plan (GAP-II), which set the priorities and action plan for the Bank's interventions on governance from 2014 to 2020.

2. Governance is a cross-cutting theme that is an important element for achieving the Sustainable Development Goals (SDGs) in all RMCs as well as the transformational objectives of the African Union Agenda 2063, such as the creation of structurally transformed, inclusive, and sustainable African economies. SEGA constitutes part of the commitments agreed to by the Bank with its shareholders for its Seventh General Capital Increase (GCI-VII). It is strategically set within the framework of the Bank's High Five agenda, which specifies five priorities in line with the Bank's Ten-Year Strategy (2013–22). It is aligned with the second strategic pillar of the Bank's African Development Fund (ADF)-15 commitment—namely, governance and human and institutional capacity for inclusive growth and job creation. Core areas of this ADF pillar are domestic resource mobilization, PFM, debt management and transparency, infrastructure governance, the combatting of corruption, and the stemming of illicit financial flows. The design of this strategy document is underpinned by the achievements of and lessons from implementation of GAP-II, as well as by pragmatism about the varying governance levels and pathways to development in African countries. SEGA envisions an Africa governed by transparent and accountable governments and strong institutions capable of driving inclusive and sustainable growth. It is continent-wide but recognizes the uniqueness of each of the Bank's 54 RMCs. The pillars of the strategy are therefore broad enough to be relevant across the continent but targeted enough to respond to the specificities of individual countries.

3. SEGA has three pillars:

i. public sector effectiveness at the national and sub-national levels, which seeks to ensure that RMCs can optimally mobilize, utilize, and control their public resources for effective service delivery

ii. governance for structural transformation, under which the Bank will build public institutions to foster structural change on the continent through higher productivity and ascent up the value chain in economic activities led by the private sector

iii. inclusive governance and accountability, designed to foster the ability of RMCs to curb corruption, enhance stakeholder participation, and improve transparency in the public sector.

Four enablers—political economy analysis, policy research, strengthened data and statistical capability, and transformational leadership—will reinforce implementation of all interventions.

4. SEGA is a Bank-wide strategy that will be implemented through a Delivering-as-One approach that involves interdepartmental teamwork and the streamlining of oversight arrangements, in order to minimize overlaps in decision-making. Program-based operations, institutional support projects, results-based financing, technical assistance, and policy dialogue are the major instruments to be used for operations under SEGA. A Result Measurement Framework (RMF), aligned with the Banks overall RMF has been defined to monitor implementation of the strategy. It will assess and measure both overall progress on governance in Africa and progress that can be directly attributed to the interventions by the

Bank. Key targets include a continental tax-to-GDP ratio of 22%, up from a 2019 average of 17%; a Country Policy and Institutional Assessment (CPIA) governance score of 3.7 in Africa Development Fund countries, up from a 2018 baseline of 3.37; and a 13-point improvement in the continent's corruption perception index.

1. Introduction and Rationale

1.1. The Strategy for Economic Governance in Africa (SEGA) responds to the constantly evolving economic landscape in Africa, with the aim to contribute to the sustainable economic development and social progress of its regional member countries (RMCs). It is crafted based on the lessons of the previous Governance Strategy (GAP-II). It ensures continuity and complementarity with other Bank efforts while responding to nascent governance challenges. It embraces policy innovations in its strategic approach and introduces enablers that are critical to the implementation success of the pillars proposed in the strategy.

1.2. The strategy was designed in recognition of the need to rethink the institutions and governance systems that will lead to improvement in the quality of life of all Africans. This need has become especially urgent as the continent grapples with the medium- and long-term economic ramifications of the COVID-19 pandemic. Africa has officially recorded the lowest number of cases and deaths from the disease of any region, but it has suffered the most in terms of economic and social impacts. The continent is set to experience its first recession in more than two decades, caused mainly by the dependence of many national economies on oil, commodities, foreign direct investment (FDI), tourism, and remittances, all of which have been negatively affected. As a result, up to 49.2 million Africans may recede into extreme poverty, eradicating decades of gains on poverty reduction (AfDB, 2020). Most African governments have taken steps to mitigate the impact of the economic downturn. Recovery efforts must transcend ad hoc policy measures and be more deliberate, systematic, strategic, and forward looking.

1.3. SEGA is the Bank's framework for partnering with RMCs in their efforts to drive institutional measures for recovery and resilience. It seeks to help RMCs build back better along the high-impact areas of the Bank's High 5 agenda, consistent with their national development plans. Building back better requires institutions and a set of policies at the national and sub-national levels that will drive economic diversification and competitiveness. The underlying motivation at the heart of SEGA is to accelerate economic recovery and build resilient economies. The new strategy is particularly timely, as it fits into the emerging framework for rethinking economic governance. It recognizes that institutions must be pragmatically designed and prioritized to meet a long-term agenda for economic growth. Governance reforms must be growth enhancing. Reforms must go beyond improving efficiency to overcome the structural issues that slow growth. The goal is to achieve more pragmatic outcomes in terms of the consequence for people's livelihoods.

1.4. Declining economic output as a result of containment measures against COVID-19 and policy measures to stimulate the economies have heightened debt vulnerabilities. Public debt now exceeds 50% of GDP in nearly half of RMCs. (IMF, 2020). Over the last decade, Africa increased its debt at a faster rate than any other region. The risk of defaults on debt, much of which is now non-concessional, has increased. At least 24 African countries have applied for the Paris Club–led Debt Service Suspension Initiative (DSSI), which would free up resources to fight the pandemic. Building the capacity for debt management becomes important, but there is also a need to revamp the nexus between growth, financing instruments, and effective governance. Doing so would ensure that reforms adopted in the context of debt suspension or restructuring are properly timed and tailored toward giving credibility back to governments on their policy actions. In other words, the fiscal space that ensues from debt suspension can be put to use towards public investment in strategic sectors and growth-enhancing governance reforms through fiscal consolidation are critical in this context.

1.5. SEGA recognizes the continued centrality of good governance to economic growth and development. Its focus is economic governance, not necessarily political governance, which lies outside the remit of the Bank. (Subsequent use of the term *governance* in this document therefore refers to economic governance, defined as the institutions, processes, policies, behaviors, and regulatory settings adopted to manage an economy.) The Bank's policy distills governance into five core principles: transparency, accountability, participation, anti-corruption, and rule of law. The operational pillars of SEGA are designed to nurture these underlying elements and principles, which are integral for achieving the Sustainable Development Goals (SDGs), including ending poverty (SDG 1), creating inclusive economies with job opportunities for youth (SDG 8), and designing strong institutions that give citizens more voice in public matters that affect them (SDG 16). SEGA is also critical to achieving some of the flagship projects of the African Union Agenda 2063, including the African Continental Free Trade Agreement (AfCFTA), which entered into force in 2019.

1.6. Economic governance fits squarely within the broad development agenda of the Bank. The Bank's Ten-Year Strategy (TYS), which runs until 2022, designates governance and accountability as core operational priorities. Governance cuts across all sectors fundamental to Africa's development. SEGA is strategically aligned with and set to deliver on Africa's development within the framework of the Bank's High Five Agenda, which includes the following goals:

- universal access to electricity (Light Up and Power Africa)
- agricultural transformation (Feed Africa)
- economic diversification through industrialization (Industrialize Africa)
- regional trade, market, and infrastructure development (Integrate Africa)
- universal access to social and economic opportunities (Improve the Quality of Life for the People of Africa).

1.7. SEGA also complements other Bank strategies, including on the private sector and capacity development. It represents part of the commitments made by the Bank to its shareholders for its Seventh General Capital Increase (GCI-VII). Other commitments include ramping up the Bank's use of policy dialogue as a tool to promote business-enabling environments and becoming more proactive in mitigating risks of debt distress in RMCs. Furthermore, in preparing and finalizing SEGA, consultations were conducted with a broad group of external stakeholders, including partners, regional and non-regional member countries, public sector officials, civil society, think tanks and academia.

1.8. Governance, along with human and institutional capacity for inclusive growth and job creation, form the second strategic pillar of the Bank's three-year African Development Fund (ADF)-15 commitment.[1] This pillar specifically tasks the Bank with setting up its support to RMCs in core areas of economic governance—namely, domestic resource mobilization, public financial management, debt management and transparency, and the combatting of corruption and the stemming of illicit financial flows, as well as promoting an enabling environment for private sector investment in RMCs.

2. The Bank Group's Strategy for Economic Governance in Africa (SEGA)

2.1. Vision and Objectives

2.1.1. The vision of SEGA is an Africa governed by transparent and accountable governments and strong institutions capable of driving inclusive and sustainable growth and sustaining resilient economies. This vision is inspired by emerging and anticipated challenges to sustainable economic growth and development on the continent over the coming years. Key among them will be supporting economic recovery and building resilience in the aftermath of the COVID-19 pandemic, including by addressing the rising public debt burden of many RMCs, reducing leakages for a more effective public sector, and promoting an environment that drives investments and private sector growth.

2.1.2. SEGA is set within the broader governance and economic reform agenda critical for the Bank's High Five priorities. Feeding Africa will be catalyzed by supporting governance mechanisms to facilitate value addition to agricultural products—or creating such mechanisms where they do not exist. To light up and power Africa, governments must be supported to enact policies and regulations that will ensure sustainability of the energy sector through cost-reflective pricing and eventual transition to renewable energy. To industrialize Africa, an enabling environment must be created for innovation, and governments must channel sufficient resources toward research and development in science, technology, engineering and mathematics (STEM). Integrating Africa will require support to national and regional institutions that will break barriers to trade and labor mobility. Improving the quality of life of the people of Africa entails creating an enabling environment for businesses to create high-quality jobs to Africans of active working age (25–64). who are projected to outnumber both children and people 65 and older for the first time in many RMCs.

2.1.3. Although the vision of SEGA is continent-wide, it recognizes the uniqueness of each of the Bank's 54 RMCs. To achieve the vision, this strategy will drive the universal tenets of good economic governance with tailored solutions that reflect specific contexts. The strategic framework for SEGA is broad enough to be relevant across the continent but targeted enough to respond to specific needs. It is structured around four main objectives:

- Ensure the sound management of public resources at the national and sub-national levels to achieve or maintain macroeconomic stability and the delivery of the High Fives.
- Foster structural transformation by enabling a competitive private sector and level playing field for all enterprises.
- Increase transparency, accountability, and inclusion in policy-making and service delivery.
- Combat corruption in the public and private sectors.

These objectives will be implemented through three pillars of intervention supported by four enablers (Table 2.1). A theory of change in Annex B shows the link between the pillars, their respective sub-pillars and how they all contribute to achieving the vision of SEGA.

Table 2.1: Pillars, Sub-Pillars, and Enablers of SEGA

Pillar	Sub-Pillars	Enablers
1: Public Sector Effectiveness at the National and Subnational Levels	1.1 Domestic Resource Mobilization 1.2 Public Expenditure Management 1.3 Debt Management and Transparency 1.4 Sustainable Performance of State-Owned Enterprises	• Policy Research • Political Economy Analysis • Data and Statistics • Transformational Leadership
2: Governance for Structural Transformation	2.1 Competitiveness, Investment, and Business Climate 2.2 Infrastructure Governance 2.3 Natural Resource Governance	
3: Inclusive Governance and Accountability	3.1 Combatting Corruption 3.2 Transparency and E-Government 3.3 Demand-Side Governance and Social Accountability	

2.1.4. SEGA does not approach economic governance as an exclusive engagement with the state. It recognizes the interconnected roles of the state, firms, and citizens in establishing and upholding the governance systems that foster inclusive and sustained growth. The effective management of public resources—including through the control of fiscal deficits and the management of debt—is important for maintaining macroeconomic stability and providing the conditions for structural transformation. Building trust and social cohesion between citizens and the state, as well as within communities, creates a sense of ownership of government programs, which is critical for the sustainability of reforms. Inclusive governance, transparency, and accountability of the public sector reinforce the social contract between the state and citizens. Citizens will be willing to pay taxes if they are engaged in decision-making around how resources are used and receive good-quality services in return. If the government provides an enabling environment for businesses and develops a competition policy framework based on a level playing field for all enterprises, firms will invest, generating employment and revenues.

Government also has a responsibility to protect its citizens, through effective regulation and enforcement. Transparency and openness of government is critical to ensuring that policies and regulations are shaped in ways that respond to the demands of the masses. Reinforcing the interlinkages between all three pillars of the strategy and ensuring that the interests and roles of state, firms, and citizens are addressed are critical.

