

Leaving no one behind:

The role of ADF-14 in supporting fragile situations

Discussion paper

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Executive Summary

The principle of ‘leaving no one behind’ forms the core of the Sustainable Development Goals and AfDB’s Ten Year Strategy. Africa has made significant progress towards achieving the Millennium Development Goals over the past 15 years despite a challenging starting point. However, this progress has been uneven. Some countries, or regions within countries, are lagging behind and others face a real risk of reversals in their development gains.

The risk of reversal and underperformance is being driven by fragility. The number of fragile situations has been steadily increasing over recent years and increasingly developing a regional dimension. The impact of fragility includes lives lost through conflict, foregone income for parents and youth, increasing intra-societal divisions, degrading infrastructure and natural resources, etc. On current trends, poverty is becoming increasingly and disproportionately entrenched in fragile situations.

Building resilience means reducing the severity and/or probability of fragile situations. It is not possible to avoid existing risks. They need to be identified and mitigated. The nature of the risk varies from political instability, institutional weakness, poor governance and security concerns, to structural challenges of undiversified economies, urbanisation and climate change. Under ADF-13, the Bank has started to invest more in assessing and managing these risks through the application of a fragility-lens.

The Bank strengthens institutions and promotes inclusiveness in five key areas to build a dynamic and resilient Africa. The ‘High 5s’ address the underlying social and economic inequalities that stymie the dreams of Africa’s youth to build their own future. The focus on inclusive growth and creating jobs has never been more urgent. This should ensure that the Bank is reducing the motivation for illegal migration and criminal activities – a particular concern in Africa’s low-income countries – and contribute to the emergence of stable and resilient states.

The ADF/TSF plays a vital role for low-income countries in fragile situations. The financing gap to achieve the SDGs is particularly critical in fragile situations, perpetuating the paradox of ‘fragile aid orphans’ – those countries that have the greatest needs and demands yet receive the lowest attention. The Transition Support Facility (TSF) has enabled the Bank to invest more than UA 1.2 billion of additional resources into countries in fragile situations since 2008. The Facility has cleared the arrears of Côte d’Ivoire and Liberia and built critical institutional capacity. The high demand for the regional operations envelope in fragile situations reflects the needs and willingness of countries to build resilient economic communities.

Innovative ADF instruments allow the Bank to support private sector growth in fragile situations. While the role of the private sector has received increasing attention over recent years, the Bank’s ability to engage was limited. Under ADF-13, the Private Sector Credit Enhancement Facility (PSF) has demonstrated its ability to become the Bank’s primary vehicle to increase private investment in fragile situations. The investments in fragile situations provide a strong signal to other companies to invest and are expected to lead to further investment.

As of 31 March 2016, 42% of all ADF resources were channelled into fragile situations. This reflects the increasing number of fragile situations on the continent and the focus of the ADF to support these countries. With an approval rate of 73%, the Bank is on track to commit TSF Pillar I resources, with the exception of South Sudan that is lagging behind due to the protracted political situation. The changes in the TSF architecture introduced under ADF-13 have had a significant impact on the beneficiary states, economies and people.

The AfDB needs to overcome critical challenges to scale up its impact in fragile situations. When the AfDB was set up, there were clear and sequential distinctions between the work of security, humanitarian and development actors. Today it is recognised that these actors need to work in partnership with each other to have impact. The greatest challenge for the Bank is therefore to adapt its business model in this way in order to work more effectively in insecure environments.

Slow moving and cumbersome processes are not an option in fragile situations. Time is more costly in fragile situations than in normal instances. The Bank needs to have the ability to provide flexible and fast assistance in these volatile environments. This could be to prevent deterioration in the wake of an external shock, such as drought or financial crisis. Or it could beat a critical juncture for the state-society relationship with the agreement of a political settlement. These require a flexible resource allocation mechanism and nimble institutional processes.

A new organisational structure will strengthen the Bank's effectiveness. The Bank's new development and business delivery model will build on recent progress made in its engagement in fragile situations. More emphasis will be placed on a decentralised approach and a more flexible procurement framework to strengthen portfolio performance. Stronger partnerships with the AU, Regional Economic Communities, the UN system, bilateral and multilateral partners, and non-state actors will provide the foundation for a more effective delivery model in insecure environments.

Increasing the effectiveness and responsiveness of the TSF under ADF-14. Based on its experience under ADF-13, the Bank makes the following proposals for the consideration of the Deputies: (i) increase the level of unallocated reserve under Pillar I from 10% to 15%; (ii) allow South Sudan's Pillar I allocation to be rolled over/ topped up into ADF-14, in case they are unable to commit all resources; (iii) extend the use of Pillar III to support private sector growth through targeted investment facilitation; (iv) continue support to the African Legal Support Facility (ALSF); and (v) consider establishing a new TSF pillar IV to support private sector investment through a blending approach.

