AFRICAN DEVELOPMENT FUND

Enhancing Engagement in Fragile States

(Background Paper #10)

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EXECUTIVE SUMMARY

1. To make progress in achieving the Millennium Development Goals (MDGs), the African Development Bank, and other partners, should be ready to engage more proactively in addressing the multiplicity of complex development challenges in fragile states and situations in the continent. As Africa itself takes steps in resolving conflicts, partners should be ready to complement these efforts, especially in countries emerging from conflicts. To do this effectively, the Bank must have appropriate operational instruments, processes and procedures. The Bank is therefore developing a focused and practical strategy aimed at enhancing its development assistance to its fragile regional member states.

2. The rationale for enhancing the Bank's engagement in fragile states stems from several concerns. First is the large population trapped in debilitating poverty and humanitarian suffering in fragile states. Second, the basic attributes of state fragility make it difficult for these countries to use aid effectively for poverty reduction. Third is the evidence of long-term economic and social spill-over effects, which adversely impact the neighbors and sub-regions of fragile states.

3. The primarily purpose of this Discussion Paper is to share with the ADF-Deputies the key elements of an envisaged Bank strategy in fragile states and also to solicit guidance that could further assist in strengthening the strategy, particularly with respect to the proposed priority areas of engagement, the three financing options considered and the adaptation of faster and more innovative business practices and procedures to the difficult, and often rapidly changing situations in fragile states.

4. The typology of fragile states set out in the paper mirrors that agreed by members of the Organization for Economic Co-operation and Development – Development Assistance Committee (OECD-DAC). It provides a broad analytical focus on the causes and nature of fragility and indicates possible approaches in response. The latter of course have to be set firmly with the specific country context. Further differentiation will be undertaken through the country's programming documents that will be prepared for each fragile state; the Bank will need to move beyond a "one-size-fit-all" approach. Also crucial is whether we should decide on a finite "list of fragile states" given that the issue of fragility is not a static concept.

5. The strategic approach outlined is focused and selective and is based on the current operational mandate and competences of the Bank. It identifies the following areas of engagement: i) building state capacity and accountability; ii) rehabilitation and reconstruction of basic infrastructure, defined to include roads, water and sanitation, energy and power; and iii) knowledge building and transfer. The Bank will also support economic and structural reforms and economic integration.

6. The strategy anticipates the need to scale up the Bank's operational activities in needy fragile states, particularly for the benefit of post-conflict countries where basic infrastructure is lacking or has degraded and there is very limited institutional capacity. Management has therefore reviewed the options of how best to address these needs, consistent also with the objectives of moving countries out of fragility, and maintaining the integrity of the Performance Based Resource Allocation (PBA) system. Emerging from the assessment is the view that a better protection of the Bank's PBA system could be achieved by transforming the Post-Conflict Country Facility (PCCF) into a separate Fragile State Facility (FSF). Additional resources would need to be complemented by innovative business practices and procedures consistent with emerging best practices of providing development assistance to fragile states.

1. INTRODUCTION

1.1 The Bank is developing a focused and practical operational approach to enhance its development assistance to fragile regional member states[1]. The strategy identifies and designs a tailor-made program of assistance for fragile states based on the operational mandate and competences of the Bank. A preliminary draft of the strategy was reviewed by an Informal Session of the Board of Directors in November 2006. The purpose of the Informal Session was to bring to the attention of the Board of Directors the key elements of the strategy, as well as initiate dialogue and solicit guidance on pertinent issues that arose in the course of preparing it.

1.2 The Bank is very well placed to make a significantly enhanced contribution to the prospects of these countries, given its unique position as a premier financing institution focused on African issues and clients and its potentially significant role as a forum to bridge regional and international perspectives and programs in Africa. The rationale for enhancing the Bank's engagement in fragile states stems from several concerns, including:

- The large population trapped in debilitating poverty situation and humanitarian suffering in fragile regional member states. By some definitions, half the countries of Africa are fragile states and nearly two-thirds of Africa's population lives in these countries;

- The well documented evidence of long-term economic and social spill-over effects, which adversely impact the neighbors and sub-regions[2]; and

- The basic attributes of state fragility, namely weak human and institutional capacities, poor governance structures; political instability and corruption – that make it difficult for these countries to use aid effectively for poverty reduction.