2.2. Pillars and Sub-Pillars of Engagement

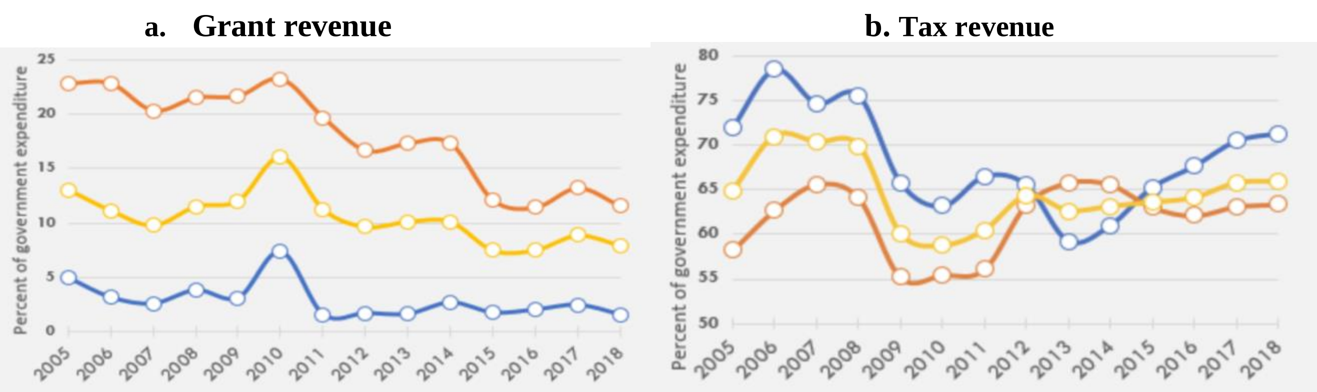
Pillar I: Public Sector Effectiveness at the National and Sub-national Levels

2.2.1. The link between revenue collected by governments at all levels and expenditures must become clearer—so that citizens recognize, for example, the importance of taxpaying to the delivery of life-saving healthcare. African governments must streamline their processes for collecting revenue for national and sub-national budgets and appropriating these resources to ensure maximum economic and social outcomes. The priority of this pillar is strengthening the ability of African governments to nurse their economies back to a path of sustainable growth through the attainment of macro-fiscal stability and solid macroeconomic fundamentals. As governments pursue expansionary fiscal policies to facilitate recovery after COVID-19, special attention must be placed on (i) reallocating resources toward areas critical for building resilience, in line with the Bank's High Five agenda, and (ii) improving efficiency, to reduce the loss of resources to leakages. This pillar support RMCs' efforts to optimally mobilize, use, and control their public resources and deliver quality services at the national and sub-national levels. Special attention will be given to countries in fragile situations.

Sub-Pillar 1.1: Domestic Resource Mobilization

2.2.2. Domestic resource mobilization (DRM) in Africa is weak, with the level of revenues collected both low and declining (Figure 2.1, panel b). Strengthening DRM is a major commitment of African countries under the Addis Ababa Agenda Action Plan. With official development assistance lower than it was a decade ago (Figure 2.1, panel a), governments have increasingly relied on debt financing to fund public expenditure. Domestic resources are critical to fund investment for development and preserve fiscal sustainability with revenue streams that are predictable and allow for full country ownership. DRM covers all potential sources of internal revenue, including taxation; non-tax revenues (such as fees charged for public services, interest receipts, and income from financial assets and government property); deeper capital markets and more inclusive financial services, to mobilize savings; and the curbing of illicit financial flows (IFFs). This sub-pillar focuses on optimizing public revenue collection through taxation, curbing the commercial elements of IFF, and developing the financial sector to leverage domestic savings and investments.

Figure 2.1: Tax and Grant Revenue in Africa, 2005–18



---- ADB countries **---ADF countries** **---Africa**

Source: AfDB staff calculations.

2.2.3. Efficient and transparent tax administration and tax policy frameworks are key to achieving Africa's DRM potential. Some estimates indicate that better tax administration could increase revenue by 30% or more in many African countries. (Hadler, 2000). The ease of paying taxes in African countries is very strongly positively correlated with tax revenue as a share of GDP (Zolt, 2014).

2.2.4. The tax structure in many African countries is far from optimal. Most African countries rely heavily on indirect taxes (such as value-added tax [VAT] and import duties) for tax revenue, because such taxes are easier to administer. These taxes tend to be regressive, because lower-income households allocate larger shares of their income to consumption than do higher-income households. Many RMCs also rely too heavily on tax revenues from natural resources, which are highly volatile because of price fluctuations. The high level of informality in most African countries also pose major challenges to tax collection.

2.2.5. Implementation of AfCFTA is projected to reduce trade tax revenues in the short term while increasing revenue in the long term. African Development Fund (ADF) and transition countries, which often rely more heavily on trade taxes than other countries, will be particularly affected. Through SEGA, the Bank will support RMCs' efforts to ensure that their tax systems are ready to implement AfCFTA, adapt their tax policies, and build institutional capacity aimed at boosting non–trade tax revenues.

2.2.6. Curbing IFFs is key to improving governance and stemming the leakage of resources critical to funding Africa's investment needs. The magnitude of IFFs flowing out of Africa is unclear, but it is considered to be significant. In its report *Tackling Illicit Financial Flow for Sustainable Development in Africa*, the United Nations Conference on Trade and Development (UNCTAD, 2020) notes that one-sixth of the continent's aggregate government revenue comes from corporate taxation and roughly a 10th of that revenue (roughly US$6.7 billion) is lost to tax avoidance. The report estimates annual capital flight from Africa at US$88.6 billion.

2.2.7. IFF originates from three sources: (i) commercial activities, including through tax evasion and aggressive tax avoidance practices; (ii) criminal activities, including trafficking of people, drugs, and arms; and (iii) corruption, including bribery and abuse of office by public officials. The nature of IFFs varies across RMCs. Different approaches to tackling the problem will therefore be adopted in mineral-exporting countries, countries with acute fiduciary issues and countries in fragile situations.

2.2.8. Under SEGA, efforts to tackle IFFs will include (i) eliminating tax loopholes and facilitating tax controls, (ii) establishing public registries of verified beneficial ownership of legal entities and assets, and (iii) building state capacity to address trade mispricing and mis-invoicing. Curbing IFFs will also require enhanced international collaboration. The adoption of international standards, such as the Inclusive Framework on Base Erosion and Profit Shifting (BEPS) and the Standard for Automatic Exchange of Financial Account Information in Tax Matters (AEOI), are critical to stem tax evasion and avoidance.

2.2.9. Under SEGA, resource mobilization is not only about mobilizing internally generated revenue; it is also about leveraging and intermediating domestic savings/resources for productive investment. The lack of sufficient depth and access of African capital markets limits their ability to serve as intermediators of long-term finance. Recent high economic growth rates have attracted foreign interest in African stock markets. Such interest carries risks, however, particularly where foreign investors with short-term horizons play a prominent role in the market, as seen in the context of the COVID pandemic.

2.2.10. There is a need to strike a balance between local and foreign investor bases. The Bank will work to strengthen African capital markets by (i) addressing weaknesses in their structure, policy, and regulatory frameworks; (ii) enlarging the pool of investors, with an emphasis on domestic pension funds and other institutional investors, to promote liquidity and depth within markets, including through regional integration; and (iii) building a pool of knowledge to inform current and future operations.[2]

2.2.11. The Bank will capitalize on the Investor Engagement workstream of the Africa Investment Forum (AIF), which is identifying and curating a database of institutional investors, both domestic and global, in collaboration with AIF founding and institutional partners. Specific interventions will include (but not me limited to) creating Africa-focused co-investment vehicles on the AIF platform and leveraging existing risk mitigation instruments and the Bank's upstream interventions to push forward structural and governance reforms for increased private sector investment. Table 2.2 outlines the specific actions to be carried out under this sub-pillar.

Table 2.2: Actions for Increasing Domestic Resource Mobilization under SEGA

Item	Description
Target regional member countries (RMCs)	• All countries, with emphasis on countries with tax-to-GDP ratios of less than 15% • States in fragile situations
Expected outcome	Increased revenue generation and resource mobilization in countries supported
Proposed workstream	i. Build capacity for revenue administrations (tax and customs), including through support for digitalization of tax administration. ii. Improve coordination and planning for tax policy at national and sub-national levels, including through optimization of tax incentives and exemptions. iii. Improve taxpayer identification, education, and fiscal citizenship. iv. Provide institutional support on revenue forecasting and links to the budget. v. Lead efforts to strengthen regional coordination, including through harmonization of legal frameworks for transfer pricing and institutionalization of environmental and gender-related taxation. vi. Develop policies, regulations, and instruments to support increased mobilization of domestic savings and unlocking those savings for investment. vii. Support adoption of relevant rules and legislation on thin capitalization, arm's length principles, and advanced pricing agreements. viii. Help build dedicated units on Automatic Exchange of Financial Account Information in Tax Matters (AEOI) and Base Erosion and Profit Shifting (BEPS) protocols ix. Strengthen AfCFTA governance arrangements and support Regional Economic Communities (RECs) and RMCs' efforts to adapt their tax structure to AfCFTA trade liberalization, including through tax harmonization. x. Build RMC capacity and support regional collaboration to curb opportunities for tax avoidance and evasion, money laundering, and illicit financial flows. xi. Promote collaboration among domestic investors, with a focus on improving risk perceptions and investment strategies. xii. Support the creation of co-investment vehicles with global institutional investors.

Sub-Pillar 1.2: Public Expenditure Management

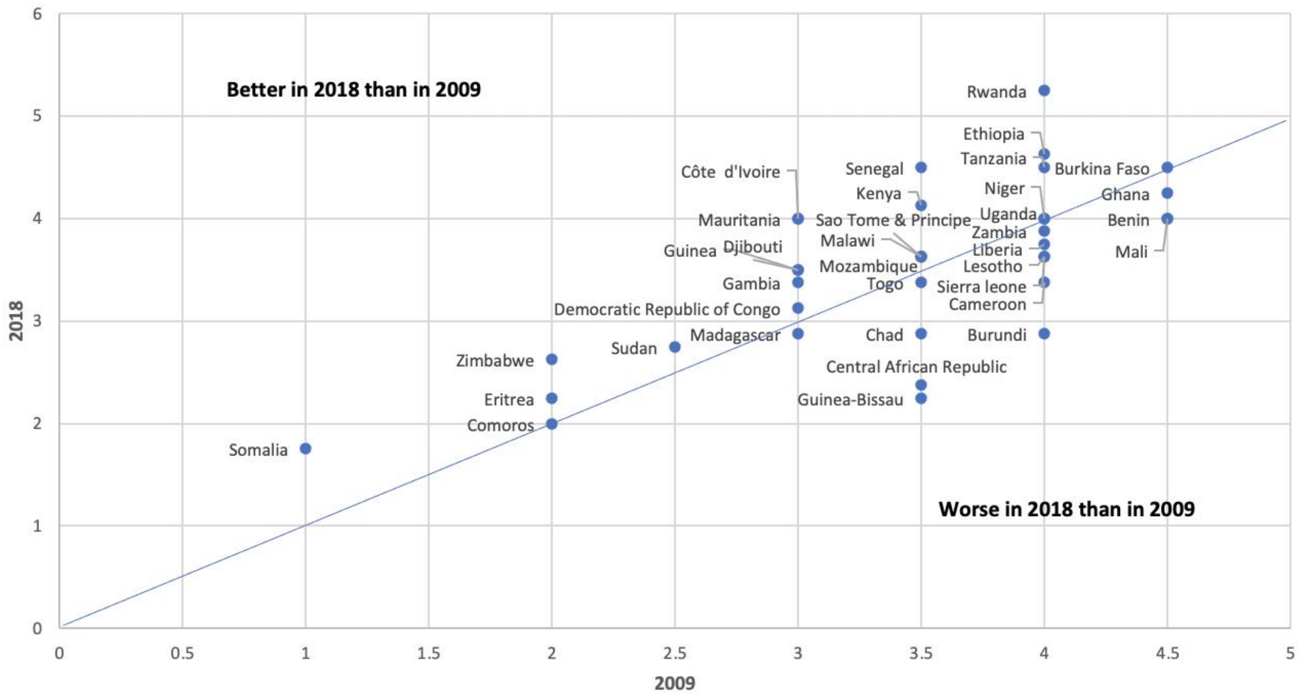
2.2.12. Good public expenditure management (PEM) is characterized by fiscal discipline and sustainability, strategic allocation of budgetary resources, operational efficiency in executing public programs, and macroeconomic stability. It is critical, because a significant share of public expenditure in Africa is wasted or lost to leakages. Africa spends slightly more than the UN recommended lower bounds of 4% of GDP and 15% of the government budget on education; but the efficiency of its spending is very low. Africa is the world's least efficient region, with a 58% efficiency score for primary education and a 41% score for secondary (AfDB, 2020b).

2.2.13. PEM encompasses the full budget cycle, from the upstream areas of budget formulation and execution to the downstream areas of audit and control. Effective budgeting maintains fiscal discipline, allocates resources in accordance with policy priorities, and efficiently delivers services, providing "value for money." Sound budgeting processes are critical to ensuring that priorities of national development plans and the High Fives are financed.

2.2.14. The quality of budgetary and financial management is mixed in Africa. A dozen countries performed worse in 2018 than they did in 2009 (Figure 2.2). Most RMCs embraced two key reforms in recent years: medium-term expenditure frameworks and program-based budgeting. For countries yet to adopt these reforms, implementing them will be accorded priority under SEGA.

