

ADF-13 MID-TERM REVIEW

Progress on the Bank Group's Fragility Agenda and the Use of the Transition Support Facility

Information Note

11-13, November 2015



AFRICAN DEVELOPMENT FUND

Executive Summary

The African Development Bank's Strategy (2013-2022) emphasises the Bank's commitment to addressing fragility across the continent. The Strategy commits the Bank to addressing fragile *situations*, rather than fragile *states*. Bank interventions help bolster effective and legitimate institutions necessary for states to deliver more inclusive and sustainable growth. In this context the Bank upgraded the Fragile States Unit into a fully-fledged Transition Support Department (ORTS) and changed the name of the Fragile States Facility (FSF) to Transition Support Facility (TSF).

In June 2014, the Board approved a new Strategy for Addressing Fragility and Building Resilience in Africa (2014-2019), and Management developed Operational Guidelines to facilitate implementation of the Strategy. **The new Strategy set down the Bank's commitment to moving beyond "business as usual"**, in order to better support RMCs in their efforts to tackle issues of fragility and building resilience.

This paper takes stock of how the Bank is delivering on its fragility agenda, as agreed at replenishment. This includes assessing progress with the TSF. The paper also discusses continuing implementation challenges and how Management intends to address them, for the remainder of this funding cycle.

As part of this new approach, **the Bank applies a 'fragility-lens' in its engagement with RMCs**. All Country Strategy Papers (CSPs) are now systematically informed by fragility assessments, which guide the Bank's strategic and operational engagement and policy dialogue in fragile situations, including during ongoing conflict.

The Ebola crisis exemplifies the Bank's capacity to respond swiftly to volatile environments. Firstly, the Bank used the available ADF instruments and resources at its disposal in an integrated way. The ADF approved national and multinational projects to respond to the Ebola crisis, leveraging TSF Pillar I, including part of its reserve for emerging needs, Pillar III and the regional operations envelope. This financial support was complemented by high-level engagement. In a demonstration of its convening capacity, the Bank worked with the African Union Commission to mobilize resources to fight the spread of the virus.

In line with an evolving understanding that regional problems require regional solutions, **the Bank has increased its efforts to design and implement regional initiatives, which integrate a fragility perspective**. It has targeted the Sahel, the Mano River, the Horn of Africa and Lake Chad Basin. The Bank's responsiveness to fragile situations is also reflected in the use of the ADF Regional Operations envelope, Trust Funds, and emergency and special assistance grants. Countries eligible for TSF Pillar I have particularly benefited from the ADF Regional Operations envelope, through the maximum leverage ratio of 1:2 from their Performance-Based Allocation (PBA) and/or TSF Pillar I resources.

The Bank is on track with the utilisation of the TSF Pillar I resources, having committed 52 percent of the regular resources (UA 275.37m) and 40 percent of the unallocated reserve (UA 23.86m). **With regard to the TSF Pillar II, uneven progress has been made by the three countries under arrears, namely, Somalia, Sudan and Zimbabwe**. Based on the considerable progress made by Zimbabwe, it is reasonable to assume that the country could access the arrears clearance window under ADF-13. The other potentially eligible countries, Somalia and Sudan, have experienced setbacks and are not expected to access Pillar II under ADF-13. **Implementation of the TSF Pillar III followed the approval of the Operational**

Guidelines in January 2015 with a revised business model. To date, 24 percent (UA 11.74m) has been committed from an allocation of UA 64.5 million to Pillar III (UA 16 million was also allocated to the African Legal Support Facility (ALSF) from the UA 64.5 million).

Key challenges and measures to address them

An outstanding challenge for the Bank is how to mainstream operational flexibility and responsiveness in fragile situations, beyond extraordinary situations such as the Ebola crisis. The Bank's new Procurement Policy Framework will play a critical role in this. Effective implementation of its new differentiated, fit-for-purpose approach to procurement will provide the operational flexibility needed for the Bank to respond to the specificities of fragile situations.

Secondly, **engaging in countries experiencing active conflict is arguably the greatest challenge for the Bank.** Under ADF-13, there have been armed conflicts in a number of RMCs, including the Central African Republic, Mali, Nigeria, Somalia, and South Sudan. These events have tested the Bank's ability to remain engaged and assume its leadership role as the premier development interlocutor and financier in situations of fragility. At the corporate level, the Bank still has to allocate sufficient financial and human resources, with appropriate incentives, so that it can demonstrate leadership and work effectively with Governments and partners. It also needs to establish measures to manage the operational security, financial, fiduciary and reputational risks inherent in such environments.

Finally, **while facilitating private investment and engagement in countries affected by fragility is an important priority under the new Strategy, implementation has presented several challenges.** The Bank is adopting a two-pronged approach to increase private sector engagement in these contexts by: (i) stimulating continuous dialogue between private sector actors and Governments to explore opportunities for public-private partnerships; and (ii) using the Bank's innovative financing instruments to facilitate investments in these countries, which have a higher risk premium. The Bank will continue to monitor the progress in this regard and address issues for better performance.

Conclusions and Way Forward

The Bank has made considerable progress under its new Strategy for Addressing Fragility and Building Resilience in Africa. Implementation is being supported by effective utilisation of TSF. Country, regional and sectoral strategies are now systematically applying a fragility-lens. The focus of attention has now moved to operations.

The effective application of the fragility-lens to operations and policy dialogue will, among other things, require continuous investment in the Bank's internal capacity. Bank staff need to be able to analyse issues of fragility and to manage operational risks by applying flexible fiduciary and procurement processes. In addition, there need to be appropriate incentives for Bank staff, in the face of this new work. The new Strategy recognised that this is a process of "learning by doing", which requires constant monitoring and evaluation in order to strengthen the Bank's effectiveness in fragile situations.

In regard to financing, the TSF has been instrumental in supporting the implementation of the new Strategy. It has provided flexible and responsive support to eligible low-income countries affected by issues of fragility. Pillar I is projected to be fully utilised under ADF-13. Pillar II is likewise expected to be utilized under ADF-13, in clearing the arrears of Zimbabwe and it is therefore proposed not to reallocate Pillar II resources at this point. Pillar III is also expected to fully utilise its allocation under ADF-13.

Table of content

Executive Summary	i
Acronyms and Abbreviations	v
1. Background	1
2. New Approach to Address Fragility and Build Resilience.....	2
<i>The Bank's new strategies and operations are now systematically informed by fragility assessments..</i>	<i>2</i>
<i>The Bank is engaged and assumes greater leadership across the spectrum of fragile situations</i>	<i>4</i>
<i>The Bank is making use of all available instruments and resources in an integrated program to address fragility and build resilience.....</i>	<i>7</i>
<i>The Bank is increasing its operational effectiveness and development results in fragile situations</i>	<i>10</i>
3. Utilisation of the Transition Support Facility	11
<i>Pillar I – increased flexibility makes a difference in fragile situations</i>	<i>12</i>
<i>Pillar II – assisting countries towards arrears clearance under ADF-13.....</i>	<i>14</i>
<i>Pillar III – complementing the suite of the Bank's instruments in fragile situations.....</i>	<i>15</i>
4. Strengthening Partnerships and Building Capacity around Issues of Fragility	17
5. Conclusions and Way Forward	20
Annex I: Overview of the Transition Support Facility (TSF) under ADF-13.....	23
Annex II (A): ADF-13 TSF Pillar I Approval as at September 2015	24
Annex III (B): ADF-13 TSF Pillar III Approval as at September 2015	26
Annex IV (C): List of Regional Operations and Regional Public Goods in which Pillar I participated as at September 2015	27
Annex V: Progress towards Arrears Clearance – Somalia, Sudan and Zimbabwe	28
Annex VI: Bank's progress against the action plan of the Strategy for Addressing Fragility and Building Resilience	32

Boxes

Box 1: Application of the fragility-lens in a country strategy – Guinea Bissau	3
Box 2: Application of the fragility-lens in an operation – Madagascar.....	4
Box 3: Health epidemic in a fragile region – the case of Ebola	5
Box 4: Resource flow to fragile situations.....	7
Box 5: Snapshot of the TSF.....	12
Box 6: Supporting regional integration in fragile regions	13
Box 7: Legal Technical Assistance by ALSF – Somalia.....	15
Box 8: A revised approach to Pillar III: Starting small, while planning for scale	17

Figures

Figure 1: Illustrative for Regional Approach under ADF-13	8
Figure 2: Lake Chad Basin Programme.....	9
Figure 3: Characteristics of the Bank’s operations in fragile situations	11
Figure 4: ADF-13 TSF Pillar I Approval.....	12

Tables

Table 1: Projection of Outstanding Arrears to the Bank Group at end-December 2016.....	14
Table 2: Overview of partnership activities under ADF-13	19

Acronyms and Abbreviations

ADB	African Development Bank
ADF	African Development Fund
AfDB	African Development Bank Group
ALSF	African Legal Support Facility
CfP	Call for Proposals
CILSS	Permanent Interstates Committee for Drought Control in the Sahel
CRFA	Country Resilience and Fragility Assessment
CSP	Country Strategy Paper
DRSLP	Drought resilience and sustainable livelihoods program in the Horn of Africa
DSA	Debt Sustainability Analysis
ECOWAS	Economic Community of West African States
FAPA	Fund for African Private Sector Assistance
HIPC	Heavily Indebted Poor Country
LCBC	Lake Chad Basin Commission
ICGLR	International Conference on Great Lakes Region
IFI	International Financial Institution
IGAD	Intergovernmental Authority on Development
IMF	International Monetary Fund
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MDTF	Multi-donor Trust Fund
MRU	Mano River Union
MTR	Mid-term Review
NTF	Nigeria Trust Fund
OECD	Organization for Economic Cooperation and Development
ORTS	Transition Support Department
PBA	Performance-Based Allocation
PFM	Public Financial Management
PPP	Public-Private Partnership
PRSP	Poverty Reduction Strategy Paper
PSD	Private Sector Development
RECs	Regional Economic Communities
RISP	Regional Integration Strategy Paper
RMCs	Regional Member Countries
RO	Regional Operation
SDGs	Sustainable Development Goals
SMP	Staff Monitored Program
TAS	Targeted Advisory Services
TSF	Transition Support Facility
UA	Unit of Account

Progress on the Bank Group's Fragility Agenda and the Use of the Transition Support Facility

Key messages

- 1) Under ADF-13, the Bank has revised its business model for engaging in fragile situations
 - 2) The Bank is on track in implementing the new Strategy and in using the TSF
 - 3) The Bank is stepping up its efforts to build its internal capacity and strengthen partnerships around issues of fragility
-

1. Background

- 1.1 The Bank Group's Strategy (2013–2022)¹ recognises that fragility is contagious as well as episodic and requires support that is tailored to diverse needs, set within a regional approach and based on dialogue and local ownership. Given this framework, the new Strategy for Addressing Fragility and Building Resilience in Africa (2014-19)² was a landmark in the Bank's engagement within the continent, approaching fragility *as a condition of elevated risk of institutional breakdown, societal collapse or violent conflict*. Based on this approach, the Bank now focuses on fragile situations rather than fragile states, recognising that all countries face risks of fragility and that stability depends on the capacity of the state and institutions to manage these challenges.
- 1.2 As a result, the Bank became a first-mover in adapting its approach to the evolving international understanding of what constitutes fragility. The Bank recognised that the Sustainable Development Goals (SDGs) in Africa could not be delivered without significant strengthening of efforts to tackle fragility and build resilience, by both development partners and Regional Member Countries. This revised approach was also echoed by the OECD in early 2015 with the re-naming of its reports series from 'Fragile States' to 'States of Fragility'.³
- 1.3 The new Strategy emphasises the importance of using all available Bank instruments, in an integrated program of support to address fragility and build resilience. For low-income countries affected by issues of fragility, the Transition Support Facility (TSF) is a key source and channel for mobilising finance and leveraging additional resources. The changes introduced under the Thirteenth Replenishment of the African Development Fund (ADF-13) have further increased the Bank's flexibility and responsiveness.
- 1.4 This paper presents an update of the Bank's engagement in fragile situations and the utilisation of the TSF (formerly called the Fragile States Facility) under ADF-13. Drawing on the guidance by ADF Deputies during the ADF-13 replenishment⁴ and the recommendations of the High Level Panel on Fragile States⁵, the Bank prepared its new

¹ AfDB (2013): Strategy for 2013-2022: At the Center of Africa's Transformation

² ADB/BD/WP/2014/46/Rev.2 and ADF/BD/WP/2014/30/Rev.2 entitled "Addressing Fragility and Building Resilience in Africa: The African Development Bank Group Strategy 2014-2019"

³ OECD (2015): States of Fragility – Meeting Post-2015 Ambitions

⁴ ADF/BG/WP/2013/06 entitled "Report on the Thirteenth General Replenishment of the resources of the African Development Fund (ADF-13)"

⁵ AfDB (2014): Ending conflict and building peace in Africa: A call to action – High Level Panel on Fragile States

Strategy and the subsequent Operational Guidelines⁶ to guide its implementation and the utilisation of the TSF.