Millions of people in fragile situations are looking for actions that demonstrate that they are not being left behind. The ADF-14 replenishment comes at a crucial moment for African countries in fragile situations. About 300 million people live in fragile situations and are waiting for actions from their Governments and the international community that demonstrate that their countries can achieve the objectives set out in the 2030 agenda. ADF-14 will send an important signal to Africans that they and their children can have a future in their own countries and don't need to risk their lives in perilous journeys to find a better life abroad.

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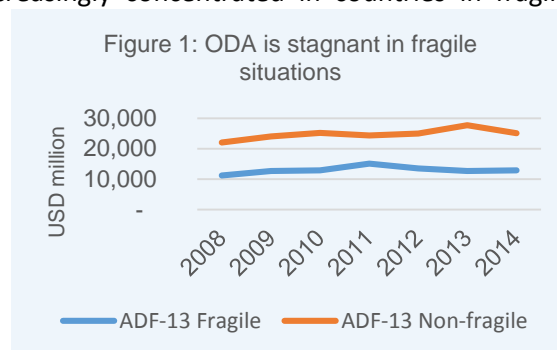
ADF	African Development Fund
AfDB	African Development Bank Group
ALSF	African Legal Support Facility
AU	African Union
CAR	Central African Republic
CPIA	Country Policy and Institutional Assessment
CRFA	Country Resilience and Fragility Assessment
FDI	Foreign Direct Investment
ODA	Official Development Assistance
PSF	Private Sector Credit Enhancement Facility
REC	Regional Economic Communities
RMC	Regional Member Country
SDG	Sustainable Development Goals
TSF	Transition Support Facility
UA	Unit of Account
UN	United Nations

1. Introduction

- 1.1 This paper responds to the request of ADF Deputies to elaborate on how ADF-14 will address the spectrum of different types and extent of fragility. Drawing on the experience of ADF-13, the Bank was requested to make proposals on the architecture of the fragility agenda (including the Transition Support Facility - TSF) in ADF-14.
- 1.2 In response to this request, the document is structured as follows: Section 2 assesses the current state of fragility in Africa and how the international context has changed since 2014. Section 3 focuses on the Bank's engagement in these environments during this period and tries to answer three questions: (i) What has changed? (ii) What was done and what has worked? (iii) What was not done and what has not worked? Section 4 outlines how the new organisational structure will strengthen the Bank's engagement in fragile situations. Section 5 seeks guidance from ADF Deputies on Management's proposals on the utilisation of the TSF under ADF-14.

2. The current state of fragility in Africa

- 2.1. **In many regards, the Africa of today is more resilient than the Africa at the beginning of the millennium.** Many countries have experienced strong economic growth and made important social progress, but not all countries or people have benefited equally. Many countries have implemented important economic reforms and attract more investments today thanks to an improved business climate and greater political stability, but not all have managed to do so. As the international community is striving to achieve a world free of poverty by 2030, progress needs to be accelerated in those countries that are currently lagging behind.
- 2.2. **Countries in fragile situations require more attention and resources to achieve the SDGs.** Based on current trends, poverty will be increasingly concentrated in countries in fragile situations. Accelerating progress in these environments requires a context-specific approach, such as the New Deal for Engagement in Fragile States. In addition, they require higher levels of development assistance to break out of the fragility trap, yet many of these countries continue to be 'aid orphans.'¹ As can be seen in figure 1, their levels of ODA remain stagnant despite their higher needs. ODA alone though, will not fill the gap. More efforts are needed to mobilise domestic resources and to attract private finance.
- 2.3. **A fragile situation develops when a country does not have the capacity to manage risks.** Development is not a linear process and all countries experience fragile situations at certain times.. In as much as every country is different from another, so every fragile situation is different in nature and duration. The spectrum of fragile situations ranges from negligible political, economic and/or social tensions to a humanitarian catastrophe.
- 2.4. **Africa is currently facing a combination of interrelated global and regional risks.** Since 2014, global and regional headwinds are taking their toll on African states, economies and societies. The commodity super cycle has come to an end, global trade slowed down, violent extremism and terrorism began to spread transnational crime contributing to destabilising regions and a growing number of displaced people seeking refuge in other countries. At the same time,