2.2.15. Public procurement is a major source of inefficiency and corruption. Most RMCs have robust legislation that ensures competitiveness and transparency in procurement; implementation is weak, however. National procurement institutions need to be strengthened, and a clear separation needs to be made between policy, acquisition, and oversight functions. There is also a need to promote the use and integration of information and communications technology (ICT) systems (e-procurement) and build capacity in ICT.

Figure 2.2: Quality of Budgetary and Financial Management by Regional Member Countries in 2009 and 2018



Source: AfDB Country Policy and Institutional Assessment (2018).

2.2.16. SEGA will seek to improve accounting practices in PFM systems. A modern state's accounting practice comprises multi-layer functions (budgetary, general, and cost accounting) and a robust regulatory framework (chart of accounts, accounting principles and norms). It requires an elaborate integrated financial management system (IFMIS) as well as skilled human resources. An important area for reform is the use of accrual accounting, which yields a more accurate reflection of the financial situation and commitments of the state than cash accounting**.** It also conforms to the accounting norm of the International Public Sector Accounting Standards (IPSAS). Only two African countries (Nigeria and Tanzania) reported using accrual accounting in their last set of published financial statements, according to the 2018 International Public Sector Financial Accountability Index. Another 19 African countries are planning to adopt accrual accounting by 2023, making this an important area for support under SEGA.

2.2.17. SEGA will also support reform of other practices. Cash management ensures that adequate cash is available to pay for expenditures when they are due. By allowing governments to borrow only when needed, it reduces financing costs. Having a Treasury Single Account (TSA) is a proven practice for improving the payment and revenue collection systems; it will be a focus of support under SEGA. Internal auditing is a relatively new function in both advanced and developing countries, where it is often poorly understood and executed and the independence of auditors—a cardinal value of international norms—is very rarely guaranteed. External auditing ensures that the budget is executed in accordance with the law and effectively delivers public services. SEGA will build the capacity of internal audit units and Supreme Audit Institutions (SAIs), fortifying their independence. Table 2.3 outlines the specific actions to be carried out under this sub-pillar.

Table 2.3: Actions for Improving Public Expenditure Management under SEGA

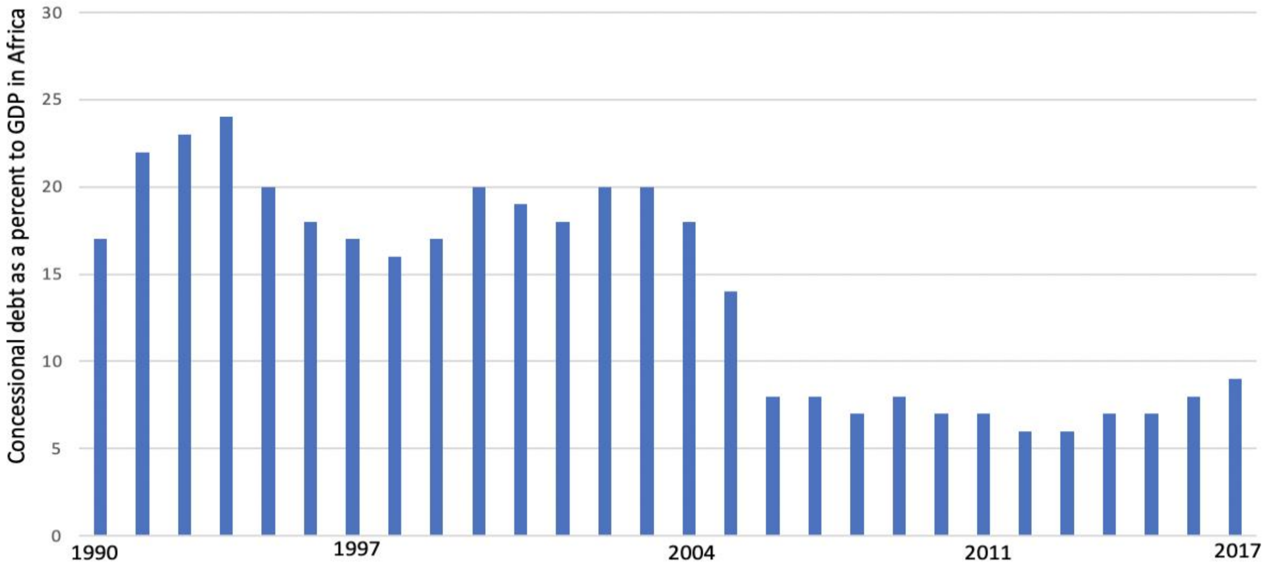
Item	Description
Target regional member countries (RMCs)	All RMCs, with emphasis on states in fragile situations and countries with a Country Policy and Institutional Assessment (CPIA) budgetary and Financial Management Score of less than 3.5.
Expected outcome	• Improved efficiency in resource allocation and fiscal discipline • Enhanced quality of public sector and economic governance, as measured by the CPIA index
Target workstreams	i. Support implementation of public financial management (PFM) reforms and modernization of PFM legal frameworks. ii. Improve procurement policies and regulations for greater transparency and competition, including by ramping up the use of e-procurement iii. Strengthen alignment with international standards (IPSAS, AFROSAI, and INTOSAI). iv. Support internal audit and control functions. v. Support public asset management at the central and sub-national levels. vi. Modernize and automate PFM systems (through IFMIS), including e-procurement. vii. Strengthen the institutional PFM capacity of sector ministries and sub-national agencies, including by professionalizing staff. viii. Promote gender-responsive and climate-sensitive PFM reforms, including gender and climate change budgeting. ix. Conduct analytical work at the country, sector, and sub-national levels, using tools such as public expenditure and financial accountability assessments, public expenditure tracking surveys, and country fiduciary risk assessments. x. Strengthen the independence and capacity of national supreme audit institutions. xi. Support regional institutions in Africa working on PEM, as well as RECs on issues of regional macro-convergence.

Sub-Pillar 1.3: Debt Management and Transparency

2.2.18. The level of debt in Africa has soared, rising from 38% of GDP in 2011 to 61% in 2019. In 2013, only six African countries were considered at high risk of or in debt distress, according to the debt sustainability analysis of the International Monetary Fund (IMF). In June 2020, this figure reached 20, and it is likely to increase as a result of fiscal pressures compounded by the COVID-19 pandemic.

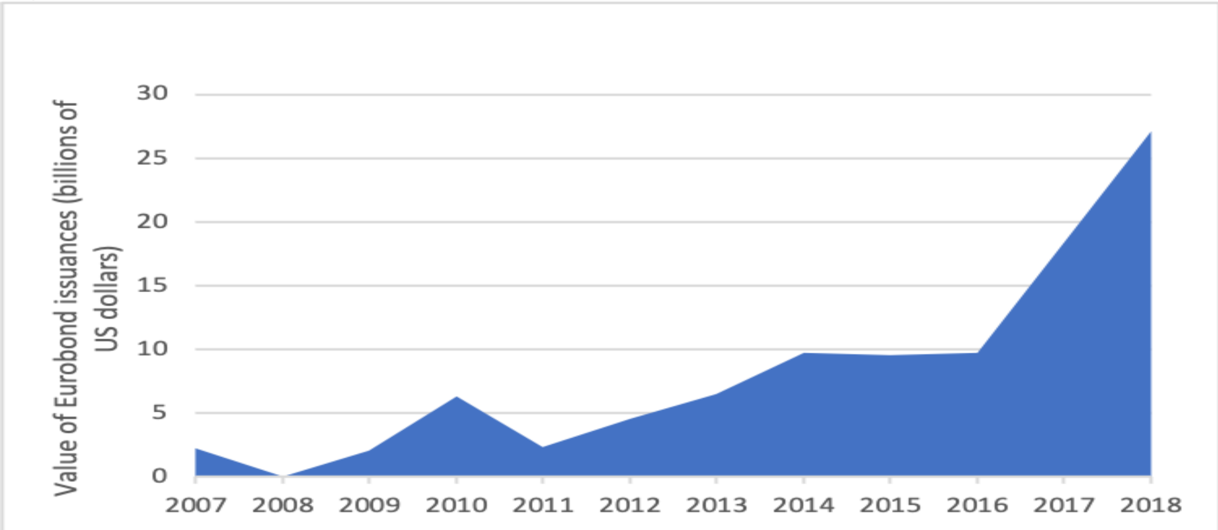
2.2.19. The composition of debt has also changed, with a decrease in the share of concessional debt and an increase in the share of non-concessional borrowing (Figure 2.3). Options for accessing finance have widened to include emerging bilateral lenders, private sources, and bond markets. The contribution of commercial creditors to Africa's total external debt rose from 17% in 2000 to 40% by the end of 2019. Eurobond issuance in Africa soared between 2008 and 2018 (Figure 2.4). Although the change indicates growing investor confidence in debt securities issued by RMCs, it also increases these countries' debt burden. Levels of concessional financing have not kept pace with demand. High debt with low growth leads to negative outlook signals from credit-rating agencies.

Figure 2.3: Concessional Debt as a Percent of GDP in Africa, 1990–2017



Source: AfDB staff calculation

Figure 2.4: Value of African Eurobond Issuances, 2007–18



Source: AfDB staff calculations**.**

2.2.20. The governance of debt affects achievement of the High Fives, because debt overhang or poor credit ratings limit the ability of RMCs to raise affordable capital to fund their development. The Bank must support sustainable debt management by developing and implementing a comprehensive framework to support RMCs' efforts to get back on a sustainable debt path. As some countries enter the DSSI, this strategy represents an opportunity to work closely with them to translate the fiscal space gained from debt suspension—and longer-term fiscal consolidation—into productive investments in the High Five sectors. Where debt restructuring becomes inevitable, high-level policy dialogue and mediation by the Bank will be critical to ensuring good-faith and constructive negotiations with creditors.

2.2.21. SEGA provides an opportunity to redefine how the Bank approaches this area of work.[3] Beyond traditional institutional reforms to improve capacity in debt management, the Bank must now also pioneer the use of countercyclical and state-contingent debt instruments to reduce exposure to the boom-bust cycles associated with traditional debt instruments. For low-income (ADF) countries, it provides an opportunity for the Bank to use innovative lending instruments such as partial risk guarantees, and to promote the use of swaps, contingent loans, and non-debt finance. All of these measures will help ensure that debt reforms go beyond avoiding defaults in the wake of the crisis to provide springboards for growth.

2.2.22. The recording and regular publication of RMCs' public debt obligations is an important element of debt management, as it removes any opacity in the assessment of debt portfolio risk**.** Under SEGA, the Bank will become more proactive in increasing debt transparency in RMCs, including through the comprehensive collation of data across government ministries and parastatals into a central database that can inform regular debt sustainability analysis. Legislation and regulations must be adopted to mandate medium-term debt strategies and annual debt reports and to make real-time information on implicit guarantees and contingent liabilities of state-owned enterprises (SOEs) available and publicly accessible. Part of increasing debt transparency will involve institutionalizing the publication of debt auction calendars, announcements, and results on government websites. The Bank will engage governments in policy dialogue around greater transparency and the timely reporting of information on all financial arrangements that have the economic effect of borrowing as well as any guarantees related to such borrowing. In this dialogue, the Bank will leverage its position as a trusted partner to preempt the potential risks of debt distress in RMCs and improve debt sustainability assessments, in collaboration with the IMF and the World Bank. Table 2.4 outlines the specific actions to be carried out under this sub-pillar.

Table 2.4: Actions for Improving Debt Management and Transparency under SEGA

Item	**Description**
Target regional member countries (RMCs)	• All RMCs, with emphasis on countries at high risk of or already in debt distress • Sub-national governments with outstanding external debt or municipal bonds
Expected outcome	Improved debt transparency and enhanced capacity of RMCs to sustainably manage their debt
Target workstreams	i. Support RMCs' debt management capacity and debt sustainability analysis. ii. Strengthen RMC's capacity to formulate and implement debt policy and medium-term debt strategy frameworks, to ensure more prudent contracting and management of debt. iii. Engage RMCs with debt vulnerabilities in policy dialogue in the context of a comprehensive framework to restore them to a path of sustainable debt management. iv. Engage credit-rating agencies on modalities for projecting outlooks on sovereign debt v. Enhance debt statistics, recording, monitoring, and reporting, using credible debt systems, such as debt management and financial analysis systems. vi. Strengthen the organizational set-up of debt offices, including by training debt management staff. vii. Conduct debt vulnerability assessments. viii. Establish frameworks that ensure comprehensive risk management, accountability, and transparency of debt. ix. Support the establishment of independent fiscal commissions to advise governments on debt matters. x. Promote the use of non-debt and innovative financing instruments.

Sub-Pillar 1.4: Sustainable Performance of State-Owned Enterprises

2.2.23. SOEs (also referred to as *public enterprises*) are crucial to development in Africa, because they provide essential goods and services. They are particularly important for access to electricity in Africa, where they account for the largest share of power generation capacity. SOEs can be positioned to achieve the Bank's Light Up and Power Africa agenda as well as other High Five priorities.