- 1.5 The paper is structured as follows: Section 2 provides an overview of the Bank's new model for engagement in fragile situations. Section 3 focuses on the utilisation of the TSF resources under ADF-13 and the adjustments made during the ADF-13 replenishment. Section 4 gives an update of the Bank's efforts to build its capacity to engage effectively in fragile situations and the critical role of partnerships. Conclusions are presented in Section 5.

2. New Approach to Address Fragility and Build Resilience

- 2.1 Grounded in the Bank Group's Strategy (2013-2022) and the principles of the New Deal for Engagement in Fragile States⁷, the new approach to address fragility and build resilience in Africa represents a step beyond "business as usual". Drawing on the ADF-13 replenishment discussions and the recommendations of the High Level Panel on Fragile States, the Bank started to apply a fragility-lens across its engagement, which introduced significant adjustments in its programming, project design, and policy dialogue.
- 2.2 As part of this new business model, the Bank now systematically integrates a fragility-perspective into its strategies and operations and remains engaged across the spectrum of fragile situations. The Bank assumes a leadership role on fragility issues and adopts an integrated approach that makes use of all available Bank instruments, including the African Development Bank (ADB), ADF, Nigerian Trust Fund (NTF), regional operations, and notably the TSF (refer section three below).

The Bank's new strategies and operations are now systematically informed by fragility assessments

- 2.3 The Bank's approach to addressing fragility was set out in more detail in the Strategy's action plan⁸ and Operational Guidelines. In line with these and under the coordination of the Transition Support Department (ORTS), the Bank started to conduct fragility assessments at country and regional level in 2014. This analytical work was done to ensure that *all* new Country Strategy Papers (CSPs) and Regional Integration Strategy Papers (RISPs) would be guided by its findings and incorporate its recommendations. In line with this commitment, the preparation of all CSPs⁹ and RISPs, and their Mid-Term Reviews (MTRs), have been informed by fragility assessments, which have therefore shaped the Bank's strategic and operational engagement and policy dialogue (Box 1). This process is guided by a context-specific business model set out in the Operational Guidelines that classifies fragile situations into three different categories.

⁶ ADB/BD/WP/2014/46/Rev.3/Approval and ADF/BD/WP/2014/30/Rev.3/Approval entitled "Operational Guidelines for the Implementation of the Strategy for Addressing Fragility and Building Resilience in Africa and for the Transition Support Facility"

⁷ At the 4th High Level Forum on Aid Effectiveness in Busan in 2011, the New Deal for Engagement in Fragile States developed through the forum of the International Dialogue for Peacebuilding and Statebuilding was presented and widely endorsed, *inter alia*, by the AfDB.

⁸ AfDB Strategy on "Addressing Fragility and Building Resilience in Africa (2014-2019)": Annex 4: Action Plan and Programming Schedule

⁹ As the format of Country Strategy Papers is currently being revised and a new format piloted, this new approach to fragility will be captured and supported by specific guidance materials.

Box 1: Application of the fragility-lens in a country strategy – Guinea Bissau

The recently approved Country Strategy Paper (CSP) for Guinea-Bissau¹⁰ serves as an example of how fragility assessments change the Bank's strategic and operational engagement, in order to address the drivers of fragility. The fragility assessment highlighted the complex, underlying sources of fragility, which relate to three areas of governance: (i) economic governance and administrative transparency; (ii) social governance; and (iii) political governance. The assessment noted that one of the main characteristics of fragility related to the government budget's inability to invest in infrastructure construction and maintenance, which has negative impacts on the economy's competitiveness and limits the creation of formal employment opportunities. This deeper understanding of the country context had identified the root causes of the protracted fragility which undermines the country's development efforts. It also informed the Bank's decision to support, *inter alia*, the Government's efforts to strengthen security and justice institutions, working with other development partners. This marked a clear evolution in the Bank's assistance to the country from previous CSPs, which is testament to the importance of the Bank's new business model.

- 2.4 There have been challenges in using the fragility-lens approach, both within the Bank and with Governments, particularly for countries which have not been considered by the Bank as being fragile in the past.¹¹ However, fragility assessments are tailored to the specific context and Governments and Bank staff are recognising that the assessments improve the Bank's understanding of the context and influence Bank strategies. Ownership of fragility assessments is therefore increasing in regional departments and field offices, with the Bank intensifying its outreach and sensitisation efforts to communicate the implications of this new approach. As country and regional strategies are now informed by fragility assessments, the nature of the Bank's operations is adapting accordingly. Building on existing review mechanisms, the Bank also began to apply the fragility-lens in its operations. ORTS is monitoring this process to ensure learning-by-doing and will consolidate the lessons learnt by the end of 2015, in order to systematically mainstream the use of the fragility-lens in its operations from 2016 (Box 2).
- 2.5 The experience so far points to a number of lessons, which if addressed would ensure that operations ultimately address issues of fragility. These lessons include strengthening the capacity of sectoral departments and overcoming resource constraints, in order to enable country-level analysis to translate into sector and project-level analyses (refer section 4 below on building internal capacity). In addition, timing is seen to be crucial, since integrating the fragility perspective must take place at the start of the project cycle, namely, during the preparation of the concept note. It becomes more difficult when the fragility-lens is applied after the project design has reached an advanced stage, as was the case in the Drought Resilience and Sustainable Livelihoods Program in the Horn of Africa (DRSLP II). Since fragility issues could not be sufficiently integrated into the project design, they will have to be incorporated during the implementation phase and also emphasized during the mid-term review.

¹⁰ AfDB (2015): Guinea Bissau – Country Strategy Paper

¹¹ In the past, only countries eligible to the Transition Support Facility (previously called Fragile States Facility) were approached by the AfDB through a “fragile states” perspective. Under the new strategy, all countries are approached through a fragility-lens.

Box 2: Application of the fragility-lens in an operation – Madagascar

The Emergency Economic Recovery Programme (PURE)¹² in Madagascar, approved in November 2014, is an example of how fragility assessments can inform the strategic choices of a programme-based operation and become the entry point for policy dialogue on fragility and resilience. After a transitional period of nearly five years (2009-2013), the political situation in Madagascar provided a window of opportunity to support the country in its efforts to emerge from fragility. In response to the findings of the fragility assessment, the Bank and the Government of Madagascar agreed on priorities that would contribute to restoring the State's capacity to provide, as a matter of priority, basic social services to the Malagasy people who bore the brunt of the protracted crisis. This Crisis Response Budget Support operation contributes to building resilience in the country and avoiding a relapse into crisis. Being explicit about the underlying risks in the programme design allows to integrate a fragility perspective into the Bank's engagement in the country. With the explicit objective of supporting the country to gradually exit from its fragile situation, supervision and project completion missions automatically adopt a fragility perspective to assess progress in this light. The potential risks become the topic of discussion with Government and development partners.

- 2.6 The regional approach to issues of fragility is a key feature of the new Strategy and this is making an important difference to the Bank's model. Taking a regional approach includes addressing spill-overs within sub-regions, as well as unlocking the development potential of entire regions. The Bank has conducted two regional fragility assessments and developed two Special Regional Initiative framework documents for the Mano River Union and the Sahel. For this, the Bank is working with and through Regional Economic Communities (RECs). As a consequence of this work, Bank-funded national operations now take into account the relationships between countries, which complements the regional operations. In addition, the Bank provides capacity building support to regional institutions, including the AU, ECOWAS, MRU, and others that strengthen their ability to act as regional cooperation mechanisms in fragile situations.
- 2.7 As the Bank deepens its understanding of fragility at country and regional level, it will share its experience and consolidate its knowledge to contribute to the evolving international research agenda on addressing fragility and building resilience. In this regard, and in line with the commitments under ADF-13, the Bank is developing a standardised assessment tool to extend its understanding and facilitate monitoring of fragile situations: the Country Resilience and Fragility Assessment (CRFA). This tool, which is being developed with support from the Government of Switzerland, will be tested on a set of countries at the beginning of 2016.
- 2.8 The Bank's revised "Procurement Policy for Bank Group Funded Operations" will address the specific challenges of procurement under Bank operations in fragile situations. It will mark a shift from "one-size-fits-all" to tailor-made procurement, which will strengthen the Bank's ability to operate in fragile situations.

The Bank is engaged and assumes greater leadership across the spectrum of fragile situations

- 2.9 With a deeper understanding of fragility at country and regional level, the Bank is better positioned to become involved and stay engaged in fragile situations and to assume a

¹² ADB/BD/WP/2014/171 - ADF/BD/WP/2014/118 entitled "Emergency Economic Recovery Programme (PURE)"

leadership role. This is not business as usual and requires a culture change within the institution, notably at the level of (senior) management and field offices that are at the forefront in identifying the most effective ways for the Bank to engage in these volatile and complex environments. The nature and triggers of fragility vary from situation to situation, calling for a differentiated approach. Staying engaged in a situation of a looming political crisis requires different responses to situations of active conflict, whilst engaging in the wake of natural disasters is different from providing support during periods of uncontrolled health epidemics. The Bank recognises the diversity of fragile situations and tailors its support to the specific context in line with its mandate, comparative advantage and capacity.

- 2.10 While it is recognised that this represents a broader change process that requires time, the Bank has already strengthened its policy dialogue around issues of fragility, leveraging its position in the continent as a “trusted broker” and a regional development bank. At the height of the Ebola crisis and amidst the growing isolation of the affected countries based on the fear of propagation of the virus, the President of the AfDB travelled to the affected countries and called for African countries and the international community to focus on isolating the disease and not the countries. This high level engagement and use of its convening power exemplified the leadership role of the AfDB in responding to volatile environments, with the aim of preventing a situation deteriorating and of galvanising support for a regional solution.

Box 3: Health epidemic in a fragile region – the case of Ebola

The outbreak of the Ebola epidemic brought to forefront the persistent institutional and health system weaknesses in a region that has been plagued by long periods of civil strife and war. Whilst the region was making headway towards economic recovery, institutions remained weak. The Ebola virus exposed both the lack of capacity, authority and legitimacy of the affected states as struggled to contain the outbreak, as well as the deficiencies of the international community in mounting a swift, well-coordinated response.

Recognising this situation, the Bank adopted a four-pronged approach: (i) working with the international community, in particular the World Health Organisation; (ii) supporting national Ministries (health, agriculture, social affairs); (iii) encouraging African peer support by coordinating with the African Union and the West African Health Organisation (WAHO) and helping send medical doctors from other African countries to the affected areas; and (iv) engaging and mobilising the private sector and African philanthropists to support the national, regional and global efforts to combat the virus. This was complemented by forward-looking recovery efforts for the post-Ebola period.