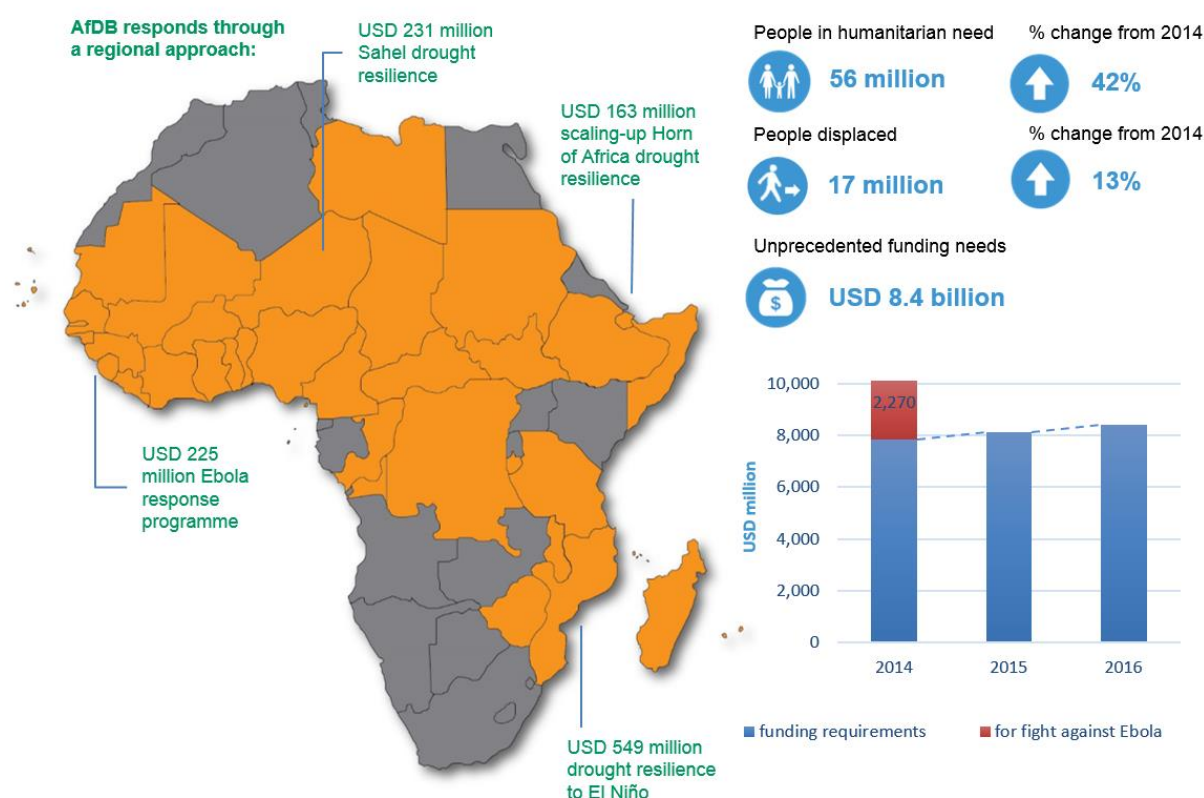


¹ OECD (2015): States of Fragility Report

countries are trying to cope with longer-term pressures, including urbanisation, a growing population, climate change and health challenges that can amplify and exacerbate the risks that states, economies and societies already face.

- 2.5. **The number of fragile situations have increased over the past years, mostly at sub-national level.** Humanitarian catastrophes are the most extreme expression of a fragile situation and can therefore serve as a proxy for measuring the evolution of fragile situations. Over the past two years, the humanitarian needs in Africa, and the world, have reached unprecedented levels as a consequence of conflict and natural disasters (see figure 2). Today, more than 56 million people require humanitarian assistance and more than 17 million are displaced across Africa.² Women and youth are suffering disproportionately in these situations. The first World Humanitarian Summit that took place on 23-24 May 2016 called for sustainable solutions to reduce the future need – and cost – for humanitarian assistance across the world; in other words, reducing the number of fragile situations.
- 2.6. **Preventing such humanitarian catastrophes requires, *inter alia*, scaled up and concerted efforts by development partners to build resilience at community, country and regional level.** The Bank's approach to building drought resilience in the Sahel, the Horn of Africa and most recently in Eastern and Southern Africa in response to El Niño shows what this engagement can look like. It involved working at the local level, with a regional perspective, targeting vulnerable groups, and building institutional capacity. Empowering women needs to be part of any engagement in these environments, such as the Post-Ebola Recovery Social Investment Fund that was funded under ADF-13 and has a special emphasis on women.³

Figure 2: Since 2014, the majority of African countries witnessed humanitarian needs caused by internal or external factors



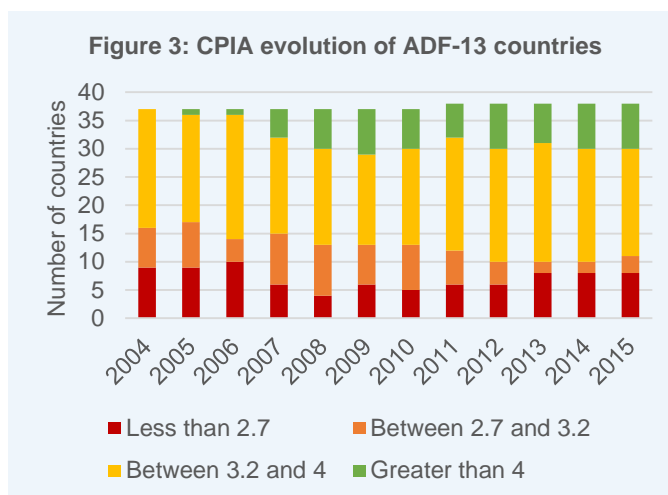
Authors' calculation and illustration based on data from UNOCHA. Highlighted countries required funds to address humanitarian needs in one or more instances since 2014. This includes the costs of coping with spill-over effects, such as refugees.