2.2.24. SOEs have a history of poor performance in Africa, because of mismanagement and poor governance. They also face the perennial challenge of balancing their public service obligations against profitability objectives. To maintain long-term financial viability, African SOEs often rely on debt funding (implicitly or explicitly backed by the government) as well as direct government bail-outs, in the form of subsidies or equity financing. In many cases, states are forced to make extrabudgetary capital transfers to SOEs or to transfer their liabilities to the government's debt stock. For these reasons, SOEs' contribution to the public debt has become a source for concern in some RMCs. Government guarantees of contingent liabilities represent a significant risk to debt sustainability when SOEs default. These guarantees can be very important. In its 2019/20 budget, for example, the South African government guaranteed 62% of the total debt owed by its seven largest SOEs (National Treasury, 2020).

2.2.25. Bank operations will focus on areas where the Bank has the greatest comparative advantage. Under SEGA, priority will therefore be given to reforms of SOEs in the High Five sectors geared at greater financial transparency and accountability of these institutions and strategies for fiscal sustainability, to help SOEs become independent of explicit or implicit government subsidies. Other areas of work will include structural reforms to support the commercialization and privatization of SOEs where evidence backs such options as the most viable pathway to operational effectiveness and financial sustainability. The Bank will leverage institutional partnerships such as the African SOE Network in addressing issues related to the technical and corporate governance of SOEs as well as market distortions caused by the crowding out of private firms in the credit market. Table 2.5 outlines the specific actions to be carried out under this sub-pillar.

Table 2.5: Actions for Improving the Sustainable Performance of State-Owned Enterprises under SEGA

Item	**Description**
Target regional member countries (RMCs)	All RMCs, with emphasis on middle-income countries.
Expected outcome	Fiscally sustainable and operationally effective SOEs that efficiently provide basic services to all citizens
Target workstream	(i) Support the development of legal and regulatory frameworks for SOEs that address the challenges they face with respect to financial performance. (ii) Support RMCs' efforts to reduce the risks and costs of SOEs to the government budget by regulating extrabudgetary transfers and subsidies. (iii) Support RMCs' efforts to be transparent about recording contingent liabilities of SOEs and manage associated risks. (iv) Support RMCs' efforts to develop robust performance-monitoring processes for SOEs. (v) Support studies and analytical work to guide reforms of SOEs.

Pillar 2: Governance for Structural Transformation

2.2.26. The overarching objective of Pillar 2 is to build public institutions that will foster structural change through innovation, higher productivity, and ascent up the value chain in economic activities led by the private sector. This objective is consistent with the development ambitions of most RMCs, which seek to create diversified and competitive economies, increase industrialization, and upgrade their manufacturing sectors. Bolstering competition law, policies and law enforcement is at the heart of structural transformation, as it creates incentives for innovation and capital investment by firms. Equally important is adding value to Africa's mineral, agricultural, and other natural resources¸ which would boost industrialization and unlock economic opportunities for the continent's entrepreneurs and working-age population. Building institutions and conducive environments for structural transformation through this pillar is critical for the delivery of the High Five priority areas, complementing the Bank's strategies for each. While the proposed interventions through the three sub-components of this pillar are broad - which is necessary given the diversity of the continent - the principle of selectivity will be applied with regard to specific interventions in RMCs.

Sub-Pillar 2.1 Competitiveness, Investment, and the Business Climate

2.2.27. Increased private investment is necessary to foster structural transformation in Africa. For this reason, many countries have given a prominent role to the private sector in their efforts to diversify their economies away from resource extraction toward processing, manufacturing, and the production of high-quality consumer goods and services. Strengthening economic competitiveness—measured by productivity in the use of human, capital, and natural resources—requires improving the institutions, policies, and factors that determine a country's level of productivity. Competitive economies require adequate infrastructure, a skilled workforce, access to financial services, and technology acquisition and diffusion. These elements must be complemented by reforms to the investment and business regulatory environment, as well as trade facilitation, to increase the impact of the existing sources of comparative advantage. One such reform to the business environment is establishing frameworks for competitive neutrality and contestability, in order to remove the unfair advantages SOEs and private firms with vested interests enjoy such as preferential regulation, tax treatment, and access to credit.

2.2.28. The high cost of doing business generated by regulatory uncertainty and weak institutions affects investment decisions. Policies, transparent rules and regulations, effective and efficient institutions are key to de-risking private investment. Institutional frameworks have to be designed to ensure that African economies are appealing and competitive enough to attract private capital from both domestic and foreign sources in areas outside the extractive sector. Such capital would boost trade and drive economic growth and transformation.

2.2.29. There is also a need to professionalize the public sector staff involved in processing investments and facilitating trade, to reduce delays and effectively support the private sector. Modernizing the investment facilitation regime through ICT platforms and one-stop shops will help to enhance efficiency of government services. The benefits of AfCFTA will be maximized only if all countries have competitive economies and remove non-tariff barriers, especially lengthy customs procedures and inefficient customs administrations, which significantly increase the cost of trading. Through SEGA, the Bank will continue to support both the simplification and harmonization of customs procedures on a continental level, as well as the modernization of customs policies and administrations.

2.2.30. Through this sub-pillar, the Bank will consolidate its past efforts at creating an enabling environment by streamlining business processes, strengthening policy, legal, regulatory and institutional frameworks, and enhancing the rule of law. These efforts will boost investor and consumer confidence, improve the environment for doing business, increase the attractiveness of RMCs to both domestic investment and FDI, and promote economic competitiveness across all sectors. Strong emphasis will be placed on micro, small, and medium-size enterprises (MSMEs), especially enterprises owned by women, in view of their strategic contribution to economic growth and job creation in Africa. In this regard, SEGA complements the Bank's Affirmative Finance Action for Women in Africa (AFAWA), which seeks to bridge the wide financing gap for women entrepreneurs in Africa with sufficient funding, technical assistance, and an enabling environment supportive of women-owned businesses. The Bank will also provide institutional reinforcement of the Africa Investment Forum (AIF) by facilitating engagements with RMCs on investment opportunities. As a powerful convener and platform, AIF aims to tilt the balance of capital toward Africa's critical sectors by (i) advancing projects to bankable stage, through more effective project preparation as well as advisory support that advances deals in the AIF pipeline; (ii) raising capital by partners, lenders, and investors for increased co-financing for bankable projects; and (iii) accelerating financial closure of deals through this coordinated approach. To ensure effectiveness, the Bank will apply a differentiated approach to supporting RMCs by identifying areas of weakness based on country grouping and designing appropriate and targeted interventions to improve the business environment and enhance economic competitiveness. States in fragile situations will be targeted. This approach will also allow for benchmarking and peer-to-peer learning, as well as help identify concrete reforms to improve performance. The upstream (policy, legal and regulatory framework) interventions guided by this strategy will be complemented by mid-stream and downstream interventions through other strategies, such as the Private Sector Development Strategy, in a coordinated approach to supporting Africa's transformation agenda. Table 2.6 outlines the specific actions to be carried out under this sub-pillar.

Table 2.6: Actions for Improving Competitiveness, Investment, and the Business Climate under SEGA

Item	Description
Target regional member countries (RMCs)	RMCs with scores below 50 on the Global Competitiveness Index, especially countries in fragile situations
Expected outcome	Globally competitive economies that can create and retain high-quality jobs
Target workstreams	(i) Support investment facilitation, including through streamlined processes and procedures for doing business such as one-stop shops for licensing and business registration processes. (ii) Support improvement of regulations affecting business entry and exit as well as ongoing operations. (iii) Complement the Bank's Affirmative Finance Action for Women in Africa (AFAWA) program by fostering a business-enabling environment for women entrepreneurs. (iv) Support policy, legal, regulatory and institutional frameworks for consumer protection and competition vis-à-vis state-owned enterprises. (v) Promote and enable the enforcement of arm's-length regulation to fight anti-competitive practices involving vested interests by private firms and public enterprises. (vi) Support initiatives to improve private sector access to credit and financial inclusion. (vii) Support the regional harmonization of financial governance and standards (e.g., payment systems). (viii) Support RMCs' efforts to institutionalize ownership and property rights, focusing on women's access and control over productive assets (ix) Support RMCs' efforts to create a gender equal environment for MSME skills, job creation, and entrepreneurship development. (x) Working with RECs to facilitate trade, including by eliminating non-tariff barriers.

Sub-Pillar 2.2. Infrastructure Governance

2.2.31. The COVID-19 pandemic has accentuated the need to improve infrastructure, especially in the health, water and energy sectors. This sub-pillar has two components. The first seeks to improve public–private partnerships (PPPs) by capitalizing on the technical expertise, efficiencies, and finance of private sector stakeholders. The second proposes enhancing public investment management (PIM), to help improve the planning, execution, and delivery of capital expenditures, in line with RMCs' long-term development objectives.

2.2.32. PPPs have become increasingly popular for delivering infrastructure and related services in Africa, but take-off of effective PPPs has been slow in Africa. Challenges have included weak legal and regulatory frameworks, the lack of public sector technical capacity and experience to assess and negotiate complex PPP deals, concerns with fiscal risks related to contingent liabilities, and insufficient political will and commitment. Capitalizing on the Bank's experience in this area, SEGA will strengthen institutional frameworks for PPPs and build capacity across RMC governments. The Bank will help operationalize and reinforce PPP units at the national and sub-national levels to enable them to assess, monitor, and report on the fiscal implications of PPP contracts. Emphasis will be placed on strengthening the ability to comprehensively assess, quantify, and monitor the fiscal risks of PPPs. Interventions will help identify and prepare PPP projects, attract investors, and ensure successful implementation.

2.2.33. PIM is prioritized under SEGA because the delivery of infrastructure projects across the High Five sectors is critical to meeting the long-term development targets of RMCs. Countries with stronger PIM institutions have more predictable, credible, efficient, and productive investments. The IMF estimates that two-thirds of the efficiency gaps in public investment is associated with the inadequacies of PIM institutions (IMF, 2015). PIM can help harmonize and improve the quality of national and sectoral planning. Efforts will ensure that national development plans give adequate attention to investments that will help build back better after COVID-19 and accelerate the delivery of critical infrastructure. The Bank plans to reinforce implementation through coordination of central and local governments, transparency of project execution, and portfolio management and oversight. Table 2.7 outlines the specific actions to be carried out under this sub-pillar.

Table 2.7: Actions for Improving Infrastructure Governance under SEGA

Item	Description
Target regional member countries (RMCs)	All RMCs, especially African Development Fund countries
Expected outcome	Well-planned, implemented, and maintained infrastructure across the public sector
Target workstreams	(i) Strengthen capacity in public sector institutions for project appraisal, management of project execution, and portfolio management. (ii) Build institutional capacity for public investment management, including through support to delivery units and performance monitoring. (iii) Strengthen policy and regulatory frameworks for structuring, negotiating, and managing public–private partnerships (PPPs). (iv) Build institutional capacity through the creation of PPP units in ministries of finance and sectors. (v) Build the technical skills of public sector officials on legal, financial, and industry-specific matters as they relate to public investment management and PPPs. (vi) Strengthen the framework and capacity to assess, quantify, and monitor the fiscal risks of PPP. (vii) Promote environmental and social safeguards to enhance the sustainability of infrastructure. (viii) Strengthen regulatory frameworks and institutional capacity, to attract private sector investment and participation in greener, climate-resilient infrastructure.

Sub-Pillar 2.3. Natural Resource Governance

2.2.34. The natural resources or extractive sector has been a consistent driver of growth and an anchor of economic transformation in some RMCs. It remains critical to the continent's industrialization agenda, which will be driven largely by value addition in raw materials rather than commodity export–led growth. Africa accounts for about 30% of global mineral reserves, but most of its mineral wealth is not industrially transformed for value addition. Minerals account for 70% of total African exports and almost 30% of GDP. (AfDB, 2015) Revenues from extractives revenues account for as much as 70% of total revenues for some large oil and gas–producing countries, putting their public finances at risk from volatile commodity price swings.

2.2.35. SEGA provides an opportunity for RMCs to become more intentional about adding as much value as possible to their agricultural, mineral, and other natural resources in a sustainable manner. Doing so will ensure that they retain more of the overall economic benefits that accrue from the commercialization of these resources. The natural resource sector is also an important source of jobs for young Africans.

2.2.36. Transparency and disclosure of information on the natural resource sector has improved markedly over the past 20 years across Africa. Before the establishment of the Extractive Industries Transparency Initiative (EITI), it was difficult for citizens to know how much extractive industries paid their governments in royalties. In 2020, 24 of the 51 EITI–participating countries are in Africa. All 24 are compliant and have made good progress in meeting the 33 requirements of the EITI standards. Details of contracts and revenues are disclosed in the public domain.