- 2.11 Under ADF-13, the Bank has responded more rapidly to the volatile environments that characterize fragile situations. For instance, it swiftly allocated around UA 147 million to strengthen the public health system in response to the Ebola crisis (see Box 3). Moreover, following the social uprising in Burkina Faso, the Bank held two high level dialogue missions as early as December 2014 and a third one in May 2015 with the transitional authorities. This dialogue allowed the Bank to identify areas of intervention which would support the delicate transition phase and build the resilience of the population, particularly the youth. The Bank is currently working to mobilise the required resources that will be directed towards addressing these challenges.
- 2.12 The Bank is strengthening strategic partnerships that go beyond aid coordination, notably in areas that are essential to overcoming fragility but that are outside its core mandate,

such as justice and security. Forging these types of partnerships is a *sine qua non* to effectively engage in fragile situations, notably in situations of ongoing or recurring conflict such as in Somalia, South Sudan or Central African Republic (refer section 4 for more details on partnerships).

- 2.13 In addition to ensuring that strategies and operations take into account the regional dimensions of fragility, the Bank leveraged the experience of seasoned experts who have the relevant knowledge, political influence, gravitas and strong networks among African policy makers.¹³ This is part of the Bank's demonstrated commitment to strong leadership on issues of fragility that were reinforced by the establishment of the High Level Panel on Fragile States in 2013. Key objectives have been to prevent fragility from escalating into active conflict and to turn around affected countries and regions. This is of particular importance in situations such as the Sahel which has been witnessing increasing instability in the wake of the Arab spring, the Mano River Union which is struggling to overcome the consequences of the Ebola crisis and the Horn of Africa where progress towards stability has seen setbacks with the conflict in South Sudan and the institutional fragility in Somalia.
- 2.14 The Bank's engagement with countries under sanctions (Somalia, Sudan and Zimbabwe)¹⁴ deserves specific mention, as these countries have limited access to finance and in some instances have strained relationships with the international community. Innovative approaches are required to assist such countries to transition out of fragility. In this context, the Bank exceptionally made available 50% of the country's Performance-Based Allocation (PBA) and the full allocation from Pillar I of the TSF, which further allowed resources to be mobilised from the regional operations envelope (paragraphs 3.9 to 3.11 refer to arrears clearance). Building on its experience with the Multi-Donor Trust Funds (MDTF) in Zimbabwe (ZIMFUND), the Bank is considering similar support for Somalia (paragraph 2.21 refers). Hosting the ZIMFUND is an example of the Bank's commitment to stay engaged in RMCs, even when other international organisations are not present. This particular relationship with its RMCs under sanctions also reflects the Bank's ambition to pursue and lead out-of-the-box solutions for these countries, as in the case of arrears clearance in Zimbabwe.
- 2.15 Engaging in countries experiencing active conflict is arguably the greatest challenge for a development financing institution. Under ADF-13, there have been armed conflicts in a number of RMCs, including the Central African Republic, Democratic Republic of Congo, Mali, Nigeria, Somalia, South Sudan and Sudan. In line with its ambition to support the implementation of inclusive political settlements, the Bank aims to "stay at the table" and provide expertise on economic and financial matters, such as in South Sudan. However, effective operational engagement and fruitful policy dialogue in high risk environments, as in Libya and Somalia, is affected by the security situation, which constrains the deployment of staff and implementation of operations. Allocating the necessary financial and human resources while providing the appropriate incentives and effective risk management measures, particularly in working with partners (section 4 refers), is a critical challenge for the Bank and is an important determinant of its ability to deliver on its ambitions.

¹³ Four high-level advisors were identified to cover specific regions: Mr. Callisto Madavo, Mano River Union; Mr. Tertius Zongo, Sahel Region; Ms. Gunilla Carlsson, Horn of Africa; and Paatii Ofosu-Amaah, Sudan and South Sudan.

¹⁴ All three countries have access to both Pillar I & II of the Transition Support Facility.

- 2.16 Addressing these issues will be central to the Bank's engagement during the remaining period of ADF-13 and beyond, as it points to critical operational and policy challenges in the Bank's new approach and ambition to address fragility. Another dimension in this regard, is refining the Bank's engagement with transitional governments, such as in Guinea-Bissau and the Central African Republic. These volatile periods pose particular challenges and (security) risks for Bank staff, which constrain their ability to effectively support the country. Yet, it is in these moments when the Bank's support is most urgently needed, to assist the country in getting back on a stable, development trajectory.

The Bank is making use of all available instruments and resources in an integrated program to address fragility and build resilience

- 2.17 As country and regional strategies are increasingly integrating a fragility perspective, the Bank is using all the lending and non-lending instruments at its disposal and ensuring that they complement each other in a comprehensive and integrated program to address fragility and build resilience. While the Transition Support Facility remains a vital source to channel and mobilise additional resources to eligible low-income countries, the Bank now requires that its overall support addresses fragility in an integrated manner. In the spirit of One Bank, the AfDB makes full use of its various instruments to respond flexibly to changing circumstances. The benefit of the ADF regional envelope, which can be leveraged in eligible countries using PBA and/or TSF Pillar I resources to a maximum ratio of 1:2, has proved very helpful and was used in many instances (refer to Annexes II to IV).

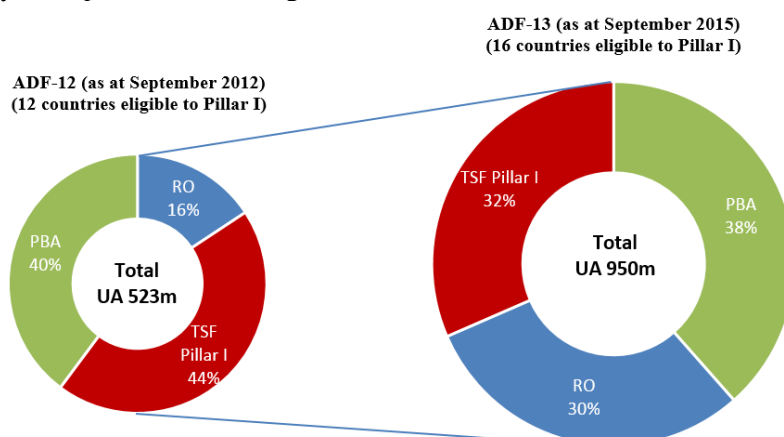
Box 4: Resource flow to fragile situations

A total of UA 950m public sector operations approved under ADF-13 for 16 countries eligible for Pillar I of the TSF

- UA 366m approved under PBA
- UA 299m approved under the TSF Pillar I
- UA 285m approved under the Regional Operations envelope (RO)

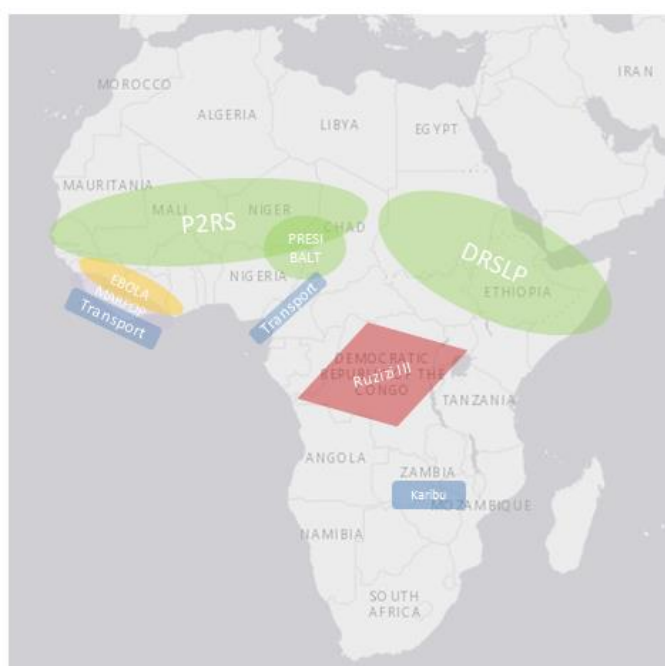
In addition,

- UA 49m of Private Sector Investments approved in three countries (DRC, Liberia and Mali) and a EUR 100m Soft Commodity Finance Facility (Côte d'Ivoire)
- UA 39m approved from other trust funds
- 13 emergency and special assistance grants.



2.18 Compared to the same period in ADF-12¹⁵, the Bank's flow of financial resources has substantially increased as a result of leveraging from the Regional Operations envelope (refer Box 4). In line with the evolving understanding that regional problems require regional solutions, the Bank has increased its efforts to design and implement regional initiatives, approving interventions targeting the Sahel, the Horn of Africa and Lake Chad Basin.¹⁶ While still in their early phases, these operations are indicative of the shift in the Bank's approach to fragile situations, complementing national operations with regional interventions and working with and through regional institutions, including the Intergovernmental Authority on Development (IGAD), the Permanent Interstate Committee for Drought Control in the Sahel (CILSS) and the Lake Chad Basin Commission (LCBC). In this way, the Bank helps strengthen dialogue and coordination amongst participating countries. However, as the preparation of regional operations is complex, the integration of a fragility-lens is also more challenging and requires upfront considerations (refer paragraph 2.5).

Figure 1: Illustrative for Regional Approach under ADF-13



2.19 In 2014 the Bank approved a UA 71.23 million, multinational project, addressing fragility in the Lake Chad Basin region, at the borders with Cameroon, Niger, Nigeria, Central African Republic and Chad. The drivers of fragility are multiple and interrelated in this region, comprising environmental, security, social, economic, humanitarian and political. Insecurity, which is facilitated by the porous borders, is characterised by various types of illegal trafficking and criminal acts, smuggling, proliferation of arms and communal rivalries. On the social and economic front, recurrent droughts have accentuated the influx of migrants, with the attendant social tensions and intercommunity conflicts emanating from the struggle to access resources. Furthermore, youths are

¹⁵ 01 January 2011 to 30 June 2012

¹⁶ ADF/BD/WP/2014/105 entitled "Multinational - Programme to build resilience to food and nutrition insecurity in the Sahel (P2RS)"; ADB/BD/WP/2014/182/Final - ADF/BD/WP/2014/130/Final entitled "Drought resilience and sustainable livelihoods program in the Horn of Africa (DRSLP) - Project II"; ADF/BD/WP/2014/143 entitled "Multinational - Programme to rehabilitate and strengthen the resilience of Lake Chad basin systems (PRESIBALT)"

particularly vulnerable to recruitment efforts by violent extremist groups given the high unemployment rate due to several factors, including a lack of jobs and inadequate qualifications and skills. Water resources are dwindling constantly, in the face of an absence of coherent management and the humanitarian situation is becoming increasingly precarious as a result of the influx of refugees fleeing from armed conflicts in the region or growing food insecurity. Finally, the ecosystems of Lake Chad are of considerable natural diversity and are exposed to stresses, which climate change and man-made factors have worsened. The project will help build the resilience of the local population through a holistic approach to improve their incomes, food security and access to basic social infrastructure. It is anchored on a regional cooperation mechanism to address the drivers of fragility, with a view to unlocking the development potential of the entire region.

Figure 2: Lake Chad Basin Programme



- 2.20 The Bank's responsiveness to fragile situations is also reflected in the use of 13 emergency and special operations as well as exceptional assistance grants under ADF-13 (Annex III refers). Around half of these grants were used in the Bank's response to the Ebola crisis in the affected countries. However, the Bank is also increasingly working with non-traditional partners, such as the UN High Commissioner for Refugees (UNHCR), and so is assisting refugees in Cameroon and preventing conflict between refugees and the local population. Such interventions, working closely with another agency, allows the Bank to build new partnerships (refer section 4 on partnerships).
- 2.21 Given the potential of Multi-Donor Trust Funds to achieve improved delivery of development assistance in fragile situations, the Bank is building on its experience in Zimbabwe to replicate similar structures in other contexts. For instance, as part of the Somali New Deal Compact, the Bank is setting up a Trust Fund for development partners, which will support the rehabilitation and development of infrastructure in Somalia. The pooled donor resources will help tackle Somalia's immense economic reconstruction and

development challenges, which result from a devastating and prolonged armed conflict. The Bank recognises the potential of MDTFs in fragile situations, while also acknowledging that establishing such Funds can be costly, because of negotiations and longer gaps between appraisal and the first disbursement. The Somalia MDTF is no exception in this regard and the Bank is therefore strengthening its implementation and management capacity to ensure that the MDTF can meet its expectations.