² UNOCHA (2016): Global Humanitarian Overview 2015, 2016

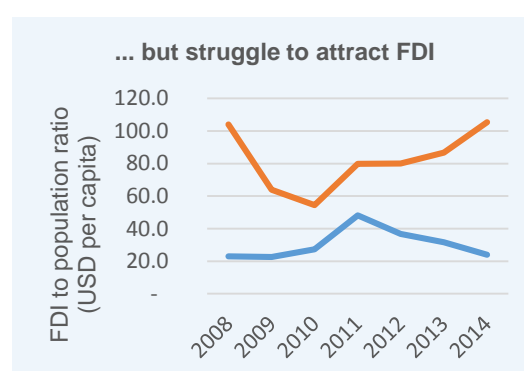
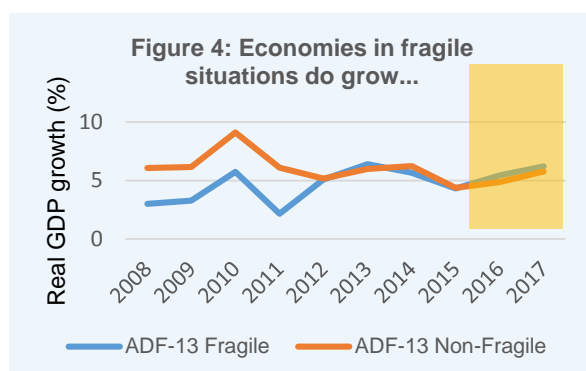
³ ADF/BD/WP/2015/114/TD entitled 'Post-Ebola Recovery Social Investment Fund (PERSIF)'

2.7. **Building the capacity of African states is a long and non-linear process.**

Using the Country Policy and Institutional Assessment Index (CPIA)⁴ as a measure to gauge resilience of states, longer term trends (in figure 3) indicate that an increasing number of countries have managed to improve their average CPIA rating. But it also shows the challenge of making progress in those countries that have started from a very low base, with fragile situations. The figure also shows that building resilience is a long-term process that goes beyond a typical project cycle and requires a longer-term approach.



- 2.8. The **economy in fragile situations can be remarkably dynamic and resilient.** An analysis of real GDP growth shows that countries in fragile situations still enjoy a resilient growth trajectory. Despite the challenging context, their growth patterns (and projections) have been mirroring those of more stable countries, showing the resilience of societies in these contexts (see figure 4 below). However, these countries do struggle to attract foreign investment. An increasing focus on the role of the private sector in these countries is therefore necessary to unlock growth potential.



- 2.9. **The High 5s are geared towards building a resilient Africa that reverses the trend of increasing humanitarian needs.** Aware of the specificity of fragile situations, the Bank engages in regional and long-term intervention in five critical areas with a cross-cutting focus on promoting inclusiveness and building institutions. In line with its mandate, the Bank focuses on the economic, social and environmental dimensions, while recognising and supporting its engagement with the political and security dimensions with the principles of the New Deal for Engagement in Fragile States (see figure 5).

⁴ The cut-off point of 3.2 of the CPIA has traditionally been used by MDBs as a criterion to classify a “fragile state”.

Figure 5: Fragility, Resilience and the High 5s



3. Bank support in fragile situations under ADF-13

What has changed?

- 3.1. **ADF-Deputies considered a deeper engagement in fragile states to be a key priority during ADF-13.** The renewed emphasis on fragility translated into significant changes at the institutional, operational and resource allocation level : (i) a new Strategy for Addressing Fragility and Building Resilience in Africa, 2014 – 2019, as well as accompanying operational guidelines were approved; (ii) the amount of resources allocated to fragile situations increased; (iii) and the TSF became more flexible and responsive in its resource allocation mechanism and was enabled to leverage resources from other Bank windows; and (iv) the Fragile States Unit was upgraded into a fully-fledged Transition Support Department.

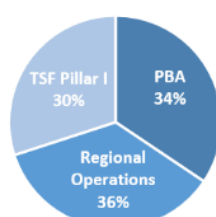
What was done and what has worked?

- 3.2. **ADF-13: As of 31 March 2016, 43% of all ADF resources were channelled into fragile situations, compared to 17% under ADF-12.** Currently, the TSF Pillar I and the Regional Operations envelope together constitute two thirds of ADF resources flowing into fragile situations, reflecting the increasing number of fragile situations over the past years and the increased attention that the ADF/TSF has given to these countries

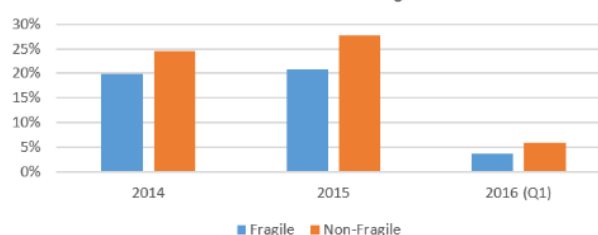
Figure 6: Bank overview in fragile situations