2.2.37. The continent's natural resource endowments have driven growth through commodity exports, provided foreign exchange earnings, and transformed some economies, such as Botswana. For the millions of people living in resource-rich countries in Africa, however, the oil, gas, arable land, and mining sectors have largely failed to deliver on the promise of a better quality of life. This failure reflects ineffective policies and legal frameworks, weak institutions, huge implementation gaps between policy and practice, and widespread corruption and state capture. The technical nature of extractives projects, the low level of technology transfer, the emphasis on exports of raw materials, and insufficient technical capacity at the local level have meant that local businesses in RMCs are largely excluded from participating in the business value chains. Of the 34 resource-rich countries in Africa that were ranked by the 2017 Resource Governance Index (RGI) report, which assesses the enabling environment, revenue management, and value realization, only 2 were rated *satisfactory* (Ghana's oil and gas sector and Botswana's mining sector). Most African countries were rated *unsatisfactory*, and a few were rated *failing*. These poor ratings demonstrate the scale of governance challenges in this sector.

2.2.38. The global shutdown because of the COVID-19 pandemic has led to an unprecedented decrease in demand for oil, leading to historic drops in the prices of oil and other commodities. The price drops have affected economies that export oil, gas, and minerals. Recession looms for these economies. The grim outlook for commodity prices presents opportunities for bold reform and a reset on how natural resources can support industrialization and structural transformation. Through this sub-pillar of SEGA, the Bank will ensure that the potential gains and benefits from Africa's natural capital are realized and enjoyed by all its citizens and in a sustainable manner. Efforts will range from supporting policies and regulatory frameworks to strengthening economic linkages between the natural resource sector and the wider economy and promoting revenue generation. The Bank will also focus on strengthening the institutional capacity to better predict and manage revenue flows, institutionalizing transparency in the award of contracts and the use of resource revenues, and building capacity to negotiate better financial/fiscal terms for the state. Land tenure issues will also be addressed. The Bank will provide support to streamlining land tenure rights and establishing land registries and systems that can promote transparency in the governance and allocation of land while protecting the rights and interests of vulnerable groups (youths, women, and indigenous populations); the forcibly displaced (refugees and internally displaced persons); and the communities that host them. Table 2.8 outlines the specific actions to be carried out under this sub-pillar.

Table 2.8: Actions for Improving Natural Resource Governance under SEGA

Item	Description
Target regional member countries (RMCs)	RMCs where natural resource sector accounts for over 20% of GDP
Expected outcome	Value addition to natural resources for transformed economies
Target workstreams	(i) Strengthen the institutional capacity of RMCs to better predict and manage natural resource stocks and revenues. (ii) Support RMCs' efforts to ensure transparency in the extractive sector, including Extractive Industries Transparency Initiative (EITI) award of mining/oil contracts and use of resource revenues. (iii) Build capacity of RMCs to negotiate better mining/oil contracts and fiscal terms. (iv) Advocate on transboundary issues of natural resource governance, and strengthen the capacity of RMCs and regional bodies to address them. (v) Support RMCs' efforts to identify/address institutional-related binding constraints to pro-growth land tenure systems. (vi) Strengthen local content laws and the development of value chains to stimulate development of micro, small, and medium-size enterprises (MSMEs). (vii) Support implementation of land tenure reforms, including through the establishment of land registries. (viii) Conduct research and analysis on natural resource governance. (ix) Strengthen the capacity of RMCs to establish gender, environment, and social safeguards in the exploitation of natural resources. (x) Work in concert with national and sub-national institutions to drive natural resource beneficiation and value addition strategies.

Pillar 3: Inclusive Governance and Accountability

2.2.39. The objective of this pillar is to establish systems to monitor and hold governments accountable for the delivery of public services and the fight against corruption. It seeks to ensure that economic policies and programs are inclusive in design and gender responsive, taking account of the needs of women, children, people with disabilities, and the elderly, as well as youth with respect to job creation. Corruption ultimately results from a lack of transparent and accountable governance systems. Addressing corruption requires evidence-based research to identify the most effective types of interventions under Pillars 1 and 2 of this strategy that prevent corruption. Inclusive Governance and Accountability reinforces Pillars 1 and 2.

Sub-Pillar 3.1 Combatting of Corruption

2.2.40. Significant efforts have been made to reduce corruption and block leakages in RMCs. Many African countries have made good progress in adhering to the United Nations (UN) and African Union (AU) conventions to prevent and combat corruption, enacting anti-corruption laws, setting up dedicated anti-corruption agencies, and facilitating greater scrutiny from civil society and the media. Important gaps remain, however. The Bank estimates that about US$148 billion a year—about 4% of the continent's GDP—is lost to corruption in Africa. According to Transparency International's latest Corruption Perception Index, experts and business executives perceive Africa as the most corrupt region in the world, with 6 of the index's 10 worst-ranked countries in Africa. According to its Global Corruption Barometer survey, more than one in four people who access public services, such as health care and education, pay a bribe to do so. Corruption exacerbates inequalities, because it disproportionately affects the poor, vulnerable, and marginalized. Corruption also enables terrorist and criminal activities (such as the production of counterfeit pharmaceuticals) to go unabated.

2.2.41. Ensuring that all African countries have and enforce adequate legal frameworks to fight corruption is an important priority. Forty-four RMCs have ratified the African Union Convention on Preventing and Combating Corruption (AUCPCC); its provisions now need to be enforced. Budgetary constraints, institutional and capacity weaknesses of anti-corruption agencies, proneness to political interference, and poor interagency cooperation (particularly in law enforcement) are some of the challenges constraining countries' ability to clamp down on corruption. Lack of open government, transparency, and accountability to citizens helps corruption thrive.

2.2.42. Support to broader governance reforms is critical. The first two pillars of SEGA—under which the Bank will strengthen PFM systems, help create a business-enabling environment, and strengthen the governance of infrastructure sectors—will significantly contribute to combatting corruption. Streamlining and introducing electronic solutions for tax payments and business licensing, for example, reduces the opportunity for officials to demand bribes. Infrastructure projects are a major source of bribery and risks of corruption. E-procurement and the auditing of government contracts can reduce these opportunities.

2.2.43. The Bank will strengthen institutions established to combat corruption in both the public and private sectors. It will foster dialogue at both the regional and country levels to advocate for the ratification and implementation of AUCPCC and related national legislation and provide support for their implementation. Such support will include building the capacity of entities involved in investigating, prosecuting, and sanctioning cases of corruption; strengthening complaints and review mechanisms; and protecting whistleblowers. Preventing corruption through public education and proactive engagement with the private sector is critical, as is reinforcing the role of the media and civil society in holding governments at all levels to account. Sub-pillars 3.2 and 3.3 reinforce these efforts. Table 2.9 outlines the specific actions to be carried out under this sub-pillar.

Table 2.9: Actions for Combatting Corruption under SEGA

Item	Description
Target regional member countries (RMCs)	• RMCs and sub-national regions • Regional economic communities and institutions
Expected outcome	Reduction in level of corruption in public and private sectors
Target workstreams	(i) Conduct research to understand the underlying causes of corruption and how they can be addressed in different countries. (ii) Support RMCs' efforts to strengthen domestic anti-corruption laws and regulatory frameworks, including through whistleblowing laws and policies and anti-bribery laws. (iii) Support anti-corruption commissions and agencies that prevent and fight corruption. (iv) Support RMCs' efforts to implement anti-corruption accords and frameworks such as Base Erosion and Profit Shifting (BEPS). (v) Support RMCs' efforts to strengthen the role and independence of oversight bodies such as public accounts committees, national audit offices, and financial intelligence units. (vi) Strengthen the capacity of civil society organizations and the media to fight corruption

Sub-Pillar 3.2 Transparency and E-Government

2.2.44. For African citizens to understand and be able to review any action by a national or sub-national government, such as a new budget plan, a new regulation, or a new policy, this information must be accessible and publicly available. Citizens must have access to information about commitments the state has made and whether it has met them. Openness and transparency reinforce efforts to combat corruption by ensuring that clear decision-making and budgeting processes enable citizens and other stakeholders to scrutinize the actions of governments and hold them accountable for the delivery of public services. Of the 40 African countries surveyed in the 2019 Open Budget Index, South Africa was the only one that made extensive information on its budget publicly available. Many countries provide limited or no information.

2.2.45. Technology is fundamental to achieving openness. E-government (defined as the use of ICT to deliver public services) falls within the framework of the African Union's Digital Transformation Strategy for Africa, which seeks to support the development and implementation of national, regional, and continental digital transformation strategies that stimulate the demand for and supply of digital initiatives and enable their scaling up between 2020 and 2030. SEGA is aligned with this strategy. It shares with the African Union the objective of mainstreaming the provision of e-services, backed by adequate legal acts and regulations at all levels, and ensuring that the data needed to provide e-services are hosted by countries in Africa and made openly available upon request while fully respecting data protection principles. There is evidence of a correlation between a country's income level and its e-government ranking on the United Nation's E-Government Development Index, which measures national efforts to improve e-government and provide public services online. Of the 54 countries in Africa, only 4 (Mauritius, South Africa, Tunisia, and Seychelles) scored above the world average on e-government. Many governments are still in an early phase of digitalizing public work and sharing information. The survey also revealed that Africa is rapidly catching up with other regions. There is a need to accelerate the technical capacity of public institutions as well as the capacity for policy development for e-government. Table 2.10 outlines the specific actions to be carried out under this sub-pillar.

Table 2.10: Actions for Promoting Transparency and e-Government under SEGA

Item	Description
Target regional member countries (RMCs)	All RMCs, with an emphasis on non-members of the Open Government Partnership and states in fragile situations
Expected outcome	Transparent governments with commitment to the public's access to information
Target workstreams	(i) Promote policies and initiatives aimed at making information on governments more accessible. (ii) Promote openness and transparency in budget processes at both the central and local government levels. (iii) Support governments' efforts to use and adopt new technologies and innovations (digital technologies, mobile applications, cloud computing, and block chain, among others) that will foster transparency and enhance connection with citizens. (iv) Partner with institutions such as the Open Government Partnership in driving openness in government

Sub-Pillar 3.3: Demand-Side Governance and Social Accountability

2.2.46. The 2020 report of the Ibrahim Index of African Governance revealed that transparency and accountability had improved in recent years but that more remained to be done, especially on civil society participation, which had declined since 2010. Sustainable development requires a people-oriented, participatory approach to governance**.** Participation involves the creation of an enabling environment in which all citizens and institutions can participate in their own governance, make legitimate demands, and monitor government policies and actions. Citizens need access to information (Sub-Pillar 3.2) and platforms for engagement. The voices of civic groups are often unheard in governance processes, such as budget formulation or project execution. There is also often a lack of public debate (involving opinion leaders, technocrats, and regular citizens) on critical decisions affecting the economy. When these people's voices are heard at all, their contribution is often not considered, perpetuating a culture of groupthink in government decision-making. Ensuring that the voices of citizens—organized or not—are heard and factored into decision-making fosters trust and social cohesion. Decisions on planning of the budget, public investment, procurement, levels of maintenance and similar issues benefit from proper government engagement with citizens, communities, beneficiaries, and civil society organizations. Demand-side governance is particularly important at local government levels, where service delivery is often hampered by inefficiencies and leakages in resource allocation that are left unchecked by inadequate processes and institutional frameworks for accountability.

2.2.47. The Bank's engagement in fostering social accountability through civil society organizations is defined by its "Framework for Enhanced Engagement with Civil Society Organizations," adopted in 2012. SEGA is an opportunity to promote the Bank's civil society organization (CSO) objectives, including by forging partnerships with qualified and experienced CSOs working in areas pertinent to SEGA, engaging with them on sustainable development issues, committing to be transparent about the Bank's work and engagement with the people affected by it, and pursuing constructive dialogue with civic groups to build mutual understanding and increase support for Bank-backed operations. In routine policy dialogue, CSOs can highlight important issues for the formulation, implementation, or review of Bank-supported policies and programs, offering helpful information and insights that may differ from perspectives in official circles. Table 2.11 outlines the specific actions to be carried out under this sub-pillar.

Table 2.11: Actions for Promoting Demand-Side Governance and Social Accountability under SEGA

Item	Description
Target regional member countries (RMCs)	All RMCs and sub-national governments
Expected outcome	Institutionalized participation of citizens, civil society organizations, and communities in public sector governance
Target workstreams	(i) Encourage RMCs to be more proactive and inclusive on budget processes, including joining and acceding to the standards of platforms such as the Open Budget Partnership (ii) Foster economic debate through support to platforms of engagement and strengthening of the capacity of the media. (iii) Empower and support the involvement of non-state actors in the public budget process, through outreach, dialogues, and partnerships. (iv) Support the drafting and adoption of legislation that allows for freedom of access to information and freedom of investigation. (v) Promote gender equality and effective participation by citizens (including youth) and civil society organizations (CSOs) in policy-making, monitoring, and evaluation at the central and local government levels. (vi) Help create an enabling environment for inclusive governance, through changes in the legal framework for CSOs, affirmative action policies, decentralized decision-making processes, and other mechanisms.