- 2.22 Facilitating private investment and engagement in countries affected by fragility is an important part of the Bank's strategy, in order to reduce the huge deficit in infrastructure in these environments. While international capital flows are increasing in emerging and frontier markets, countries affected by fragility are largely unable to attract private sector investments, with the notable exception of resource-rich countries.¹⁷ However, these countries are in urgent need of investments to stimulate broad-based economic growth, create jobs and build resilient societies. In view of the significant challenges in this regard, the Bank adopts a two-pronged approach to promote private sector engagement in these contexts: (i) explore opportunities for public-private partnerships (PPP), for instance, in Guinea-Bissau in the energy sector; and (ii) adapt the Bank's financial instruments to facilitate investments in these countries that have a higher risk premium (refer to ADF-13 MTR note 5 on 'Innovative Financing Instruments' for more details).

The Bank is increasing its operational effectiveness and development results in fragile situations

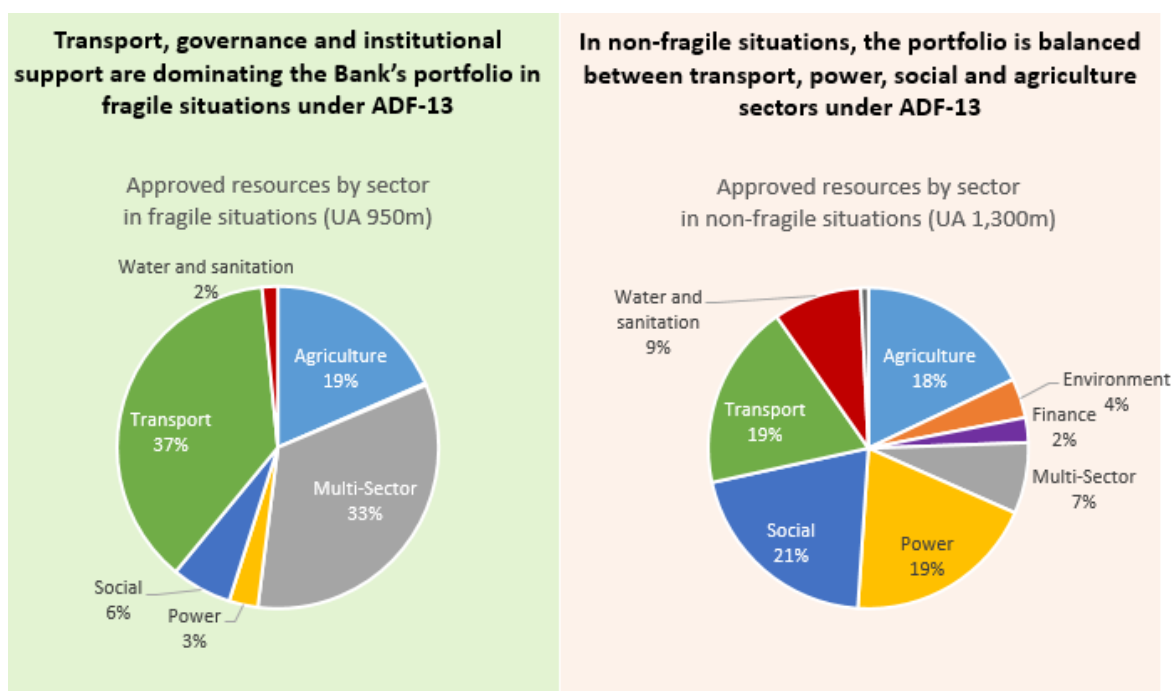
- 2.23 Timing and speed is of utmost importance when engaging in fragile situations. Governments need to restore service delivery and provide a peace dividend to the population. For the AfDB, this means, *inter alia*, reducing to the extent possible the delays between the approval of an operation and the first disbursement. In this regard, the Bank's new approach to fragile situations is starting to make a difference, as can be seen in the reduced period between approval and first disbursement of operations in the 16 countries eligible to Pillar I of the TSF in 2014. On average, it took only 6.3 months to disburse, compared to an average of 12.3 months in other countries.
- 2.24 As of September 2015, the Bank's portfolio of approved operations under the ADF, TSF Pillar I and Regional Operations Envelope in the 16 countries eligible to Pillar I of the TSF amounts to UA 950 million. Figure 3 below shows that the Bank's focus in these countries under ADF-13 has been transport (37%) and governance/institutional support (33% - labelled multi-sector), followed by agriculture and rural development (19%). This sectoral concentration reflects the importance of (re-)building transport infrastructure in these countries. While keeping in mind the "do no harm" of engagement in fragile situations, the transportation infrastructure can reduce fragility through different channels, including an increased social cohesion of the local population through better connectivity, greater state effectiveness across distance, and more inclusive growth through growth poles and corridors in rural regions. The greater emphasis on governance/institutional support in fragile situations (33%) compared to non-fragile situations¹⁸ (7%) reflects the commitment of the Bank to focus on state-building and

¹⁷ The 2015 OECD report "States of Fragility – Meeting post-2015 ambitions" notes that in 2012 only 6% of FDI to developing countries in 2012 went to fragile situations, and it was concentrated in just ten resource-rich countries.

¹⁸ Figure 3 distinguishes between fragile situations (countries eligible to Pillar I of the TSF) and non-fragile situations (all other countries not eligible to Pillar I).

providing support in moments of crisis.¹⁹

Figure 3: Characteristics of the Bank’s operations in fragile situations



2.25 The Strategy recognises that there is no blueprint for Governments and development partners to address fragility and calls for a closely monitored process of “learning by doing”, in order to refine the Bank’s business model and increase its development effectiveness. Against this background, the Bank put in place a monitoring framework and consolidates its lessons learned in regular progress reports, such as the ORTS annual report.

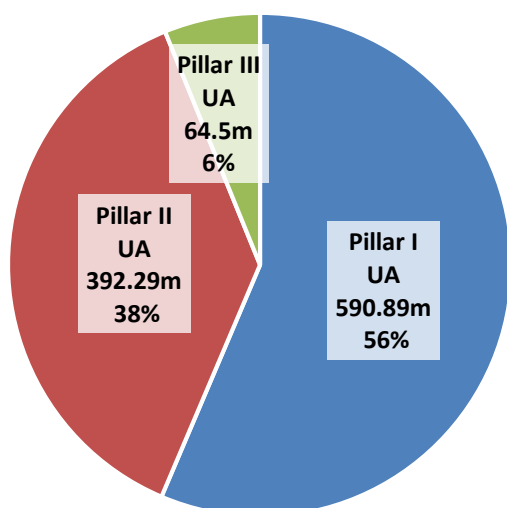
2.26 In addition, the Bank regularly reviews how far its institutional framework responds to the challenges of engaging in fragile situations, so that it can scale up its impact. The forthcoming publication on “Taking AfDB’s development impact to scale in fragile situations” assesses the current institutional configuration of the Bank. It recommends how to strengthen the business model, so the Bank can live up to its ambition of being at the epicentre of Africa’s efforts to address fragility and pave the way for a more resilient and inclusive development trajectory.

3. Utilisation of the Transition Support Facility

3.1 The TSF is designed to receive contributions from different sources, such as the ADF ADB, and voluntary contributions from donors and third parties at any time. It enables the Bank to channel additional resources to a number of eligible low-income countries through one of three financing windows: (i) Supplemental Support (Pillar I); (ii) Arrears Clearance (Pillar II); and (iii) Targeted Support (Pillar III) (refer to Annex II & III for an overview and for details of the utilisation of TSF resources).

¹⁹ It should be noted that the pipeline of operations for fragile situations also includes interventions in other sectors that have not been approved during the period under review.

Box 5: Snapshot of the TSF



Pillar I: 52% of regular resources committed. 40% of unallocated reserve (10% of the total Pillar I resources) used for Guinea, Liberia and Sierra Leone.

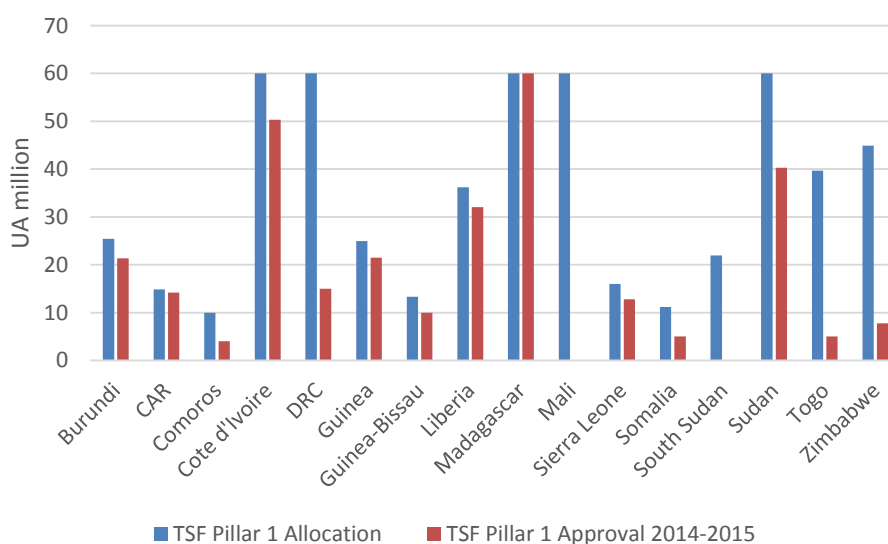
Pillar II: Based on the considerable progress made by Zimbabwe, it is reasonable to assume that the country could access the arrears clearance window under ADF-13. Thus, Management proposes not to reallocate Pillar II resources at this point.

Pillar III: 24% of resources committed under a revised model to support mainly innovative, programmatic, multi-national initiatives. Project preparations underway for a total of 47% expected to be committed by end 2015.

Pillar I – increased flexibility makes a difference in fragile situations

- 3.2 As of September 2015, 51% or UA 299.23 million has been committed (including UA 23.86 million from the ‘reserve’ pool), out of UA 590.89 million available under Pillar I during ADF-13 (including UA 19.11 million carried over from ADF-12 and 59.72 million of the unallocated reserve).

Figure 4: ADF-13 TSF Pillar I Approval



- 3.3 The supplementary support provided under Pillar I financed critical operations in eligible countries, ranging from infrastructure to institution building and providing timely budget support to Governments in moments of needs and crisis. For instance, in response to the protracted situation in Central African Republic, the Bank mobilised Pillar I to finance the “Emergency Post-Crisis and Economic Recovery Support Programme

(PUASCRE)”²⁰ to help the new Transitional Authorities to address the social and economic impact of the crisis on the population and foster economic recovery in the country.

- 3.4 Pillar I is also being used to empower women in fragile situations as a source of resilience. The “Good Governance and Women Economic Empowerment Project” in Sudan²¹ will work with the General Directorate of Women and Family Affairs of the Ministry of Welfare and Social Security to improve the skills of female entrepreneurs and support their businesses. It will also strengthen the institutional and policy environment for a more conducive business climate in which women can work and so contribute to building a resilient and peaceful society.
- 3.5 The Bank’s performance in utilising Pillar I resources, as measured by the level of its commitments, fares well, particularly in light of the 46% increase in resources compared to ADF-12. The total available resources under Pillar I rose from UA 405 million in ADF-12 to UA 590.89 million in ADF-13. When assessing progress under ADF-13 relative to the same period under ADF-12, the Bank has committed UA 299.23 million or 51% as at September 2015, compared to UA 232.5 million or 57% as at September 2012. This is testament to the Bank’s ability to deliver in these challenging environments and monitor the situation to allow for operational engagement in response to the country context. For instance, in Guinea-Bissau and South Sudan, the complicated developments have only allowed for the preparation of new operations in 2015. Based on past progress and the existing pipeline of operations, the commitment rate of Pillar I resource is expected to reach 73% by end-2015 and 100% by end-2016.
- 3.6 In this context, Pillar I resources have been used to support regional operations on five occasions (refer Annex III (C) and Box 6). This has notably benefitted countries under sanctions, such as Somalia and Sudan, which participated in the Drought Resilience and Sustainable Livelihoods Programme 2 (DRSLP 2). In the case of Zimbabwe, the Pillar I allocation allowed leveraging of the regional operations envelope to support the rehabilitation of the Kariba Dam. Overall, the adjustments made with regard to the eligibility criteria for Pillar I have proved relevant and increased the flexibility of the utilisation of this window.