1.3 The primary purpose of this Discussion Paper is to share with the ADF-Deputies the key elements of the envisaged Bank strategy in fragile states and to solicit guidance and inputs that could further assist in developing the strategy. The key issues requiring guidance and suggestions on the way forward by the ADF-Deputies include:

- A typology to identify fragile states, which is the first step towards matching the Bank's strategy to specific country situations and context;

- Priority areas of Bank interventions, which are based on priority needs on the ground and current mandate and competences of the Bank;

- Financing options to enable the Bank to achieve its development objectives in fragile states; and

- Adaptation of the Bank's business practices and procedures to better serve fragile states in Africa.

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[1] State fragility in this paper is assessed as countries with a Country Policy and Institutional Assessment (CPIA)[1] of less than 3.0 (in a scale of 1 (low) to 6 (high)) and a Country Vulnerability Index (CVI) of less than 0.351 (in a scale of 0.00 (low) and 1.00 (high)). The 2005 CPIA and CVI data identifies some 25 African countries as fragile. Of the 25 countries, 16 of them have been isolated as the indicative list of core or most marginalized fragile states in Africa.

[2] Chauvet, Lisa and Paul Collier estimate that economic cost (cost in terms of growth) for a LICUS country (that starts out as LICUS and has likely prospects of a turn-around) averages 4.6 times its initial GDP, and the economic cost to the typical neighbor is 3.4 times its initial GDP. In a situation of a typical civil war, it is estimated that more than half the total cost is borne by neighboring countries rather than by the country itself.

2. TYPOLOGY OF FRAGILE STATES IN AFRICA

2.1 *Identifying State Fragility:* State fragility is difficult to define, partly because it represents a continuum, and partly because states move in and out of fragility depending on how they are able to respond to internal and external shocks. This notwithstanding, donors and researchers have attempted to identify fragile states by using different performance indicators. Some characterize them as states with poor policies, institutions and governance structures, while some use poor socio-economic indicators as the criterion for determining fragility.

2.2 *Common Characteristics and Typology:* Though the degree of fragility varies across states, the major features of state fragility remain the same: weak institutions, dysfunctional governance structures, poor policies, corruption and the inability of state to deliver basic services to their people. Others face similar hurdles of widespread lack of security, fractured relations among societal groups, absence of mechanisms for generating legitimate power and authority, a huge backlog of investment needs, and limited government resources for development. Because the states represents a highly diverse group, with varying dynamics of state fragility, the Bank, for the purposes of preparing an effective development response, has reclassified them into a four-fold typology or operational model.

2.3 The four-fold typology or operational model mirrors that agreed by members of the Organization for Economic Co-operation and Development-Development Assistance Committee (OECD-DAC)[3]. It constitutes the first step towards matching Bank's operational assistance and support to specific country context. Further differentiation will be undertaken through the country's programming document that will be prepared for each fragile state. The differentiation is necessary because Bank's response must be tailored to the different circumstances in each fragile state, rather than a "one-size-fit-all" approach (Box 1).