2.3. Enablers

2.3.1. **Four enablers add depth to the operational pillars and reinforce implementation of SEGA interventions.** They are foundational across all three strategic pillars and represent part of the toolkit for maximizing the impact of governance operations and activities.

a. ***Policy research for evidence-backed interventions***: Governance operations under SEGA will be underpinned by local research and studies, the findings of which will be communicated to decision-makers in RMCs. The research will be practical and context-specific to the strategic areas of SEGA. Attention will be given to supporting and working with RMCs to formulate, adopt, and implement robust and evidence-based policies relating to the interventions under the three pillars. In addition, the Bank will engage in policy dialogue with RMCs to ensure policy consistency, avoid abrupt unjustified policy reversals, and develop a track record of policy implementation.

b. ***Political economy analysis of structures, institutions, and actors***: Development effectiveness hinges on formal and informal structures, institutions. and actors that are inherently political in nature. Policy reforms must therefore be both technically sound and politically viable. Political economy analysis will be conducted to identify ways to circumvent or accommodate vested interests in implementing governance reforms and to assess the political feasibility, public opinion, and social implications of reforms.

c. ***Data and statistical capability***: The Bank will consolidate its work with national statistics offices to improve the quality of statistics in various areas, including national accounts, debt and debt sustainability statistics, consumer price indices, infrastructure statistics, agricultural statistics, purchasing power parities from the International Comparison Program, and the generation of gender statistics through gender-responsive data collection systems. Reliable data are critical for informed policy-making. Collecting such data will improve policy dialogue and decision-making in RMCs and establish trust between African governments and their citizens. Building data and statistical capability enables the implementation of Sub-Pillar 3.2 (on transparency and e-government) by empowering citizens to make the right demands of government. Data privacy is just as important. Private information collected by the government on citizens must be stored and used subject to appropriate privacy laws.

d. ***Transformational leadership***: Fostering transformational leadership at all levels is critical to achieving socioeconomic transformation. The Bank will strengthen institutions as well as individual leadership capabilities across government, the private sector, and civil society and promote a performance-driven culture. It will support mentorship programs and fellowships to attract and retain talent in government and provide incentives for professionalism in the civil service. It will also build institutions that can endure beyond individual leaders' tenures in office.

2.4. Selectivity

2.4.1 SEGA interventions are tailored towards the Bank's comparative advantages. As economic governance is broadly defined, the Bank will be strategically selective in picking out its areas of operation. This choice will be determined by a variety of factors, in particular the Bank's comparative advantage relative to other institutional partners working on similar range of issues in Africa. This pragmatism informs the scope of SEGA. Its pillars are comprehensive in the coverage of what constitutes economic governance but the targeted interventions within the respective sub-pillars are selectively narrowed down based on the Bank's unique position within Africa's regional architecture, its strong relationships with RMCs, and its organizational capacities. The specific comparative advantages of the Bank and how they influence on the selectivity of SEGA are described below:

1. ***Track record***: Over the past two decades, the Bank has successfully designed and implemented governance operations particularly in the area of public financial management across its 54 regional member countries. This means it has gained first-hand experience working in RMCs and cultivated relationships with various national governments building trust and collaboration. This track record also means that the Bank has built up expertise and organizational capacity in this area that it can leverage in the future. Besides PFM, the Bank also has solidified its credentials in partnering with countries as they seek to improve their investment and business climate, sector governance and demand-side governance. The strategic pillars of SEGA and the specific interventions outlined under the respective sub-pillars have been selected with the intention of ensuring continuity of the Bank's work in economic governance.
2. ***Relevance to the needs***: SEGA is focused on post-COVID recovery and building resilient economies for the future. It is selective to areas that will drive both of these aspirations. The Bank will not attempt to do it all, our work will be directed in the areas where we already have the capacity and know-how, or clear plans to expand our expertise. For instance, our support to specific contemporary priorities, such as implementing the African Continental Free Trade Agreement (AfCFTA) is targeted to very specific areas, where we have built up a strong repertoire. For instance, the Bank has vast experience in the area of strengthening institutional capacity of customs administrations, including through the adoption of computerized management systems. It also has solid capability to engage RMCs on dialogue around issues of customs tariff, regulations and quotas. As such, it will zero in on its operations in these areas and leverage the skills of other partners to address other areas. Investing in the enablers of SEGA will also make the Bank more selective in the design of its operations at the country level, with the operations being more grounded in research, evidence-based solutions, and a deeper understanding of political economy.
3. ***Lessons on what works:*** There is mounting evidence on the factors that contributed towards ensuring good results from the Bank's governance work. The first is ensuring comprehensiveness of support, understood as combining different instruments and approaches to supporting governance reforms. Second is harnessing complementarities with other investments of the Bank, particularly to address infrastructure governance and private sector development. Third is the importance of country ownership of reforms, this is consistently cited as a reason for the success or failure of Bank interventions. Fourth is coordination and harmonization with other development partners. Fifth is the importance of continuity and enduring medium to long term engagement, this is particularly relevant for fragile states. Finally, the Bank has added value in its ability to engage with states in transition that for various reasons are not able to benefit from support from other traditional donors, and has been able to ensure a continuity of support and maintain an open door for dialogue. The ability to assure that several of these factors are in place will be considered to determine whether or not the Bank should engage or ramp up its activities, and are therefore also important criteria of selectivity.
4. ***Responding to demand***: SEGA is designed to be relevant and applicable across the Bank's 54 regional member countries as well as its respective regions. This means it must take into consideration governance challenges generic to African countries, even as it appreciates the unique issues faced by each one of them. SEGA will be the overall blueprint for the Bank's vision for governance while country strategy papers (CSP) will draw from it in identifying specific operations and interventions relevant to the country context. The CSPs and regional integration papers (RISPs) will be designed with SEGA as the underpinning reference material as it relates to governance issues. Consultations with RMCs significantly influenced the design of SEGA and in outlining the CSPs, the Bank's clients will take into consideration the specific demands of stakeholders in its RMCs (governments, parliamentary leaders, the private sector, regional partners, and civil society organizations). Bearing this in mind, for each sub-pillar, this strategy identifies the target group of RMCs that will receive priority.
5. ***Strategic partnerships:*** SEGA will be implemented in partnership with institutional partners of the Bank including other multilateral partners, bilateral partners and development institutions. Hence, implementation of the strategy will leverage the comparative advantage of these partners as well. This has been the Bank's approach over the years. For

instance, the Bank's budget support is set within an agreed framework of policy reforms - some of which will be led by the Bank, while others will be deferred to its partners. In implementing SEGA, the Bank recognizes that in certain instances, other development partners may be better placed to provide technical inputs, and the Bank's role will be limited to creating the incentives for RMCs to maintain progress on reform initiatives. Identifying these areas of interventions in SEGA serves as a signal to the Bank's priorities and where institutional partners can contribute.

3. Implementation of SEGA

3.1. Programming and Instruments

3.1.1. Results will be achieved by providing non-lending and lending support to RMCs in the form of knowledge sharing, capacity building, technical assistance, policy dialogue, and financing. Program-based operations (PBOs), Results-Based Financing operations, and institutional support projects will be the main lending instruments deployed for governance focused operations; country and regional strategy papers will be the main entry point for defining interventions. Country Diagnostic Notes—which inform Country Strategy Papers and Regional Strategy Papers—will include diagnostics of the governance context, including political economy dimensions of strategic partnerships, and justify the need for governance interventions and type of support, especially the use of PBOs. They will also outline the priorities for the Banks' policy dialogue. Attention will be given to ensuring complementarity and addressing governance issues affecting other Bank investments. A rolling programming and budgeting process, indicative operation pipeline, and yearly work program will be developed and approved with attention to ensuring the targets in the Results Measurement Framework are achieved.

3.1.2. There is clear evidence that PBOs achieve better results when provided as part of a package of support. This approach is in line with the lessons and recommendation of a 2017 independent evaluation of PBOs, which will continue to influence the Bank's work under SEGA. Attention will be given to reinforcing the application of PBO policy and guidelines with regard to favoring a multi-year programmatic approach and managing fiduciary risks. Renewed emphasis will be given to sector budget support, which allows for more targeted interventions in alignment with the High Five priorities. PBOs will be harmonized and coordinated with other development partners, in line with G20 commitments. Policy dialogue will be an integral part of every PBO and will be carefully planned, monitored, and documented.

3.1.3. The Bank recently approved Results-Based Financing (RBF) and SEGA represents an opportunity to accelerate its use as an operational tool. It was introduced in 2018, in response to global calls for governments and development partners to deliver measurable results. It aims to strengthen the incentives and accountability for results. Payments are based on what is delivered rather than expenses incurred. Results, not inputs, are financed. RBF strengthens accountability for results and aligns the incentives of people responsible for delivering them with those who will benefit from them. Guidelines will help determine the suitability of RBF in particular projects and RMCs.

3.1.4. Policy dialogue is a critical means of engaging with governments on policies that strengthen public sector and economic management and create an enabling environment for structural transformation, in line with the High Fives (Box 3.1). The importance of policy dialogue was underscored during the ADF-15 replenishment discussions by a commitment to strengthen the Bank's institutional capacity in this area. The Bank also committed under GCI-VII to adopt a more systematic approach to identifying and supporting policy reforms, including through economic and sector work. It is partly for this reason that SEGA introduces policy research and data and statistical capability as enablers that will inform policy dialogue. Research-backed and evidence-based policy reform choices will be promoted in order to foster the most contextually optimized institutional drivers of economic growth and development. The Bank has developed a systematic mechanism to plan, fund, monitor, and report on the results from policy dialogue, in order to enhance its efforts to become a true knowledge-based and high-caliber results-on-the-ground institution that lives up to the expectations of its clients and shareholders.

Box 3.1: Policy Dialogue for Governance Reforms

Policy dialogue is an essential component of effective development. Since the Paris Declaration on Aid Effectiveness, in 2005, and subsequent international declarations on development, the emphasis has been on three core elements of aid: dialogue, as the mode of decision-making on development; inclusivity, as the guarantee for ownership and good governance; and equality of partners around the table. Policy dialogue forms an important platform for the Bank to engage with RMCs to understand their challenges and reform priorities. It provides the opportunity to support RMCs' capacity to formulate and implement national development priorities with governance at the heart of the dialogue. Through this medium, the Bank actively promotes broad-based consultations and participation of key stakeholders in RMCs. Policy dialogue aims to contribute to the design and implementation of better and more inclusive evidence-based policy reforms. Sustained policy dialogue with RMCs over the long term will help sustain the momentum of reforms. The Bank has taken several steps to improve the level and quality of policy dialogue it engages in as part of its budget support operations. Its revised Framework for Country Strategy Papers (CSP) and Regional Integration Strategy Papers (RISP) now include the requirement for a Country Diagnostic Note and Regional Diagnostic. Country and Regional Strategy Papers form the framework for engagement during the five-year period of validity and set out the areas for dialogue and the instruments that will be used. The Bank also developed a Policy Dialogue Reform Matrix (PDRM) to improve planning, monitoring, and reporting on the results from its policy reforms on the ground in a regular, timely, and comprehensive manner. It developed a guidance note on policy dialogue in the context of Program-Based Operations (PBOs) to improve their effectiveness by having more structured policy dialogue and to provide a strengthened monitoring tool for policy dialogue.

3.1.5. The Bank's Development and Business Delivery Model (DBDM) institutional reforms have improved the structure for a more effective policy dialogue at the country and regional level. They have brought the Bank closer to its clients and are expected to improve the quality of policy dialogue. The Bank intends to increase the support it provides in the field (training, technical expertise, resources) to increase the ability of its staff to carry out this mandate.

3.2. Partnerships

3.2.1. The Bank has always embraced institutional partnerships in carrying out its work on economic governance. One of the lessons from GAP-II was that coordination and harmonization with other development partners ensures more effective engagement and support for governments' reform agendas, particularly in the provision of budget support. All of the Bank's crisis response budget support to combat COVID-19 approved in the first half of 2020 was parallel-financed with at least one other international financial institution or bilateral partner. Continued implementation of the Bank's PBO Policy, and the 2017 G20 principles for effective coordination between the IMF and multilateral development banks, will inform the Bank's budget support operations in RMCs under SEGA. Engaging in joint policy dialogue and harmonizing PBOs with the World Bank, the European Union, and bilateral donors on the ground will continue to be a priority. Further collaboration with the G20 includes the Compact with Africa, which has increased the attractiveness of private investment by improving the macro, business, and financing frameworks. This kind of work will be scaled up and leveraged through the Africa Investment Forum. Partnerships ensure that governance challenges can be addressed in a holistic manner, with partners closing funding gaps and filling gaps arising from strategic selectivity.

3.2.2. The Bank will also work closely with regional bodies, in particular the African Union, the Regional Economic Communities (RECs), and special regional bodies set-up to address governance issues critical to regional development, such as fiscal discipline and convergence, regional infrastructure governance and actions against illicit financial flows and money laundering. These are issues that transcend national borders, and where the Bank plays an active role.

3.2.3. Collaborations will also be enhanced with specialized Africa-focused organizations, such the African Legal Support Facility (ALSF), especially as it relates providing legal advisory services to African governments in the structuring and negotiation of complex commercial transactions related to extractives and natural resources, infrastructure, public-private partnerships (PPPs), sovereign debt, and related commercial agreements.