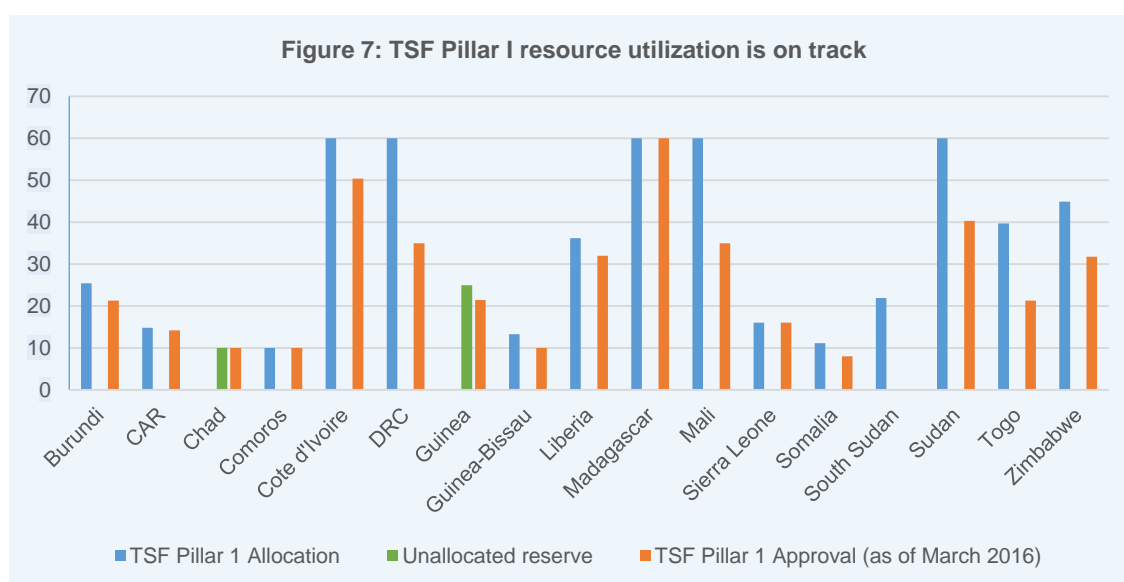
Balanced resource mix in fragile situations (approvals as of March 2016)



Disbursement ratio is lower in fragile situations



- 3.3. The Bank has a country presence – or a proxy presence – in all countries that receive additional resources under TSF Pillar I, but had to reduce its presence in Central African Republic (CAR) and South Sudan following the escalation of crisis. Despite these events, Bank data shows that the disbursement ratio of operations in fragile situations is only slightly lower than in non-fragile situations (see figure 6).
- 3.4. **The latest changes in the TSF introduced under ADF-13 have had a significant impact on the beneficiary states, economies and people**, as (i) a *qualitative* assessment measure allowed Guinea to become eligible for resources to fight Ebola and Chad while coping with the compounded consequences of Boko Haram and a drop in oil prices; (ii) an *unallocated* reserve under Pillar I provided additional resources to countries to combat the effects of drought, disease and insecurity; and (iii) the *leveraging* effect of Pillar I mobilised additional resources and strengthened the regional response to crisis situations.
- 3.5. **TSF Pillar I:** Countries in fragile situations rely heavily on donor resources for investing in infrastructure and building the capacity of their institutions. The Bank's targeted responses are reversing decades in infrastructure decay. During ADF-13, five countries were allocated the maximum country amount of UA 60 million. With an approval rate of 73%, the Bank is on track to commit the resources, although South Sudan is lagging behind in view of the protracted political crisis (see figure 7). About 63% of the unallocated reserve has been utilised and the remainder is being processed for operations in Chad, Eritrea, Somalia.



- 3.6. **TSF Pillar II:** Countries under arrears are in a fragility trap. Without resources they cannot break out of this trap, but because of their arrears they cannot access international capital markets and have only a limited access to donor funds. TSF Pillar II and previously the Post-Conflict Country Facility have been critical in resolving these situations over the years (see table 1). Currently, of the three countries eligible to Pillar II resources, Somalia has been under sanctions for the longest period (since 1990), followed by Sudan (1996) and Zimbabwe (2002). These countries have suffered a twofold setback of reduced access to much needed financial inflows and increasing levels of debt service, while their capacity to do so has significantly reduced. Under ADF-13, the Bank has supported these countries to build their debt management capacity, has assisted in debt reconciliation and coordinated arrears clearance options with the IMF and World Bank. While technical solutions are a necessary condition for

Table 1: AfDB arrears clearance operations

Year	Country
2009	Côte d'Ivoire
2008	Liberia
2008	Togo
2007	Comoros
2006	CAR
2004	Burundi
2004	Congo, Rep.
2002	DRC

arrears clearance, they are not sufficient. Political willingness is required, both at the level of the Governments of the concerned countries to carry out the necessary reforms and at the level of the creditors, making the progress difficult to forecast.⁵

- 3.7. **TSF Pillar III: The lower CPIA scores indicate more pronounced** institutional weaknesses in ADF-fragile situations. Under a revised model, Pillar III provides limited grant resources for capacity building and technical assistance support to ADF countries but only based on the impact potential, innovativeness, strategic positioning or potential for scaling up of the selected projects. 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 the first quarter of 2015 and the second CfP in the first quarter of 2016.