Box 6: Supporting regional integration in fragile regions

The largest of 20 public-sector operations in 2014 was the multinational Road Development and Transport Facilitation Program (UA 140.9 million) within the Mano River Union in West Africa. It will create links between Côte d’Ivoire, Guinea and Liberia, benefiting road users, transporters, farmers, and some 2.83 million inhabitants, especially disadvantaged groups, women and children.

- 3.7 The Bank is closely monitoring the situation in eligible RMCs with regard to using the unallocated reserve by the end of 2015 to ensure commitment under ADF-13. 40% of the unallocated reserve (UA 59.72 million) has been used to support Guinea in its efforts to combat the Ebola crisis and support regional integration in the Mano River Union. In line

²⁰ ADB/BD/WP/2014/109 and ADF/BD/WP/2014/76 entitled “Emergency Post-Crisis and Economic Recovery Support Programme – PUASCRE”

²¹ ADB/BD/WP/2015/120 and ADF/BD/WP/2015/90 entitled “Good Governance and Women Economic Empowerment Project – GGWEPP” was presented to the Boards of Directors on 30 September 2015 and is therefore not included in the list of approved projects

with the Operational Guidelines, ORTS will prepare the recommendations to the Board to utilise the remainder of the unallocated reserve by the end of 2015 based on the principles of responding to emerging sudden needs, and achieving the highest potential impact. Also of relevance is the need to provide resources to countries that may not have been in the initial list of eligible countries, to meet urgent funding gaps, and to fund projects or programs that may be scaled up for impact in subsequent periods.

- 3.8 The provisions made during the ADF-13 replenishment negotiations to enhance the flexibility and responsiveness of the Facility to fast-changing situations²² were instrumental in the Bank's expeditious response to the Ebola crisis. Countries in the Mano River Union are testament to the relevance of the decisions taken to (i) lengthen the period of Pillar I support (Sierra Leone); and (ii) use the unallocated reserve for countries based on a qualitative assessment (Guinea).

Pillar II – assisting countries towards arrears clearance under ADF-13

- 3.9 The total amount of arrears of Somalia, Sudan and Zimbabwe to the Bank Group is projected to stand at UA 747.19 million at the end of the ADF-13 period. Of this amount, the arrears to ADB and ADF amount to UA 575.29 million and UA 169.94 million respectively. The TSF Pillar II resources amount to UA 392.29 million, all contributed by the ADF (refer Table 1 below). Due to the prohibition against re-financing, these resources under Pillar II can clear only the ADB portion of countries' arrears. A summary of country-by-country assessment of progress towards arrears clearance by the three potentially qualifying countries (Somalia, Sudan and Zimbabwe) and remaining challenges is provided in Annex IV.

Table 1: Projection of Outstanding Arrears to the Bank Group at end-December 2016
(UA million as of 30 June 2015)

Country	Arrears to ADB	Arrears to ADF	Arrears to NTF	Total
Sudan	120.95	104.31		225.25
Zimbabwe	437.87	13.84		451.71
Somalia	16.48	51.79	1.95	70.22
Total	575.29	169.94	1.95	747.19
Resources available (TSF)	392.29			
Financing gap	183.00	169.94	1.95	354.90

- 3.10 Uneven progress has been made by the three countries under ADF-13. Based on the considerable advancement made by Zimbabwe over the recent period, it is reasonable to assume that the country could access Pillar II by the end of 2016. On the other hand, the setbacks experienced by Somalia and Sudan considerably diminish their possibilities of similarly becoming eligible during ADF-13. As resources under Pillar II are used for eligible countries on a first-come-first-served basis, only Zimbabwe can be expected to use Pillar II resources under ADF-13.
- 3.11 Zimbabwe's total amount of arrears to the ADB stands at UA 437.87 million, while

²² Significant changes introduced under ADF-13 relate to (i) additional qualitative measures for assessing eligibility for assistance from the Facility; (ii) an unallocated reserve of Pillar I to be used for emerging needs or changing situations; and (iii) the possibility to use Pillar I resources to support all programs and projects, including regional operations. See ADF/BG/WP/2013/06 entitled "Report on the Thirteenth General Replenishment of the resources of the African Development Fund (ADF-13)"

available Pillar II resources to clear ADB arrears amount to UA 392.29 million. A possible arrears clearance operation could potentially consume up to 100% of available Pillar II resources, however, the final amount needed by the Bank would depend on the timing of the arrears clearance, the financing plan, the debt-burden-sharing arrangements (based on an evaluation of countries' capacity to contribute) and the arrears cut-off date agreed. In addition, a two-tier approach applies to this process under which a beneficiary country meets up to a maximum of a third of its arrears clearance obligations while the TSF Pillar II takes up a minimum of two thirds.²³ An arrears clearance operation would also require mobilizing UA 13.84 million from the ADB or other sources, to clear the ADF portion of the arrears. Thus, Management proposes not to reallocate Pillar II resources at this point.

Pillar III – complementing the suite of the Bank's instruments in fragile situations

- 3.12 The Targeted Support Window (Pillar III) provides a limited pool of resources to support capacity building and technical support activities, which cannot easily be financed through traditional institutional support projects and programs. Based on the lessons learned under ADF-11 and ADF-12, the approach of Pillar III was revised under the Strategy for Addressing Fragility and Building Resilience in Africa (2014-2019) and the related Operational Guidelines.
- 3.13 UA 64.5 million was allocated to Pillar III for the ADF-13 cycle (including 4.5m carried over from ADF-12). In contrast with prior Replenishments, Pillar III resources are intended for both direct and indirect support. Indirect support means that the resources are used by another entity to support their work in fragile situations at country and or regional level. In this case, it was decided that the African Legal Support Facility (ALSF) would be the beneficiary of indirect support of UA 16 million to support legal advisory and capacity-building initiatives in fragile situations on a programmatic basis. Pillar III resources are supporting ALSF's portfolio of which more than 50% is currently in countries eligible to Pillar III. This work includes mobilising advisory services, strengthening local capacities and supporting litigation processes.

Box 7: Legal Technical Assistance by ALSF – Somalia

The ALSF provided a legal advisor to the Federal Government of the Republic of Somalia from September 2014 until March 2015. The legal adviser provided general legal assistance to the Ministry of Finance, and specifically supported the Financial Governance Committee (FGC) in its work of reviewing, and where necessary, renegotiating and redrafting a number of existing contracts. The legal advisor reviewed and advised on 11 contracts for the FGC.

In addition, the ALSF organised three major workshops in Nairobi, Kenya, and in Entebbe, Uganda, for senior Somali officials focused on contract negotiations. A total of 76 participants, 21% of whom were women, attended the three workshops. The events were very well received by the participants.

- 3.14 The other UA 48.5 million of Pillar III is dedicated to directly support interventions carried out under a revised two-pronged allocation process: (i) yearly Bank-wide competitive Calls-for-Proposals (CfP); and (ii) projects initiated by ORTS in consultation with regional and sector departments to respond to crisis situations and gaps which were

²³ ADB/BD/WP/2014/46/Rev.3/Approval and ADF/BD/WP/2014/30/Rev.3/Approval entitled "Operational Guidelines for the Implementation of the Strategy for Addressing Fragility and Building Resilience in Africa and for the Transition Support Facility"

not addressed by proposals submitted during the CfP. To date, an amount of UA 11.74 million has been committed for 15 projects (refer Annex III (B)), which represents 24% of the amount available for direct support (i.e. UA 48.5 million). While the scale of resources and operations is relatively smaller than for Pillar I or PBA-financed operations, Pillar III has some advantages and greater flexibility, relative to the Bank's other instruments, for engaging in fragile situations. In particular, it has flexibility in allocation, the potential for multi-country thematic programs, the relatively lighter procedures for administration, and the ability to mobilise resources for scaling-up.

- 3.15 In 2014, the Bank allocated UA 6.5 million of Pillar III to contribute to the fight against Ebola, focusing on an innovative Africa-to-Africa peer program, which enlisted nurses and doctors from other parts of Africa to work in the three most-affected countries of Guinea, Sierra Leone, and Liberia. Following the approval of the Operational Guidelines in January 2015, ORTS launched the first call for proposals (CfP) in February 2015 which focused on the thematic areas of private sector development, natural resource management and gender in fragile situations. Nine projects for a total of UA 14 million were selected. The projects adopted a programmatic and often multinational approach which plans for scaling up the intervention in a second phase. In addition, Pillar III operations provide strategic opportunities for leveraging additional resources, such as from the multi-donor Fund for African Private Sector Assistance (FAPA) to support implementation of the Private Sector Development Strategy in fragile situations. In the first quarter of 2016, ORTS will launch another CfP to commit the remaining resources under Pillar III.

Box 8: A revised approach to Pillar III: Starting small, while planning for scale

Pillar III resources are being used to leverage additional internal and external financing to support pilot initiatives in fragile situations and scale up successful initiatives. An example of this revised approach is the support to the beef and leather value chains in Zimbabwe that is being designed and co-financed on a *pari passu* basis with the Fund for African Private Sector Assistance (FAPA) at a total of USD 2.3 million while leveraging an additional USD 2 million from the Kuwait Fund to support critical infrastructure investments. This project was designed specifically as a pilot with the objective of increasing the competitiveness of the beef and leather value chains in a sub-region by building producer capacity and facilitating access to local and export markets. In line with the revised approach for Pillar III, the project will be scaled up after this initial phase. Similar approaches are being adopted in the area of entrepreneurship development and natural resource management.

- 3.16 In addition to the project-based approach, Pillar III also has now the flexibility to mobilise highly specialised advisory and advocacy support. This will equip the Bank to respond to unanticipated or rapidly-developing situation and therefore enhance its leadership role. These Targeted Advisory Services (TAS) are managed directly by ORTS and draw on the Bank's experience with the AU High Level Panel on Sudan since 2011.

4. Strengthening Partnerships and Building Capacity around Issues of Fragility

- 4.1 Effective partnerships and alliances are critical to leveraging and coordinating the use of the Bank's limited resources, engaging in policy dialogue and contributing to the knowledge agenda. It is particularly important in fragile situations to exploit complementarities in expertise and mandates among partners, given that fragility issues extend well beyond the traditional areas covered by the Bank. Based on the lessons learned from the Bank's past work on fragility and in line with the Strategy, new partnerships have been established while existing ones have been strengthened.
- 4.2 At the global level, the Bank has strengthened its partnership with the OECD, notably the International Network on Conflict and Fragility (INCAF) and the International Dialogue on Peacebuilding and State-building (IDPS).²⁴ Following the appointment of Sierra Leone as Chair of the G7+²⁵ in 2014, the Bank is strengthening its engagement with the secretariat to support the implementation of the New Deal for Engagement in Fragile States.
- 4.3 Through its partnership with the Centre for Global Development (CGD), the Bank has begun to develop its capacity to understand the dynamics of economic reforms under different governance conditions, with a view to learning how best to engage with countries burdened with debt and operating under sanctions. Acknowledging the strength of institutions involved in fragility related issues, the Bank has also established a working relationship with the Institute for Security Studies (ISS). This partnership allows the

²⁴ INCAF helps development partners, international organisations and partner countries to respond to conflict and fragility by working on cutting-edge policy and programming and by acting as a dialogue facilitator between development partners and partner countries. The IDPS is a forum for political dialogue to bring together conflict-affected and fragile countries, international partners and civil society to catalyse successful transitions from conflict and fragility.