3.2.4. SEGA creates an opportunity to work with new partners, including private, public, and non-governmental organizations on the critical issues outlined in this document. As the Bank embarks on governance work at sub-national levels, for instance, partnership with the United Cities and Local Governments of Africa (a global network of cities and local, regional, and metropolitan governments and their associations) will be critical. Partnership with the Pan-African Parliament—an organ of the African Union that serves as a platform for people from all African states to be involved in discussions and decision-making on the problems and challenges facing the continent—is also critical. Table 3.1 lists some of the institutions the Bank will work with in implementing SEGA. Extensive consultations were held to ensure that the pillars and expected results of SEGA respond to governance deficits in RMCs; many of the institutions listed in the table were part of the consultations held in finalizing this strategy. There is a sense of ownership across the board.

Table 3.1: Strategic Partners for Implementing SEGA

SEGA Sub-Pillar	Thinktank and Knowledge Partners	Civic Groups
Domestic Resource Mobilization	African Tax Administration Forum, Global Forum (OECD), African Union (AU), United Nations Economic Commission for Africa (UNECA)	Open Society Initiative for West Africa
Public Expenditure Effectiveness and Efficiency	Public Expenditure and Financial Accountability (PEFA), Collaborative Africa Budget Reform Initiative, United Cities and Local Governments of Africa	International Budget Partnership
Debt Management and Transparency	Institute of International Finance, African Regional Technical Assistance Center (AFRITAC), Debt Management Facility, Collaborative Africa Budget Reform Initiative	Jubilee Debt Campaign
Sustainable Performance of State-Owned Enterprise	African SOE Network, African Peer Review Mechanism	Trade Union Groups
Competitiveness, Investment and Business Climate	OECD, World Economic Forum, African Peer Review Mechanism	West Africa Civil Society Institute
Natural Resource Governance	Extractive Industries Transparency Initiative (EITI), Natural Resource Governance Institute, African Legal Support Facility	Kimberley Process
Infrastructure Governance	United Cities and Local Governments of Africa, Infrastructure Transparency Initiative (CoST)	Africa Infrastructure Development Association
Curbing of Illicit Financial Flows and Anti-Corruption	UNECA, African Union Regional Financial Action Task Force (FATF)–style bodies (such as the Intergovernmental Action Group against Money Laundering in West Africa the Eastern and Southern Africa Anti-Money Laundering Group), Global Financial Integrity OECD	Transparency International, Open Society Initiative for West Africa
Transparency and E-Government	Open Government Partnership, AU, Specialized Technical Committee	CIVICUS
Demand-Side Governance and Accountability	Afrobarometer, Pan African Parliament, African Peer Review Mechanism	CIVICUS

Note: List is non-exhaustive.

3.2.5. SEGA also provides an opportunity to ramp up the Bank's work on demand-side governance. The need to do so is one of the lessons of GAP-II. The Bank has developed guidelines for policy dialogue, which include an operational model on how engagement with mainstream civil society during preparation and implementation of budget support operations of the Bank can help address the shortcomings of GAP-II in terms of driving social accountability.

3.3. Financing

3.3.1. SEGA will be financed through a combination of the ADB and ADF windows, the Nigeria Trust Fund, and other existing special funds at the Bank. On the back of the successful ADF replenishment and general capital increase, and given the critical nature of governance as an enabler for implementation of the High Five priorities, the Bank envisages resources for governance operations increasing significantly relative to the UA 4.2 billion and UA 6.9 billion outlays for GAP-I and GAP-II, respectively. Management will determine an annual funding envelope to be deployed under SEGA. In the past, a large part of these resources financed PBOs; fewer resources were made available for institutional support projects, RBF, or technical assistance, even with significant demand for these kinds of support. SEGA provides an opportunity to address this imbalance. The Bank plans to play a leadership role in engaging potential partners to mobilize additional financing. A proposal will also be made to revitalize the Governance Trust Fund.[4]

3.4. Institutional Arrangements

3.4.1. In 2016, the Bank adopted the DBDM, which envisions a transformed Bank that anchors the design and implementation of operations on sound knowledge and good governance in RMCs. It is in this context that the Economic Governance and Knowledge Management (ECVP) Complex was established, with a mandate to prioritize relevant economic research and statistical work designed to contribute to knowledge generation and help strengthen institutional priorities and the effectiveness of country operations. ECVP's mandate also encompasses the Bank's governance program, in both operations and knowledge work. The Complex bears primary responsibility for SEGA by providing leadership and visibility for the Bank on economic, finance, financial governance, and socioeconomic development issues and coordinating Bank operations in these areas. The current sub-structures in ECVP include the Governance and Public Financial Management Coordination Office; the African Natural Resource Center; the African Development Institute; the Macroeconomic Policy, Forecasting and Research Department; the Statistics Department; and the Country Economics Department. These units were combined into one unit in order to strengthen the linkages and cross-fertilization between knowledge and operations.

3.4.2. The Governance and Public Financial Management Coordination Office (ECGF) is the technical unit of the Bank with lead responsibility for implementing SEGA operations. ECGF comprises an interdisciplinary team of governance experts from across all the Bank's Regional Development and Business Delivery Offices. It has built technical capacity over the years by implementing most of the Bank's lending and non-lending operations under GAP-I and GAP-II. SEGA was developed in the context of delivering on the broader High Five priorities of the Bank. ECGF will coordinate all governance-related operational deliverables of the Bank to enhance greater cross-departmental coordination and joint delivery as one Bank. The success of SEGA will require the coordinated efforts of departments and relevant units of the Bank. Sector budget support, for instance, will be driven by sector specialists and the corresponding department in the Bank. Efforts will follow the recently approved "Delivering as One" framework, which seeks to foster interdepartmental teamwork while streamlining oversight arrangements in order to minimize overlaps in decision-making.

3.5. Human Resources

3.5.1. The Bank has developed substantive expertise over the years to deliver on its commitments on economic governance. To bolster competencies in emerging areas of work, it will need to recruit and train staff and build communities of practice. Leveraging the existing institutional structure, the Bank will add a complement of three professional-level staff for ECGF to coordinate the delivery of governance work across all three pillars. It will also need to ensure that governance skills are mainstreamed across recruitment in other sectors. Investments will be required to enhance the capacity of Bank staff on governance issues in general as well as on the use of the main governance instruments, including PBOs, RBF, and policy dialogue. Capacity building will be achieved through a combination of e-learning provided through the Task Manager Academy, the still to be developed Virtual Capacity Development Academy, and face-to-face trainings. Particular attention will be given to building capacity to address the cross-cutting issues of fragility, climate change, and gender through governance work. Management will recruit the required experts and make provisions to deliver on the required staff trainings.

3.6. Monitoring and Progress Report

3.6.1. Progress on the implementation of SEGA will be monitored and reported on regularly throughout the lifespan of the strategy. The results measurement framework for SEGA (see Annex A), which defines specific performance indicators across the three pillars, will facilitate the measurement of the Bank's contribution to improving economic governance on the continent. Progress on implementation will be monitored periodically. A full review will be conducted at mid-term (in 2023) and upon completion (in 2025) The Bank's Independent Evaluation Department will be invited to include in its work program (to be approved by the Board) an independent evaluation of the Strategy a year before it ends. As implementation of SEGA will be a corporate responsibility, the framework will be complemented by the Bank's three-year rolling action plans and budgets, informed by the general budgeting process, in close collaboration with relevant complexes and sectors departments.

4. Risks and Mitigation Measures

4.1. Uncertain events and phenomena could affect the success of SEGA if preemptive measures are not taken. Understanding and managing risks in strategy implementation must be given as much attention as strategic areas of intervention. The risks to SEGA are multi-dimensional and may change over time. Establishing a strong and dynamic risk management culture within the framework of the Bank's corporate governance is critical. Six categories of risks have been identified. Table 4.1 shows the risks under each category, the risk owners, and the mitigation measures proposed.

Table 4.1: Risks to SEGA and Measures for Mitigating them

Type of risk	Mitigation measure
1. Fragility risks: A significant number of RMCs are experiencing fragility, caused by a myriad of factors, from climate change to economic inequality. Providing support presents a number of operational challenges and demands flexibility and the ability to adapt and innovate. With the increased incidence of flooding and drought, risks from climate change are particularly important in this context. Primary responsibility for mitigating fragility risks within project design, lies with task managers, supported by political economy and fragility experts.	
Emergency situations caused by fragility	The Bank uses instruments such as Crisis Response Budget Support operations to respond to emergency situations in RMCs caused by disasters such as health pandemics and pest invasion. The new Country Resilience and Fragility Assessment will profile countries and inform country strategies and the design of operations to better address fragility risks.
Climate change risks	The Bank screens its projects for climate risks and integrates adaptation measures to improve resilience. After an independent evaluation of PBOs, Bank management agreed to build measures that address climate change into future operations. Other mitigation steps include climate risk analysis, greenhouse gas accounting, reporting, and use of green finance.
2. Country/government risks: The greatest country risks are the risk of political instability, which could cause a country to renege on its external debt obligations or cause other types of currency crisis. Policy and regulatory environment reversals also pose a risk to the sustainability of interventions. They must be addressed with the help of political economy forecasting and analysis. Responsibility for mitigating this risk lies with the country teams, in particular the country manager.	
Political risks	The Bank will work closely with regional partners such as the African Union to offer advice that takes into consideration the desire for national stability. SEGA adopts political economy analysis as an enabler to inform such advice.
Sovereign risks	Internal processes have been strengthened to ensure that policy dialogue is used more effectively and sustained to build commitment to medium-term reforms. The Bank will also engage with governments on issues related to debt management, open government, and participation.
3. Operational risk: Procurement, financial management, and disbursement issues could affect the timely execution of SEGA operations. Primary responsibility for mitigating these risks is with task managers and delivery units.	

Project management	Project teams will include people with the expertise to address implementation challenges. Adequate resources will be allocated for regular supervision. Task managers' and project coordinators' capacity will be improved through project management trainings.
Fiduciary risks (fraud and corruption)	Regular diagnostics will be carried out in RMCs through the Bank's Country Fiduciary Risk Assessments, which identify weaknesses that reduce aid effectiveness and help establish a reasonable level of assurance on the appropriateness of the use of proceeds of the Bank's financing.
4. Financing risks: Use of the Bank's African Development Fund (ADF) and Nigeria Trust Fund (NTF) financing windows will be critical in delivering SEGA operations. Fiscal pressures on the national budgets of RMCs and non-RMCs might affect their ability to meet their counterpart funding obligations. Primary responsibility for mitigating funding risk lies with the Bank's Department for Resource Mobilization and Partnerships.	
Inadequate funding	Traditional finance mechanisms will be supplemented with innovative funding resources such as trust funds and blended concessional finance. New partnerships will be cultivated with national development agencies, private philanthropies, and impact and social investors.
Lack of flexible financing mechanisms	The use of trust funds ensures that the Bank can finance areas of SEGA that might be difficult to finance with traditional instruments. Efforts are underway to renew the Bank's Governance Trust Fund for this purpose.
5. Capacity risks: Human capacity deficits could hamper achievement of the objectives of the strategy, as staff become too stretched to deliver quality work in a timely manner. Staff turnover and capacity gaps in new areas of interventions represent significant risks. The primary owner of this risk is the Bank's Corporate and Human Resources Department.	
Staff turnover	Following an institution-wide survey, the Bank took steps to address weaknesses related to job satisfaction, professional growth, and mentorship. These steps should reduce staff turnover and boost institutional memory in program management.
Capacity gaps for new areas of intervention	The Bank recently completed an assessment of core expertise and skills, mapping capacity gaps, which it is now filling through a recruitment drive. The skills of existing staff will be enhanced through capacity development and trainings, including through the African Development Institute (ADI).
6. Institutional risks: SEGA is a Bank-wide strategy that requires commitment across complexes and departments and strong coordination. Issues and risks associated with overlapping mandates within the Bank will require mitigation. A change in institutional priorities by senior management, although unlikely given recent strategic commitments, also poses a risk. Primary responsibility for mitigating this risk is with the senior vice-presidents and other senior management.	
Institutional prioritization	Economic governance forms an integral part of both the GCI-VII and ADF-15 commitments of the Bank, which establish an institutional obligation to prioritize SEGA.
Mandate overlap	The recently adopted "Delivering as One" policy provides the framework for all units, departments, and complexes to work together more harmoniously and effectively. SEGA outlines institutional arrangements that will ensure delineation of responsibility in pursuance of the singular vision of the strategy.

5. Conclusion

5.1. SEGA represents an opportunity for the Bank to sharpen its operational focus on governance issues based on contemporary economic realities in Africa. Some of SEGA's sub-pillars, such as domestic resource mobilization, are not new to the Bank's economic governance work. But SEGA redefines the approach for high impact in areas such as compliance with the standard for automatic exchange of financial account information on tax matters, which will stem a major source of tax evasion on the continent. Other sub-pillars, such as the sustainable performance of SOEs, respond to recent trends that threaten fiscal sustainability in RMCs.