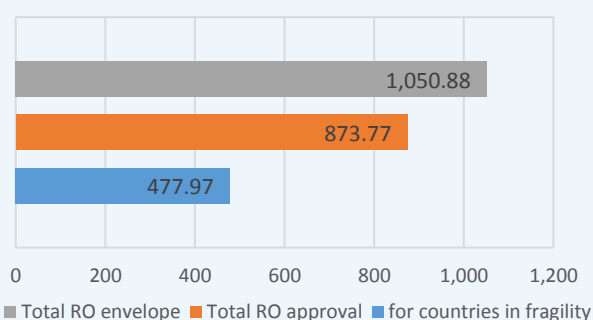
- 3.8. As of May 2016, 50% of Pillar III resources are approved and the full amount is expected to be committed by the end of 2016. Under this new approach UA 4.75 million is financing pilot youth entrepreneurship projects in Burundi, CAR, DRC, Liberia and Sierra Leone that can be scaled up under AfDB's Jobs for Youth in Africa Initiative. In addition, indirect support of UA 16 million from this window is supporting the African Legal Support Facility (ALSF) in its advisory work in strengthening RMCs' legal expertise and negotiating capacity, especially for investments in the natural resources sector and large infrastructure projects. The management of natural resources can be a driver of fragility or a source of resilience. Building on its experience, the Bank will continue to support these critical areas going forwards (see box 1).

Box 1: Enhancing revenue collection from minerals in Sierra Leone

Through Pillar III resources the Bank assisted Sierra Leone in enhancing institutional capacity with regard to minerals taxation and non-tax revenue harmonisation and collection and improving governance in the extractive industries. The main outcomes of the project were reduced smuggling of minerals to other Mano River Union countries, a Natural Resources Charter, improved governance and revenue mobilisation.

- 3.9. **Regional Operations:** In line with the importance of regional approaches and taking advantage of the potential to leverage regional operations through TSF Pillar I, the Bank approved 14 regional operations that include fragile situations to an amount of UA 478 million, i.e. 55% of all resources approved under the RO envelope (see figure 8). These include scaling up existing regional operations to build drought resilience in the Horn of Africa, developing the transport corridor from the coast of Côte d'Ivoire (San Pedro) to the landlocked capital of Mali, Bamako, and bringing green energy to Burundi, DRC and Rwanda (Ruzizi), and The Gambia, Guinea, Guinea-Bissau and Senegal (OMVG).

Figure 8: Fragile situations benefit from Regional Operations (as of March 2016)



⁵ Another technical roundtable on Zimbabwe's arrears clearance between the Government of Zimbabwe and the International Financial Institutions took place on 27 May 2016 in Lusaka, Zambia, to discuss the prospects of arrears clearance during 2016. Based on the progress made, the arrears clearance process for Somalia could be completed by 2017/18. For Sudan, the Bank continues to monitor the situation on progress towards the resolution of the political complications.

- 3.10. **Increasing the focus on the private sector.** In addition to its long-standing support to improving the regulatory framework that enables the private sector to operate and finance the necessary infrastructure (roads, power, education and water) the Bank has increased support to private sector growth, using various instruments. These include private equity investments (see box 2), and trade finance in Zimbabwe which will provide for imports of critical agricultural inputs such as agro chemicals, pesticides, farm machinery, etc. to revive the agricultural and manufacturing sectors. Over the past 2 ADF cycles, only 8 percent of private sector investment in ADF countries has gone directly to countries in fragile situations. While this is an improvement over the 6 percent registered over ADF 11, this shows that risk and minimum size issues still leave the private sector portfolio allocation under-represented in countries in fragile situations. Important challenges still need to be overcome to substantially scale up the Bank's private sector operations. Given their higher risk profile, investing in these countries reaches the limits of the Bank's risk appetite; smaller deal sizes increase transaction costs; and a lack of instruments for local currency lending expose operators to exchange rate risks and leave local financial markets shallow and underdeveloped. This highlights the importance of continued innovation and focus on this dimension under ADF-14.

Box 2: The role of Private Equity Investments

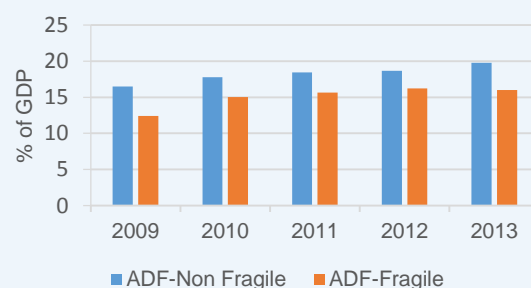
The AfDB recognises the pivotal role that private equity investment can play to catalyse private sector growth in fragile situations where traditional investors have little risk appetite.