²⁵ The g7+ is a voluntary association of 20 countries that are or have been affected by conflict and are now in transition to the next stage of development. 14 African countries have signed up to the g7+: Burundi, Central African Republic, Chad, Comoros, Cote d'Ivoire, Democratic Republic of Congo, Guinea, Guinea-Bissau, Liberia, Sao Tome and Principe, Sierra Leone, Somalia, South Sudan and Togo.

Bank to tap into analyses carried out by the institution, which are relevant to its current ongoing and future activities.

- 4.4 At the regional level, the Bank is increasingly participating in internationally coordinated initiatives and seeks to complement its engagement with the work of the African Union Commission. The Bank provides high level strategic and legal advice as well as a clear plan on financial and economic planning with the aim of increasing public and private investments in fragile situations. The case of South Sudan is representative of the Bank's commitment to "stay at the table" and contribute to finding solutions by providing advisory support for the restoration of peace and security.
- 4.5 The Bank's response to the Ebola epidemic in West Africa has demonstrated that Africa has the capacity to significantly contribute to solving some of its challenges. The Bank and the African Union Commission, within the context of the Africa Solidarity Initiative, galvanised continent-wide support by mobilizing financial and human resources to fight the spread of the virus. In this spirit, the Bank is making systematic use of regional delivery mechanisms, working with partners, such as IGAD, CILSS, ICGLR, MRU and ECOWAS to address regional problems.
- 4.6 At the country level, the Bank is increasingly supporting African peer learning initiatives. In December 2014, a delegation of the Ivorian Government undertook a mission to Rwanda to share experiences on how to deal with issues of reconciliation and inter-community conflict resolution. Similarly, the Comoros Government has benefitted from the experiences of Côte d'Ivoire on how to address emergency service delivery challenges in the power sector.
- 4.7 The Bank is coordinating its engagement at the country level in line with the New Deal and also providing financial and technical support to member countries of the New Deal, for instance in preparing country-led fragility assessments. With a view to achieving synergies with development partners, the Bank is starting to work with the World Bank Group to carry out joint country analysis and promote the use of MDTFs as a pooled funding mechanism.
- 4.8 Innovative partnerships at the project level are essential for the implementation and supervision of operations in fragile situations, particularly in moments of continuing violence where security constraints pose significant challenges to the traditional business model of development partners. Therefore, the Bank is building new partnerships to enhance its operational effectiveness, such as in the case of the Darfur Water Project for Peace Building and Conflict Resolution²⁶ in Sudan. This project is currently being implemented and supervised in partnership with the United Nations African Union Hybrid Mission in Darfur (UNAMID). UNAMID provides essential security, logistical and technical support, which allows the Bank to achieve the construction of boreholes, elevated water tanks, laying of water pipelines and rehabilitation of water points in nine localities in the five Darfur states.
- 4.9 Recognising the importance of working with non-state actors, notably civil society organisations and the private sector, the Bank has started to reach out systematically to enhance the role of these actors in its operations. For instance, empowering women in fragile situations and leveraging their potential as a source of resilience is intimately

²⁶ ADB/BD/WP/2011/220/Approved entitled "Darfur Water Project for Peace Building and Conflict Resolution"

linked to supporting civil society structures. The DRSLP Project II in Eritrea exemplifies this, working with the National Union of Eritrean Women (NUEW), which had played a major role during the drafting of the Eritrean Constitution by organising workshops and sensitising women on the crucial issues that concern them. Under this project, the NUEW collaborates closely with the executing agency, the Ministry of Agriculture, to ensure that the interests of Eritrean women are represented and equal rights secured.²⁷

- 4.10 The Strategy recognises that effective implementation requires a shift in mind-set and dedicated efforts to build the Bank's internal capacity to effectively mainstream issues of fragility throughout the institution. In view of this need, ORTS has forged a close partnership with the World Bank's Center for Conflict, Security, and Development and held three sessions on issues around fragility since February 2014.
- 4.11 Since the approval of the Strategy in June 2014, the Bank has taken important steps in building its internal analytical capacity to assess fragility; however, this is a long process and gaps remain. Being a Bank-wide strategy that affects all Departments, a multi-year, rolling, capacity building programme was developed by ORTS in conjunction with the Human Resources Department of the Bank to ensure continuous and structured internal capacity building. ORTS is leveraging the Bank's decentralized business model to deploy staff and build capacity in field offices and regional resource centers.
- 4.12 Additional resources have been provided to ensure there is enhanced internal Bank capacity to deliver the new commitments to address fragile situations. Significant efforts were devoted to mobilising resources from partners. The Swiss Development Cooperation (SDC) and the UK's Department for International Development (DFID) are providing in total more than USD 5.5 million to support the Bank's efforts to build its internal capacity and develop analytical tools for assessing fragility. In addition, about USD 0.5 million has been mobilised from the Korea Trust Fund to facilitate private sector investments in fragile situations.

Table 2: Overview of partnership activities under ADF-13

Scope	Objective	Activities
Global	Assume leadership in international discussions on fragility in Africa	<ul style="list-style-type: none"> • ORTS becomes co-chair at INCAF Knowledge & Policy Task Team • ORTS hosts launching event of OECD report "States of Fragility – Meeting post-2015 ambitions" on 8 April 2015 • ORTS organises session of the International Dialogue on Peacebuilding and State-building alongside the 2015 Annual General Meetings in Abidjan • ORTS partners with g7+ to advance the implementation of the New Deal in Africa • Partnerships with internationally renowned think-tanks, such as the Centre for Global Development and the Institute of Security Studies to contribute to the research agenda around issues of fragility in Africa

²⁷ ADB/BD/WP/2014/182/TD - ADF/BD/WP/2014/130/TD entitled "Drought Resilience and Sustainable Livelihoods Program in the Horn of Africa – Project II (DRSLP II)" – Technical Annexes – Volume II – Annex 2 - Eritrea

Regional	Strengthen regional responses in 4 focus areas*	<ul style="list-style-type: none"> • The Bank and the African Union Commission, within the context of the Africa Solidarity Initiative, galvanized continent-wide support by mobilising financial and human resources to fight Ebola • Promotion of African peer-to-peer initiatives, such as between Cote d'Ivoire and Rwanda in the area of post-conflict reconciliation and Comoros and Côte d'Ivoire in the energy sector. • Addressing regional food/drought crisis in the Horn of Africa and the Sahel through a combination of regional and national operations and enhanced policy dialogue that was supported by the creation of a Special Initiatives Programme Department. • Appointment of three high-level advisors to support the Bank's engagement in the Horn of Africa, Mano River Union and the Sahel • Contribute to mediation in South Sudan conflict focusing on economic and financial issues • Systematic use of regional delivery mechanisms, working with IGAD, CILLS, ICGLR, MRU and ECOWAS
Country	Stay engaged and complement the Bank's expertise and mandate	<ul style="list-style-type: none"> • Support to New Deal in RMCs, providing technical and financial support • Use of MDTF in Somalia to promote pooled funding • Joint country analysis with WB and IFC • Partnerships with SDC and DfID to build the Bank's internal capacity and apply the fragility-lens • Partnership with the Institute for Security Sector (ISS) and the International Security Sector Advisory Team (ISSAT) to enhance the Bank's understanding around security issues
Operations	Scale-up the Bank's impact	<ul style="list-style-type: none"> • Partnerships with peace-keeping missions in operations, such as UNAMID (Sudan) • Increasing engagement with civil society at project-level, such as the National Union of Eritrean Women

*Notes: * Great Lakes and Central Africa Region, Horn of Africa, Mano River Union, and Sahel*

5. Conclusions and Way Forward

- 5.1 Under ADF-13, the Bank has taken important steps towards building its capacity to assess fragility and apply a fragility-lens in its engagement. In order to deliver the ambitions of the Strategy for Addressing Fragility and Building Resilience in Africa (2014-2019), continuous investment in the Bank's internal capacity across the various departments will be needed. The operational risks involved in delivering the Strategy require staff to take full advantage of the flexibility in fiduciary and procurement processes under the new procurement framework. The Bank also needs to provide the appropriate incentives for staff at headquarters and in field offices.
- 5.2 The Strategy recognised that this is a process of "learning by doing", which requires constant monitoring and evaluation to strengthen the Bank's effectiveness in fragile situations. Overall, the Bank has made considerable progress in implementing its new approach to fragile situations since the Strategy was approved in June 2014. Today, mechanisms are in place to ensure that the preparation of all regional and country strategies is informed by fragility assessments. The emphasis is therefore moving to operations.
- 5.3 Implementing and supervising operations in fragile situations tends to be more challenging and costly. This is particularly notable during active conflict, or when third

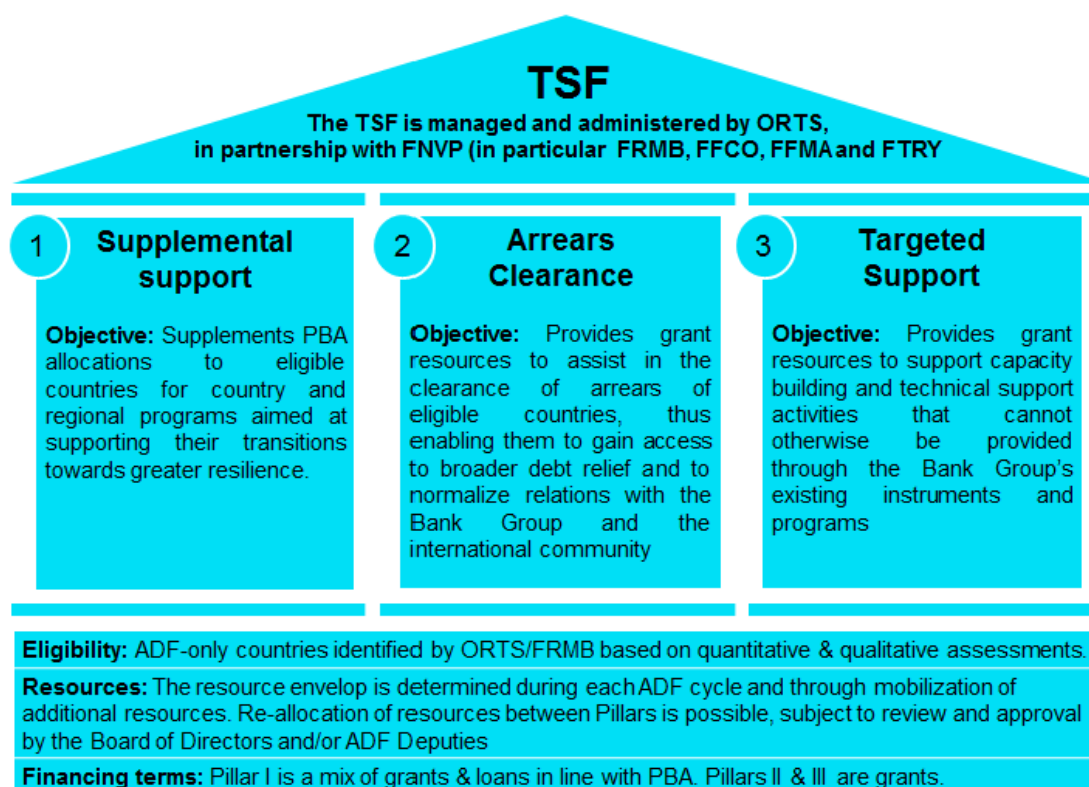
parties are used to deliver projects and remote implementation and monitoring mechanisms are deployed. These aspects need careful planning in the inception phase. The Bank recognises that it will take longer to deliver its increased activity in facilitating private sector investment in fragile situations, but this work has the potential to have a lasting and transformational impact.