5.2. The five-year implementation of SEGA, starting in 2021, will be pivotal for economic recovery of RMCs and resilience-building following the economic downturn and social disruptions caused by the COVID-19 pandemic. One lesson already learned from the crisis is that RMCs must become more economically resilient to shocks. The Bank responded to the crisis and delivered programs in a number of RMCs, focusing on economic, social, and health interventions. The SEGA areas of intervention will build on this response by creating a pathway for resilience in the face of future shocks by building RMCs' capacity for generating sufficient fiscal space for investment in public health and social protection schemes on a sustainable basis. Boosting investor confidence in the economy through Pillar 2 (in concert with the Bank's Private Sector Strategy) helps accelerate the economic recovery by attracting investments in more structurally resilient sectors. Fostering the competitiveness of Africa as a destination for doing business stimulates more entrepreneurship by local and foreign investors, ensures that more African youths have gainful and dignified employment, and gives the RMCs the opportunity to benefit from the demographic dividend.

5.3. Achieving the objectives and results outlined in SEGA is crucial to realizing the Bank's ambitions of changing the narrative and situation in Africa from economic underperformance and social exclusion to universal improvement in the quality of lives of all Africans, one of the High Five priorities. Economic governance is equally fundamental to advancing the other Bank priorities of Feeding Africa, Lighting Up and Powering Africa, Integrating Africa, and Industrializing Africa.

Annex A: Results Measurement Framework

Table A.1: Results Measurement Framework for SEGA

			Target		
	Indicator Description (African average)	Annual Baseline (2017-20)[1]	Mid-Term (2023)	End (2025)	Means of Verification
Pillar 1: Public Sector Effectiveness at the National and Sub-national Levels					
1.1	**Domestic Resource Mobilisation**				
Outcome Indicators					
1.1a	Tax-to-GDP ratio (percent)	15	17	20	AfDB
Output Indicators					
1.1.1	Number of new individual and business taxpayers registered in RMCs supported	400,000 individuals 3,000 businesses	2 million individuals 7,000 businesses	5 million individuals 10,000 businesses	AfDB/ Project Completion Report (PCR)
	- *Of which women own*	1,200 businesses	2,800 businesses	4000 businesses	
1.1.2	Number of tax or customs administrations systems and structures enhanced	10	11	18	PCR
1.1.3	Number of RMCs supported to comply with Automatic Exchange of Financial Account Information in Tax Matters (AEOI) standard	0	3	6	Global Forum
1.1.4	Number of regional member countries (RMCs) supported that adopt specific policy measures on preventing illicit financial flows	2	7	11	PCR
1.2	**Public Expenditure Management**				
Outcome Indicator					
1.2a	CPIA score on governance for ADF countries	3.37	3.5	3.75	AfDB
1.2b	Worldwide Governance Indicators (WGI) score on government effectiveness ($-2.5 \leq X \leq 2.5$)	-0.81	-0.75	-0.7	World Bank
Output Indicators					
1.2.1	Number of regional member countries (RMCs) supported with improved quality of budgetary and financial management	15	15	20	PCR/CPIA
1.2.2	Number of public sector officials with improved skills and competencies in public financial management (PFM)	1,500	3,000	5,000	PCR
1.2.3	Number of material policies, regulations, or pieces of legislation relating to PFM adopted or revised[a]	100	100	120	PCR
1.2.4	Number of public sector PFM entities supported with improved systems and structures	20	30	50	PCR
1.3	**Debt Management**				
Outcome Indicator					
1.3a	Countries in debt distress or at high risk of debt distress	20	<17	<12	IMF
Output Indicators					
1.3.1	Number of public sector officials' skills and competencies on debt management and transparency enhanced	0	100	300	PCR

[1] The most recent data available from the years 2017 to 2020 was used

			Target		
	Indicator Description (African average)	**Annual Baseline (2017-20)[1]**	**Mid-Term (2023)**	**End (2025)**	**Means of Verification**
1.3.2	Number of debt units supported with improved systems and structures, including IT	2	5	7	PCR
1.3.2	Number of material policies, regulations, or pieces of legislation related to debt management and transparency adopted or revised	2	10	20	PCR
1.4	**Sustainable Performance of State-Owned Enterprises**				
Outcome Indicator					
1.4a	Score on SOE government transfer rules	69	75	80	Resource Governance Index
Output Indicator					
1.4.1	Number of material policies, regulations, or pieces of legislation related to state-owned enterprises adopted or revised[a]	5	10	20	PCR
Pillar II. Governance for Structural Transformation					
2.1	**Competitiveness, Investment and Business Climate**				
Outcome Indicators					
2.1a	Global Competitiveness Index				World Economic Forum
	Of which TSF countries	41.3	45	50	
	Of which ADF countries	45.9	50	55	
	Of which ADB countries	52.5	60	70	
Output Indicators					
2.1.1	Number of new businesses registered in the manufacturing and services sector	400	1,000	3,000	PCR
	Of which women	160	400	1200	
2.1.2	Number of policies, regulations, or pieces of legislation related to business-enabling environment reforms adopted or revised	50	80	120	PCR
2.2	**Infrastructure Governance**				
Outcome Indicators					
2.2a	Africa Infrastructure Development Index	28.44	35	40	AfDB
Output Indicators					
2.2.1	Number of RMCs supported to improve infrastructure governance	7	10	20	PCR
2.2.2	Number of public sector entities capacity on public investment management and delivery (in particular for climate adaptation); and PPPs enhanced	10	25	50	PCR
2.3	**Natural Resource Governance**				
Outcome Indicators					
2.3.1	Resource Governance Index (oil and gas + mining sectors)	42	50	55	Resource Governance Institute
Output Indicators					
2.3.2	Number of countries supported to accede to and maintain EITI compliance status, including the Transparency Standard	2	5	10	EITI
2.3.3	Number of material revisions to extractive sector polices, laws, and regulations adopted or revised	40	70	120	PCR
2.3.4	Number of public sector officials trained and sensitised on natural resource governance issues	50	200	500	PCR
	- *Of which women*	20	80	200	PCR

	Indicator Description (African average)	Annual Baseline (2017-20)[1]	Target Mid-Term (2023)	Target End (2025)	Means of Verification
Pillar III: Inclusive Governance and Accountability					
3.1	**Combatting Corruption**				
Outcome Indicator					
3.1a	Corruption Perception Index	32/100	40/100	45/100	Transparency International
Output Indicators					
3.1.1	Number of material revisions to anti-corruption policies, laws and regulations adopted or revised	2	8	10	Project Completion Report (PCR)
3.1.2	Number of staff of Financial Action Task Force (FATF)–style entities and anti-corruption staff skills and competencies enhanced	40	100	200	PCR
	Of which women	20	50	100	
3.2	**Transparency and E-Government**				
Outcome Indicator					
3.2a	Public participation score in Open Budget Index	9.79	10	12	International Budget Partnership
Output Indicators					
3.2.1	Number of new commitments agreed to under the Open Government Partnership				PCR/ Open Government Partnership
	Of which National Level	0	50	100	
	Of which Sub-National Level	0	25	50	
3.2.2	Number of RMCs supported with improved score on E-Government Development Index	0	10	25	UN E-Government Survey
3.3	**Demand-Side Governance and Social Accountability**				
Outcome Indicator					
3.3a	Worldwide Governance Indicator score on voice and accountability ($-2.5 \leq X \leq 2.5$)	–0.612	–0.6	–0.5	World Bank
Output Indicators					
3.3.1	Number of parliamentarians' skills and competencies on public financial management oversight duties enhanced	200	1000	1500	PCR
3.3.2	Number of civil society organization (CSOs) supported on capacity development	200	300	500	PCR
3.3.3	Percentage of governance operations designed in dialogue and consultation with CSOs	20	50	70	PCR

Note: Except where indicated otherwise, all figures are cumulative.

a. Material measures include changes introduced as a result of decisions made at senior levels of government that should represent substantive changes, with a clear link to a desired final outcome.

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Annex B: Theory of Change

Table B.1: Theory of Change of SEGA

Vision/ Goal:	Africa governed by transparent and accountable governments and strong institutions capable of driving inclusive and sustainable growth and sustaining resilient economies.		
Long-term Outcomes	• Equitable delivery of basic public services for improved livelihoods • Macroeconomic stability and fiscal discipline • Private sector investment in transformative sectors • Global competitiveness • Jobs created • Corruption in the public and private sectors reduced		
	PILLAR 1: Public Sector Effectiveness at the National and Sub-national Levels	PILLAR 2: Governance for Structural Transformation	PILLAR 3: Inclusive Governance and Accountability
Medium-term outcomes	1.1 Revenue generation and mobilization enhanced 1.2 Public financial management systems effective 1.3 Debt managed sustainably and transparently 1.4 State-owned enterprises fiscal risk reduced and operations more effective	2.1 Competitiveness, investment and business climate improved 2.2 Infrastructure well-planned, delivered, and maintained 2.3 Value addition of natural resources sector enhanced	3.1 Accountability institutions reinforced to combat corruption 3.2 Transparency of governments 3.3 Participation of citizens and communities in public sector governance
Intermediary Results/ Outputs (selected)	Policy actions (legal, policy and regulatory frameworks) to broaden tax base, prevent illicit financial flows, strengthen PFM systems and processes, enhance debt and fiscal risk management (1.1-1.4) Institutional capacity to design and implement gender and climate responsive PFM reforms enhanced (1.2) Public administrations (revenue authorities, PFM units, local governments) systems and structures enhanced, including through investment in digitization and automation (1.1-1.4)	Legal, policy and regulatory frameworks to attract investment, enhance competition and consumer protection, promote SMEs and facilitate trade (AfCTA) (2.1) Access to credit and financial inclusion initiatives/programs promoted, particularly targeting women entrepreneurs and youth (2.1) Policy actions (legal, policy and regulatory frameworks) to improve infrastructure sector governance, including to attract investment, enhance public investment management and delivery (in particular for climate adaptation); and support effective PPPs. (2.2)	Policy actions (legal, policy and regulatory) to adopt anti-corruption laws, including on protecting whistleblowers, and reinforce independence of oversight bodies (3.1 -3.3) Institutional capacity of oversight bodies enhanced to ensure accountability and combat corruption (3.1) Civil society organizations, private sector and media's competencies to fight corruption enhanced (3.1; 3.3) Policy actions that enable inclusive governance (in particular involvement of women, youths and vulnerable groups), such as freedom on access to information, changes in the legal framework for CSOs, affirmative action policies, decentralized decision-making processes, and other mechanisms (3.2-3.

	Public officials' skills and competencies enhanced to implement reforms and manage public finances (1.1-1.4) Independence and capacity of national supreme audit institutions enhanced (1.2-1.3) Harmonisation of legal and regulatory frameworks for PFM across regions (1.2)	Public official skills and competencies on legal, financial, and industry-specific matters as they relate to public investment management and PPPs enhanced (2.2) Regulatory frameworks and institutional capacity, to attract private sector investment and participation in greener, climate-resilient infrastructure and resource extraction enhanced (2.2 -2.3) Institutional capacity reinforced to enhance transparency in the extractive sector, including through adherence to EITI (2.3) Legal and regulatory environment improved to promote local content laws and the development of value chains (2.3)	New technologies and systems that will foster transparency and enhance connection with citizens. (3.2) Accession to the standards of platforms such as the Open Budget Partnership to drive greater transparency and openness of government (3.2-3.3) Platforms and processes to enable for engagement of CSOs, private sector, media in public budget processes established and reinforced (3.3)
Enablers	Policy Research; Political Economy Analysis; Data and Statistics; Transformational Leadership		
Inputs	Finance – ADB loans and ADF loans and grants; TSF pillar I and III resources; Trust Funds Instruments- program based operations; institutional support projects; results-based finance; Technical Assistance projects Policy Dialogue; Knowledge work; Partnerships		
Assumptions	Political will and government ownership to implement reforms is in place; Bank has access to sufficient funds to finance Governance operations; Bank ability to mobilize funds to invest in enablers; Support is focused on most relevant country priorities/needs and maximizes complementarity with other partners' efforts; Bank leverage and build complementarity with other partners; Bank leverages proximity and convening power to engage policy dialogue; Bank departments charged with delivering SEGA are adequately resourced.		

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Notes

[1] The ADF promotes economic and social development in low-income countries in Africa through the provision of concessional loans and grants (including to the private sector) to finance projects and programs, as well as through technical assistance for studies and capacity-building activities. Donor countries replenish the fund every three years. The ADF-15 replenishment, concluded in 2019, raised a record US$7.6 billion for operations in 2020–22.

[2] An early lesson of GAP-II was appreciation of the importance of domestic institutions, such as pension funds and sovereign wealth funds, to finance long-term investments. The Bank responded by developing a Financial Sector Development strategy to mitigate risks that limit the mobilization of such funds for domestic investments. A new Bank department was created to pursue this area of work.

[3] The Bank is developing a "Framework for the Multi-dimensional Action Plan on the Management and Mitigation of Debt Distress Risks in Africa," to consolidate its actions in support of countries in debt distress.

[4] The Governance Trust Fund was a multi-donor, thematic fund, established in 2010 and closed in 2016. It was funded by US$6.8 million in contributions from the governments of Norway, Sweden, and Switzerland.