Today, 16% of the Bank's equity investments through participation in financial institutions and Private Equity Funds are in fragile situations. During Cote d'Ivoire's crisis in 2011/12, the Bank's investments in six funds in the country supported the recovery of the economy and ensured continued provision of electricity (CIE) and water (SODECI) services to the population.

- 3.11. **The Private Sector Credit Enhancement Facility (PSF) has become operational.** The utilisation of the UA 165 million initial endowment is proceeding steadily. As at end 2015, approximately UA 160 million of exposures have been allocated to 15 transactions at diverse stages of implementation and of which more than 50% are in fragile situations. Examples of approved projects include an energy project in Sierra Leone that will increase the country's power generation by 50%. The construction and operation of a new trans-shipment container terminal in Togo is expected to create 670 new permanent jobs and has 2000 temporary jobs during the current construction phase.

- 3.12. **Supporting Governments to mobilise more resources domestically.** Countries with fragile situations have lower tax-to-GDP ratios (about 15% on average) compared to their non-fragile counterparts (see figure 9). This makes it difficult for them to allocate meaningful amounts to complement ODA flows for infrastructure development. Through modernising and enhancing management of tax systems, tax revenue mobilisation is slowly increasing. Under ADF-13, the Bank has channelled UA 113 million into governance-related interventions, including public financial management activities and the enhancement of business environments in 14 countries in fragile situations.

Figure 9: Domestic Revenue Mobilization



- 3.13. **Empowering women and promoting gender equality in fragile situations.** Under ADF-13, the Bank has stepped up its efforts to support the vital role played by women and women's organisations in building resilience. In line with the Gender and Fragility Strategies, the Bank increased the integration of a gender perspective in its engagement at all levels. The TSF funded

targeted operations to strengthen the roles of women as agents of change. In Sudan, it is working to improve the policy framework for women's economic empowerment and increasing the participation of women in economic activities.⁶ In the Mano River Union, it supports economic and livelihood development for women, girls, and orphans and vulnerable children.⁷

What was not done and what has not worked?

- 3.14. **Working in insecure environments continues to be one of the greatest challenges that the Bank Group faces.** Under ADF-13, the Bank's country presence in CAR and South Sudan had to be reduced for security reasons. In such moments, the challenges of 'staying engaged' become clear. The Bank responded by providing support through a combination of a scaled-down country presence and an increase in short-term missions. While donors tend to concentrate their resources in the humanitarian sector in these periods, it is becoming increasingly evident that there are limitations to the traditional distinction and division of labour between humanitarian, security and development work in fragile. This is of particular importance in protracted situations that can last for years, as it is the case for these two countries.
- 3.15. **Progress on resource mobilisation to boost resources for the TSF under ADF-13 has also been slow.** Progress on the establishment of the Somalia Multi-donor Trust Fund has only recently gained traction. It is now expected, given the pledge of USD 3 million from donors, that this process will be completed towards the end of 2016. The potential of the TSF to mobilise additional resources during replenishment cycles has yet to be fully exploited.
- 3.16. **The Bank has adopted a more fragility-informed engagement with its RMCs but the impact is still largely confined to the strategy level.** To some extent, this reflects the complexity of fully implementing the comprehensive changes in the framework of engagement that took place under ADF-13. Training of staff and the introduction of new processes continue and this is increasingly leading to more fragility-sensitive project designs. There is a need to maintain the momentum generated so far and to speed up implementation of the full suite of actions needed to result in greater impact in fragile situations. The Country Resilience and Fragility Assessment (CRFA) tool is currently being piloted and will inform the Bank's engagement going forward.

4. An enhanced Development and Business Delivery Model for fragile situations

- 4.1. **The Bank's new organisational structure builds on the progress made on the fragility agenda over the past years** and allows it to strengthen its operational effectiveness in fragile situations. The application of the fragility-lens in the Bank's strategic engagement will be coordinated centrally through the reconfigured 'Transition States Coordination Office', while the operational engagement will be strengthened through an enhanced presence in the country and regional offices.
- 4.2. **Strengthen delivery through a decentralised model.** The implementation of the Bank's decentralisation agenda will take into consideration the special requirements of fragile situations and ensure the deployment of staff with knowledge and experience in applying the fragility-lens. In this context, the Bank is also strengthening its systems to ensure greater personal security of staff in insecure environments.
- 4.3. **Improve portfolio performance.** Drawing on the flexibility of the 2015 Procurement Policy, the Bank will undertake a more active role in management and oversight of the procurement process in fragile situations, including technical assistance or the use of procurement agents until local capacity is able to handle such transactions. The upcoming fiduciary principles agreed between the Bank and the United Nations System will provide further flexibility. In addition,

⁶ ADF/BD/WP/2015/90 entitled 'Good Governance and Women Economic Empowerment Project'

⁷ ADF/BD/WP/2015/114/TD entitled 'Post-Ebola Recovery Social Investment Fund'

greater focus will be placed on monitoring and gender-disaggregated data collection in fragile situations.