- 5.4 The TSF is an important vehicle to support the Bank's engagement in eligible low-income countries. In line with the adjustments introduced under ADF-13, the utilisation of the Facility has proved to be flexible and responsive to the needs of eligible countries. This is corroborated by the current rate of progress, with Pillar I projected to be fully utilised by the end of the cycle. Based on the considerable progress made by Zimbabwe, Management proposes not to reallocate Pillar II resources at this point, as it is reasonable to assume that the country could access these resources under ADF-13. Pillar III has successfully started its revised model in 2015 and is also expected to fully utilise its allocation. While the initial allocation under the TSF is being effectively utilised under ADF-13, mobilising additional resources from partners remains a challenge, which needs to be addressed through increased outreach efforts.

Drafting and Reviewing Team Composition

Members	Department/Unit
Habiba BEN BARKA	ORTS
Lahcen ENNAHLI	OSVP
Sering JALLOW	OSVP
Shingo KIKUCHI	FRMB
Solomane KONE	ORVP
Albert MAFUSIRE	ORTS
Agnès SURRY	FRMB
Frederik TEUFEL (lead)	ORTS

Annex I: Overview of the Transition Support Facility (TSF) under ADF-13



Annex II (A): ADF-13 TSF Pillar I Approval as at September 2015

Country	Project	Amount UA	Total Suppl. UA
Burundi	Projet Hydroélectrique de Jiji et Mulembwe (PHJIMU)	14,340,000	21,340,000
	Burundi - Programme d'appui aux réformes de la gouvernance économique – Phase I	7,000,000	
CAR*	Programme d'urgence d'appui à la sortie de crise et à la reprise économique (PUASCRE)	6,830,000	14,190,000
	Programme d'urgence d'appui à la sortie de crise et à la reprise économique (PUASCRE) – Phase II	2,360,000	
	Programme d'appui à la reconstruction des communautés de base (PARCB)	5,000,000	
Comoros	Appui Budgétaire/ Programme d'appui aux réformes du secteur de l'énergie (PARSE)	4,000,000	4,000,000
Côte d'Ivoire	Programme d'appui au renforcement de l'inclusion et de la cohésion sociale (PARICS)	27,540,000	50,360,000
	Multinational - Programme d'aménagement de routes et de facilitation du transport au sein du Fleuve Mano	22,820,000	
DRC	Projet d'appui au recensement général de la population et au renforcement des bases de données	15,000,000	15,000,000
Guinea	Multinational - Programme d'aménagement de routes et de facilitation du transport au sein du Fleuve Mano	8,857,000**	21,457,000
	Renforcement de la réponse des systèmes de santé publique ouest-africains à la crise Ebola (SWAPHS)	10,000,000**	
	Ebola Sector Budget Support – Fight Back Programme (EFBP)	2,600,000**	
Guinea-Bissau	Emergency Economic and Financial Reform Support Programme	5,000,000	10,000,000
	Projet d'appui au renforcement de la gouvernance économique et financière (PARGEF)	5,000,000	
Liberia	Multinational - Programme d'aménagement de routes et de facilitation du transport au sein du Fleuve Mano	25,628,000	32,028,000
	Renforcement de la réponse des systèmes de santé publique ouest-africains à la crise Ebola (SWAPHS)	1,200,000**	

	Ebola Sector Budget Support – Fight Back Programme (EFBP)	5,200,000	
Madagascar	Investment Promotion Support Project	3,000,000	60,000,000
	Projet de Jeunes Entrepreneurs du Moyen Ouest	8,000,000	
	Madagascar - Programme d'urgence pour la relance économique (PURE)	25,000,000	
	Projet d'extension du périmètre de Bas-Mangoky	24,000,000	
Sierra Leone	Renforcement de la réponse des systèmes de santé publique ouest-africains à la crise Ebola (SWAPHS)	1,200,000**	12,800,000
	Ebola Sector Budget Support – Fight Back Programme (EFBP)	7,600,000	
	Inclusive Economic Management Program – Phase I	4,000,000	
Somalia	Multinational - Drought Resilience and Sustainable Livelihoods Programme in Horn of Africa (DRSLP) II	5,000,000	5,000,000
Sudan	Water Sector Reforms and Institutional Capacity Development Program	15,000,000	40,300,000
	Multinational - Drought Resilience and Sustainable Livelihoods Programme in Horn of Africa (DRSLP) II	10,000,000	
	Capacity Building for Improved Quality of the Education System and Skills Development Project	15,300,000	
Togo	Projet d'appui à la mobilisation des ressources et au renforcement des capacités institutionnelles (PAMOCI)	5,000,000	5,000,000
Zimbabwe	Multinational - Kariba Dam Rehabilitation Project	7,750,000	7,750,000
TOTAL		299,225,000	299,225,000

(*) For CAR, UA 5.87 million was allocated for PUASCRE and UA 4.55 million was allocated for PARCB Phase 1 from restructured projects. These allocations are NOT counted as TSF Pillar I resources of the ADF-13.

(**) These are from the unallocated reserve (10% of the TSF Pillar I).

Annex III (B): ADF-13 TSF Pillar III Approval as at September 2015

Country	Project	Amount UA
RECSA	Technical Assistance and Capacity Building to Regional Centre on Small Arms (RECSA) to Enhance Regional and States Stability through Reduction of Proliferation of Small Arms (TCB-RECSA) Project	1,000,000
Guinea	Réaction à la crise – Projet d’assistance technique en appui aux pays les plus touchés par l’épidémie d’Ebola	1,500,000
Sierra Leone	Réaction à la crise – Projet d’assistance technique en appui aux pays les plus touchés par l’épidémie d’Ebola	1,500,000
Liberia	Réaction à la crise – Projet d’assistance technique en appui aux pays les plus touchés par l’épidémie d’Ebola	1,500,000
MRU	Réaction à la crise – Projet d’assistance technique en appui aux pays les plus touchés par l’épidémie d’Ebola	300,000
ECOWAS	Réaction à la crise – Projet d’assistance technique en appui aux pays les plus touchés par l’épidémie d’Ebola	200,000
African Union	Réaction à la crise – Projet d’assistance technique en appui à l’Union Africaine aux pays MO	1,587,510
African Union	Support to the Office of the Commissioner for Peace and Security on Post Conflict Reconstruction	102,843
DRC	Appui au Ministère du Plan et Révolution de la Modernité pour l’Elaboration de l’Enquête de Type « Questionnaire unifié à indicateurs de base du bien-être (QUIBB) »	1,255,520
Burundi	Assistance Technique pour l’Elaboration du plan directeur de production, de transport et de distribution de l’Energie Electrique	414,000
Somalia	Grant to Finance Technical Assistance For the Somalia Aid Coordination Project	90,577
Somalia	Grant to Finance Technical Assistance to support Infrastructure Development in Somalia	250,000
Somalia	Institutional Support For Financial Governance Program	1,225,275
Guinea Bissau	Projet de Renforcement des Capacités des Institutions de L’Administration (PECA)	655,563
IOC	Projet Multisectoriel de Renforcement des Capacités dans le Domaine du Genre	162,076
TOTAL		11,743,364

Annex IV (C): List of Regional Operations and Regional Public Goods in which Pillar I participated as at September 2015

Name of Regional Operation	Financing Form	Country	Regional Public Good	Total Cost Approved	Country Share from PBA	Country Share from TSF Pillar I	Regional Envelope Share	RPG Classified	Resources Committed from RO Envelope*
Strengthening West Africa's Public Health Systems Response to the Ebola Crisis (SWAPHS)	Grant		Yes	37.40	-	12.40	-	25.00	29.41
Ebola Sector Budget Support - Fight back program	Grant	Côte d'Ivoire			2.00		4.00		4.71
	Loan	Guinea			2.40	2.60	10.00		10.00
	Grant	Guinea			2.00		4.00		4.71
	Loan	Liberia			8.20	5.20	26.80		26.80
	Loan	Sierra Leone			3.40	4.80	16.40		16.40
	Grant	Sierra Leone				2.80	5.60		6.59
Drought Resilience and Sustainable Livelihoods Programme 2 (DRSLP 2)	Loan	Eritrea			0.75		5.00	-	5.00
	Grant	Eritrea			0.75		5.00		5.88
	Loan	Ethiopia			11.39		17.09	-	17.09
	Grant	Somalia				5.00	10.00		11.76
	Grant	Sudan				10.00	10.00		11.76
Kariba Dam Reconstruction	Loan	Zambia			10.34		14.86	-	14.86
	Grant	Zimbabwe				7.75	15.51	-	18.25
Programme d'aménagement des routes et de Facilitation des Transports au sein de l'Union du Fleuve Mano	Loan	Côte d'Ivoire				22.82	32.76		32.76
	Loan	Guinea			3.98	8.86	10.17		10.17
	Loan	Liberia				25.63	26.07		26.07

* including surcharge on grants

Annex V: Progress towards Arrears Clearance – Somalia, Sudan and Zimbabwe

The external debt situation of Somalia, Sudan and Zimbabwe is highly unsustainable. Their combined arrears (ADB, ADF and NTF) are projected to stand at UA 747.19 million as at 31 December 2016, i.e. UA 70.22 million for Somalia, UA 225.25 million for Sudan and UA 451.71 million for Zimbabwe.

Somalia: As one of the Strategic Pillars under the Somalia Enhanced Programme, the Bank has provided support for the process of Somalia's arrears clearance and IFI reengagement which is crucial for restoring the country's access to regular IFI financing and debt relief under HIPC and MDRI. In the reengagement process, Somalia must fulfil several requirements. Among them is the establishment of an external debt database that is reconciled with creditor claims and adequate debt management capacity. The country must also have a satisfactory track record under an IMF-staff monitored program during at least one year, and have adopted an Interim PRSP, before arrears clearance and restoring normal financial relations with IFIs.

The Bank has provided technical support to the Ministry of Finance for constructing an external debt database and management system and establishing the Debt Management Unit. The Government has reported on progress to the Somalia Debt Technical Working Group in the margin of the Spring Meetings in Washington DC in April 2015. Progress in reconstructing Somalia's debt data has depended on creditors making loan data available. As of today, most multilateral and Paris Club creditors have made the needed information available while only a few non Paris Club bilaterals have done so.

The Bank has continued its support for the Ministry of Finance in various aspects of Somalia's reengagement strategy, including outreach to creditors/external partners and preparation for an IMF- Staff Monitored Programme (SMP). The latter is expected to start in the third quarter of 2015 following an Article IV consultation mission by June. The Government intends to complete the debt database and have the DMU operational around end-2015. Following establishment of a track record under the SMP of at least one year, **arrears clearance with IFIs could possibly take place by late 2016 at the earliest.**

Sudan: Resolving Sudan's unsustainable external debt is of paramount importance for the successful adjustment to the impact of South Sudan's secession, implementation of the government's poverty reduction policies and programs and for supporting inclusive growth. Debt relief is important to support economic transformation, ease financing constraints and put the economy on a sustainable growth path through investment and expanded export opportunities.

Sudan has met most of the technical requirements for arrears clearance and debt relief under the HIPC Initiative. This includes achieving 95% of debt reconciliation, the completion of the I-PRSP in early 2013 and the issuance of the Joint Staff Advisory Note endorsing it and its implementation for one year; updating of the Arrears Clearance and Debt Relief Strategy (ACDRS), implementation of 14 Staff Monitored Programmes (SMPs), and implementation of a PFM project to improve financial and economic governance. A full PRSP is being prepared with financing from the Bank and will be completed in the second half of 2015.

The Authorities are in discussion with the IMF for a possible successor SMP which, if concluded, will continue to provide a credible framework for sustaining a track record of reforms, and appropriate macroeconomic policies toward debt relief. The objective is to adopt

a parallel and accelerated approach in the overall HIPC process. The Bank is currently providing technical assistance through the Policy Dialogue for Arrears Clearance Project to help the Authorities develop a strategy for comprehensive arrears clearance, which could also serve as a framework for dialogue and donor outreach on debt relief issues, in close coordination with the work of the IMF/World Bank-led Technical Working Group on Sudan Debt issues (TWG).