Box 1: Possible Typology of Fragile States in Africa

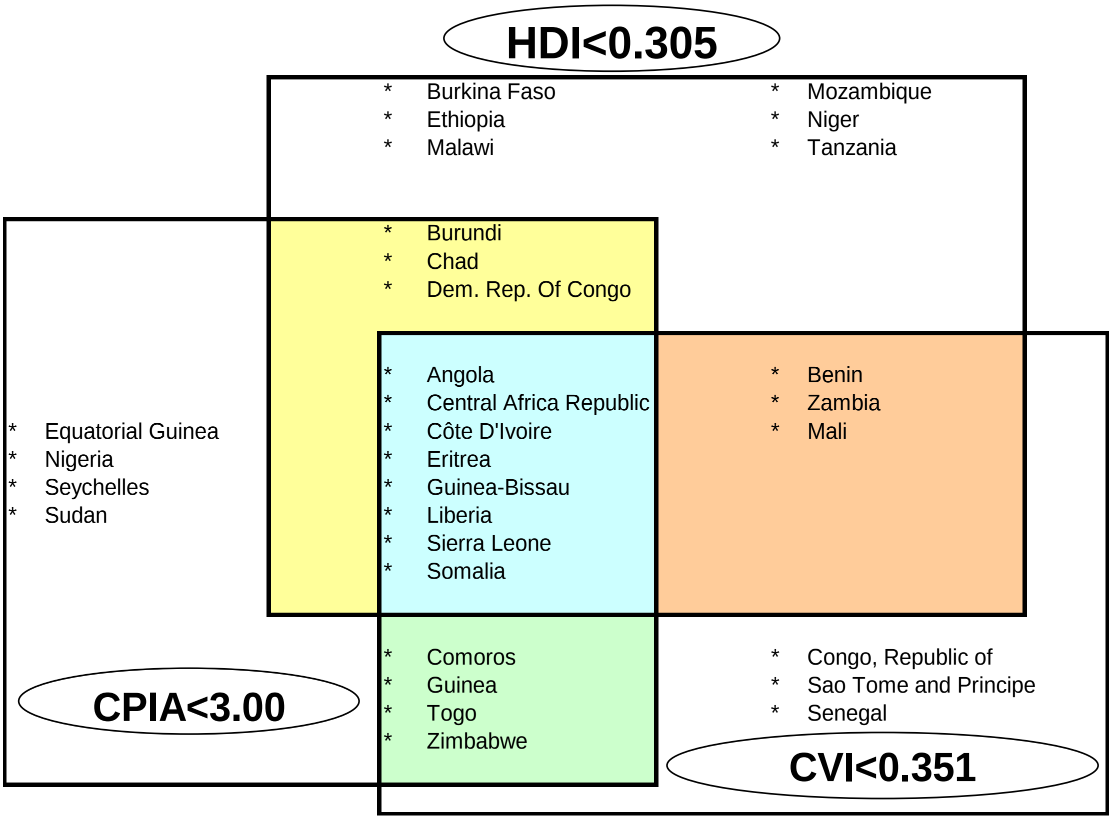
Countries in impasse or under Sustained Deterioration in Performance • No sound economic and financial management • Unabated corruption and bad governance • Prone to exogenous shocks and • Usually no common consensus between donors and government on development programs.	**Failed States/States in Severe Conflict** • Absence of legitimate government • Some countries experiencing civil disturbances and/or domestic political impasse. • Under sanctions by the IFIs owing to accumulated arrears and have poor relationship with development partners.
Post-Conflict Countries (countries in early post-conflict phase) • Countries emerging from protracted civil conflict after concluding a peace or national reconciliation process.	**States marginally transited from fragility** • Characterized by presence of some government reform in the form of PRSP, but have entrenched systems where change is often difficult, slow and liable to periodic setbacks. • Include some post-conflict countries.

2.4 Under the above typology, about half the countries of Africa are fragile states and nearly two-thirds of Africa's population lives in these countries. In addition, other countries

[3] See, for example, OECD-DAC "Policy Commitment and Principles for Good International Engagement in Fragile States" November, 2006.

in Africa run the risk of *becoming* fragile states. Analysis of the 2005 Country Policy and Institutional Assessment (CPIA) and the Country Vulnerability Index (CVI) has identified twenty-five (25) countries as fragile. Of the 25 countries, 16 of them have been isolated as the indicative list of core or most marginalized fragile states in Africa. Any such derived list of fragile countries would, of course, be subject to change over time (see below).