- 4.4. **Partnerships for better results in insecure environments.** Given the comparative advantage of the UN system and non-state actors, notably private sector and civil society organisations, in maintaining a presence and operations in insecure environments, the Bank will strengthen these partnerships to deliver operations. It will deepen its collaboration with the African Union and Regional Economic Communities in order to develop and support regional solutions. The Bank will continue to share its experience and lessons learned with other development partners, through fora such as the OECD International Network on Conflict and Fragility (INCAF). It will also work together closely with the World Bank and bilateral partners, such as the Swiss Agency for Development and Cooperation (SDC), the Department for International Development (DFID), and the French Development Agency (AFD).

5. **Proposals for the Transition Support Facility under ADF-14**

- 5.1. **The TSF remains a critical source of resources for low-income countries in fragile situations.** Since 2008, it has provided more than UA 1.2 billion in supplementary resources, cleared the arrears of Côte d'Ivoire and Liberia, and targeted UA 145 million to institutional development. While the TSF resource allocation is discussed in the relevant ADF-14 paper, this section makes proposals for the utilisation of TSF resources under ADF-14.
- 5.2. **Pillar I: Increase the level of unallocated reserve from 10% to 15%:** Many African countries are vulnerable to fragile situations in the face of a shock. In the worst scenario this leads to a humanitarian emergency. The nature of the shock may differ. It can be the outbreak of a conflict, a drought, a disease, etc., but what they have in common is unpredictability. Acting fast to contain a fragile situation, often at sub-national level, reduces the human and economic cost for the affected people and economies. This is particularly important as the funding gap to cover the needs in such situations has continued to grow in recent years. An increased unallocated reserve would enhance the Bank's ability to act in these situations and provide timely support to countries during turnaround situations. It is proposed that the utilisation of this reserve will be reviewed during the ADF-14 MTR to decide on a possible re-allocation of these resources, e.g. to contribute to Pillar II in the case of additional financing needs for arrears clearance, to meet gaps in the Regional Operations envelope, or increase the capital available to the PSF.
- 5.3. **Pillar I: Allow South Sudan's country allocations to be rolled over/ topped up into ADF-14 in case the resources are not fully committed by the end of 2016.** As of today, South Sudan has not been able to commit its Pillar I allocation to the tune of UA 22 million because of the protracted fragile situation. The Bank recognises that transiting out of a fragile situation is not a linear process and resources are a necessary, yet not sufficient, requirement. Ensuring that a country does not lose the resources allocated under Pillar I because of its fragility means the country is not being punished for its fragility, and provides flexibility to support the country during critical turn-around moments. In line with this understanding, it is proposed to roll over the TSF Pillar I allocation of South Sudan into ADF-14, should the resources not be fully committed by the end of 2016.
- 5.4. **Pillar II: Prospects for clearing arrears of Somalia, Sudan and Zimbabwe.** The discussions held between the Government of Zimbabwe, the IMF, the World Bank and the Bank along the side-lines of AfDB's annual meeting in Lusaka, Zambia, in May 2016, indicate that the country could access these resources under ADF-13 outside the HIPC process. Based on the recent progress made by Somalia, it is reasonable to assume that the country could clear its arrears under ADF-14, whereas the prospects for Sudan will be reassessed during ADF-14 Mid-Term Review.

- 5.5. **Pillar III: Extend support to promote private sector growth through targeted investment facilitation.** Experience shows that in capital-scarce economies in fragile situations, FDI can have a transformational impact by signalling action by further investors. Investment promotion agencies in these countries tend to lack the capacity or simply do not have the experience of global markets if the country has been cut off the global economy due to economic crisis or conflict. Pillar III resources can help fill this intermediation gap, not only by strengthening the capacity of these agencies and supporting reforms to improve the business environment, but by leveraging the reputation of the AfDB to act as lead investment promoter in these countries. Such interventions would be complementary to the catalytic role of Bank finance in attracting investment in countries in fragile situations discussed in the ADF-14 paper on PSD. It is therefore proposed to use a part of the ADF-14 Pillar III allocation for this purpose.
- 5.6. **Pillar III: Continued support to the ALSF.** The existing collaboration between the TSF and the ALSF responds to a critical demand from Governments in fragile situations that seek legal advisory services and aim to strengthen their capacity in critical domains, such as the management of natural resource contracts. It is therefore proposed that continued support to the ALSF under ADF-14 be considered under TSF Pillar III based on the demand and the progress made by the ALSF in utilising the resources allocated under ADF-13.
- 5.7. **Pillar IV: Consider establishing a new pillar to support private sector through a blending approach.** As shown above, more innovation is needed to overcome the challenges to increase private sector financing in fragile situations. One of these innovations that is elaborated in more detail in the ADF-14 paper on PSD is to establish a dedicated Pillar IV within the current framework of the TSF. Building on the example of the creation of the TSF Pillar I that overcame the limitations of the PBA formula to increase public sector assistance to fragile situations, the proposed Pillar IV could become a game changer in increasing the Bank's private sector portfolio in these countries.

6. Recommendation

- 6.1. Deputies are invited to take note of this report and provide guidance on the proposals presented in Section 5 of this paper.