A Tripartite Committee (TC) on Debt was constituted comprising the Government of Sudan (GoS), Government of South Sudan (GoSS) and the African Union High Level Implementation Panel (AUHIP) under the chairmanship of the former President of South Africa, Thabo Mbeki. The TC has defined a road map for reaching out to the creditors. The road map sets out the four issues outlined in the Joint Approach (JA)²⁸. The TC will also scout for a “debt champion²⁹” whose task is to promote Sudan’s case for debt relief. It is worth noting that the work of the TC has been stalled as a result of the civil war in South Sudan.

In this regard, it is gratifying to note that deadline for the ‘Zero Option’ has been extended from 17 September 2014 to 17 September 2016 to avoid immediate apportionment of debt between the two countries. Under the ‘Zero Option’, the North would assume all debts subject to (i) firm commitment by the international community to provide comprehensive debt relief within a two year period, when Sudan aims to reach the Decision Point; and (ii) a joint creditor outreach strategy.

Despite the progress in meeting the technical requirements for debt relief, there is a general perception in government circles that the international community is not willing to commit to a set of conditions necessary for such relief. In order to allay this perception, there is need for the creditors to clarify minimum requirements for debt relief. This would avoid the perception of “shifting goal posts”. If the government decides to withdraw from the debt relief process due to this perception, it could have far-reaching consequences. These may include debt apportionment; loss of incentives for formulating and implementing sustainable economic policies; pressure to increase public spending for social service delivery; monetisation of the budget due to limited financing options; and higher inflation and depreciation of the currency.

So far, the authorities’ meetings with representatives of creditor countries both in Khartoum and in Washington in 2014 were very reassuring and signalled the willingness of creditor countries to provide debt relief. However, indications are that debt relief will now depend to a large extent on the outcome of the national dialogue process initiated by President Al-Bashir, as well as the resolution of internal conflicts in Darfur, Blue Nile and South Kordofan. The most important lesson learnt in Sudan-South Sudan relations since the signing of the Comprehensive Peace Agreement in 2005 and in particular after the conflict in South Sudan commenced is that the two countries are interdependent economically, politically and in regard to security.

Zimbabwe: The country’s debt overhang continues to be a major impediment to its re-engagement and economic recovery. Despite Zimbabwe’s arrears situation, the Bank Group

²⁸ The four key elements of the JA include the following: i) financial contributions from the international community to fill one-third of the financing gap of Sudan, resulting from the loss of oil revenues following South Sudan’s secession; ii) funding to support South Sudan to address its urgent and immediate developmental challenges; iii) direct debt relief from Sudan’s creditors; and iv) assistance in the lifting of all economic sanctions imposed on Sudan. Elements (i) and (ii) above are referred to Transitional Financial Arrangements (TFA).

²⁹ Indications are that the UK or Kuwait may serve such a role given the former’s colonial ties with the country and the latter’s keen interest in Sudan’s bid for debt relief.

remains engaged in the country and has a track record of 1) taking a leadership role in arrears clearance and the overall re-engagement process; 2) supporting economic and financial governance; 3) undertaking operations for infrastructure rehabilitation and development; and 4) promoting private sector development. The Bank agreed to host the ZIMFUND, so as to channel financial assistance infrastructure investments in water and sanitation, and energy.

The Government of Zimbabwe has been making efforts to advance the arrears clearance and debt resolution agenda. Today, almost 100% of external loans database reconciliation and validation has been achieved. The Government is now capable of undertaking Annual Debt Sustainability Analysis (DSA) and independent heavily indebted poor countries (HIPC) Initiative Eligibility Assessment Exercise comparable in rigour and depth to the one carried out by the International Monetary Fund. In 2014, Government adopted a debt resolution strategy and also drafted the Public Debt Management Bill that was signed into law in 2015. This law establishes the legal and institutional framework for public debt management in Zimbabwe.

Following the successful conclusion of the first Staff Monitored Program (SMP-I) in June 2014, Zimbabwe is implementing the successor, SMP-II, covering the period October 2014 to December 2015. The main objective of the new program is to strengthen the country's external position, as a prerequisite for arrears clearance, resumption of debt service, and restored access to external financing. In the first review of SMP-II in March 2015, all the targets and benchmarks were met. The successful implementation of SMP-II would be an important step towards Zimbabwe's normalising relations with the international financial community.

The Government also increased its payments to the African Development Bank (from USD 500,000 to USD 2.2 million per quarter) and to the World Bank as well, in line with the *pari passu* requirement and has started making token payments to the EIB. More recently in May 2015, the Government launched a High Level Committee for Debt Resolution. This Committee is constituted of the following members: The Governor of the Reserve Bank of Zimbabwe who is also the Chair, AfDB Resident Representative, IMF Resident Representative, the World Bank Country Manager, and PS Finance. The mandate of the Committee is to develop practical options for arrears clearance and debt resolution, which will be presented to international financial institutions, the Paris Club and other creditors. This follows consultations with the three institutions (AfDB, IMF and WB) during the WB/IMF Spring meetings held in Washington in April, 2015.

The Debt Sustainability Analysis (DSA) undertaken by the Fund and the World Bank in 2014 concluded that Zimbabwe meets the indebtedness criteria for eligibility under HIPC using 2004 and 2010 data. However, Zimbabwe does not qualify for HIPC based on 2013 data. Against this background and capitalising on the Bank Group's role as a trusted advisor and honest broker, the Government requested AfDB to champion alternative Debt Policy Options outside the HIPC process. Today, there is optimism, among IFIs, that a strong case can be made for other forms of debt relief outside the HIPC process. These might include traditional approaches for bilateral debt relief and multilateral arrears clearance such as the Paris Club, given the prevailing high indebtedness and progress with reforms, including through the SMP.

For the AfDB, Zimbabwe has to meet two criteria to be eligible for arrears clearance under the TSF Pillar II. The first criterion is to demonstrate respect for the Bank's preferred creditor status by servicing new maturities on all outstanding Bank Group loans or at least to the same relative level of debt service paid to other IFIs. The second is that Zimbabwe must be eligible (qualification is not a requirement) for debt relief support from HIPC, but not yet reached the decision point under the initiative; or be approved for exceptional support by the Boards of

Directors under an internationally coordinated arrears clearance and debt relief programme. With the results of the DSA mentioned above, a case can be made that Zimbabwe meets the eligibility criteria for the Bank's arrears clearance support. However, given the need to ensure comprehensive debt relief under an internationally coordinated effort, any arrears clearance operation by the Bank has to be closely linked to similar efforts by other creditors, especially the IMF and World Bank.

Annex VI: Bank's progress against the action plan of the Strategy for Addressing Fragility and Building Resilience

	Key Performance Indicators For The Strategy	Progress To Date	Challenges	Next Steps
1.	<p>Mainstream fragility-lens in country and regional programming documents: <i>All upcoming strategies will be guided by a fragility-lens analysis.</i></p> <p><i>The CSP format will accommodate the new approach to fragility.</i></p>	<p>15 (MTR) CSPs and 4 (MTR) RISPs integrate a fragility perspective</p> <p>The new CSP format is currently being piloted and has not yet been finalised</p>	<p>Application of fragility-lens in middle-income countries</p> <p>Capacity and resource constraints to carry out fragility assessments (FA)</p> <p>Ensure that the findings of the FA are informing the rationale and choice for the Bank's CSP Pillars and are not considered yet another annex</p> <p>Division of labour and collaboration with regional departments in line with the provisions of the operational guidelines</p>	<p>Continue sensitisation of regional departments on the strategy and operational guidelines</p> <p>Pilot different models for FA (partnerships, professional service providers, consultancies, etc.)</p> <p>Strengthen Bank capacity to analyse issues of fragility</p>
2.	<p>Mainstream fragility-lens in Bank operations: <i>As programming documents consider issues of fragility, all operations will integrate a fragility perspective.</i></p> <p><i>Introduce dual objectives and indicators on a pilot basis in project cycle and monitoring framework</i></p>	<p>Initial trials for 22 operations have started in 2014</p> <p>These first experiences have informed the preparation of the operational guidelines</p>	<p>Capacity and resource constraints to fill the analytical gap between country-level fragility assessments and sector-specific operations</p> <p>Application of fragility-lens in private sector operations</p> <p>Systematic integration of dual objectives and indicators</p>	<p>Continue sensitisation of sectoral departments on the strategy and operational guidelines</p> <p>Evaluate the pilot phase for introducing the fragility-lens in project designs at the end of 2015</p> <p>Strengthen Bank capacity to analyse issues of political economy</p>
3.	<p>Adapt Bank policies, strategies and operational or financial guidelines to fragile situations: <i>All new policies, strategies and guidelines will consider the specificities of fragile situations.</i></p>	<p>New Regional Integration Policy and Strategy (11/2014)</p>	<p>Task teams responsible for preparing policies and strategies do not systematically include ORTS</p>	<p>Strengthen internal coordination with the Strategy and Operational Policies Department (COSP)</p>
4.	<p>Adapt Bank processes and procedures to enhance responsiveness and flexibility in fragile situations</p>	<p>The new procurement policy has not yet been finalised.</p>	<p>Capacity constraints and lack of incentives to apply flexible procedures.</p>	<p>ORPF and ORTS to sensitise, encourage and support sector departments in the use of existing, flexible processes and procedures</p>

5.	<p>Introduce systematic review mechanism and accountability to strengthen readiness review, quality assurance and compliance in mainstreaming fragility-lens</p> <p>Adapt Results Measurement Framework (RMF) (as reflected in present Strategy) and reporting for fragile situations (e.g. Development Effectiveness Review)</p>	<p>The pilot phase for the application of the fragility-lens in operations is being coordinated with ORQR.</p>	<p>The provisions of the operational guidelines in terms of ORTS being a mandatory peer reviewer and assuming a clearance function are not yet implemented</p>	<p>Sensitisation of sector departments on operational guidelines to ensure division of labour in line with operational guidelines</p>
6.	<p>Ensure effective management of the Transition Support Facility and efficient utilisation of resources: <i>All Pillar I & III resources will be committed by the end of ADF-13. Pillar II will be committed as eligible countries qualify for assistance, and the utilisation of Pillar II resources will be reviewed at ADF-13 MTR.</i></p>	<p>51% of Pillar I resources are committed.</p> <p>It can be reasonably assumed that Zimbabwe will access Pillar II resources before the end of ADF-13.</p> <p>New Pillar III model became effective in 2015 with a current commitment rate of 24% (UA 11.74 mil out of UA 64.5m minus UA 16m allocated to ALSF)</p>	<p>The resource mobilisation capacity of the Facility has not yet been exploited</p> <p>While Pillar I is regularly used to participate in regional operations, this has not happened for private sector operations</p>	<p>Increase resource mobilisation efforts in coordination with FRMB</p> <p>Analyse the Bank's experience with Public-Private Partnerships in fragile situations</p> <p>Evaluation of Pillar III pilot phase at the end of 2015</p>
7.	<p>Build Bank staff capacity and skills mix</p> <p><i>All Bank departments engaged in fragile situations will be trained on the application of the fragility-lens</i></p>	<p>2 staff training events organised (each hosting 40-45 people) with external partners</p> <p>A multi-year rolling capacity building program has been developed with the Human Resources Department</p>	<p>Resource and capacity constraints</p>	<p>In view of ORTS' increasing internal capacity, it will start delivering trainings itself for other Bank departments</p>
8.	<p>Monitor and improve workforce productivity, with particular attention to incentives, accountability and delegation of authority in fragile situations, in line with ADF-13 commitment for institutional effectiveness</p>	<p>Provide additional advisory and human resource support for operational effectiveness (e.g. Sudan/South Sudan, Somalia, CAR and Ebola-affected countries)</p>	<p>See ADF-13 MTR paper on institutional effectiveness and efficiency</p>	