INDICATIVE LIST OF AFRICAN COUNTRIES
<u>IDENTIFIED AS FRAGILE (2005 data)</u>



3. <u>PRIORITY AREAS OF INTERVENTION AND GUIDING PRINCIPLES</u>

3.1 *<u>Priority Areas of Interventions</u>*

3.1.1 The strategy is focused and highly selective and proposes the following categories of engagement: i) catalytic role; ii) strategic partnership areas; and iii) areas of minimal engagement. Within the catalytic areas, the Bank proposes to engage in the following areas: i) building state capacity and accountability; and ii) rehabilitation and reconstruction of basic infrastructure (roads, water and sanitation, energy and power). Within the strategic partnership areas, the Bank intends to support economic and structural reforms and economic integration and regional programs. The proposed areas of Bank intervention are influenced by several considerations:

- First, investing in building state capacity and accountability and improving governance is indispensable in turning-around fragile states, particularly the resource-rich countries;

- Second, core infrastructure is inadequate in all fragile states in Africa. The development of such infrastructure is crucial in reviving private sector activities and the economies of fragile states. The Bank has demonstrated performance in infrastructure development; and

- Thirdly, the Bank recognizes the important role that the private sector could play in turning around fragile states. Accordingly, the Bank will work with other partners in helping to restore investor interest and confidence in fragile states. This will be achieved by supporting the implementation of structural and macroeconomic reforms aimed at restoring the enabling environment for reviving private sector activities.

3.1.2 The Bank will also step-up its efforts in generating knowledge with respect to fragile states and situations in Africa. This will help fine-tune the future work of the Bank and strengthen its advisory role and "voice" with respect to the complexity of challenges in fragile states. The Bank plans to have minimal or no engagement in the domain of peace and security, where it has no mandate, competence or operational experience.

3.1.3 Enhanced Coordination with Other Partners: The Bank fully recognizes the need to coordinate more effectively and work in partnership with others in addressing state fragility in Africa. Deeper partnership can take several forms, including the division of labor, at country level, where partners agree to divide up the responsibilities amongst themselves, based on their comparative advantage or areas of operational competences. In other cases, it will take the form of establishing a strong strategic forum for coordinating and addressing emerging operational issues and challenges in each fragile state. Working closely and coordinating effectively with other partners is vitally important in ensuring that Bank's program of assistance is implemented in a holistic manner, covering the peace, security and development concerns in each fragile state.

3.2 *Guiding Principles and Themes Underpinning Implementation of Strategy*

3.2.1 The Bank has identified some country-level core principles and themes to underpin the implementation of its strategy in fragile states. Some of these principles are drawn from the lessons learnt from field-testing, as captured in the *original twelve Principles*[4] *of Good International Engagement* in fragile states. The principles also benefited from recent experiences of the Bank, the World Bank[5], and other comparable institutions and agencies working in fragile states and situations in Africa. The Bank considers these Principles and Themes as highly relevant in fragile states and situations in Africa (see Box 2).

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[4] Principles were drafted in March 2005 and piloting or field testing of the principles ends in December 2006. OECD-DAC is working on the revised and final set of principals scheduled for release in April 2007.

[5] Experiences of the World Bank are presented in the Independent Evaluation Group (IEG), "Engaging with Fragile States: An IEG Review of World Bank Support to Low-Income Countries Under Stress" World Bank, 2006.

Box 2: Principles and Themes Underpinning Effectiveness in Fragile States.

i) **Prevention is better than cure** – Working to prevent states from falling into fragility or preventing fragile states from collapsing is better, and has a higher pay-off, than marshalling support to rebuild them afterwards.

ii) **Enhancing Country Ownership** - By ensuring that fragile states own and are in the driver's seat in implementing programs and projects for turning-around their countries.

iii) **Focus on State-Building as the Central Objective:** States are fragile when their structures collapse or lack the political will and/or capacity to provide the basic functions needed for poverty reduction, development and to safeguard the security and human rights of their population.

iv) **Focusing on selectivity and value added on the part of the Bank** – The role of the Bank is to add value to the efforts of other international development partners.

v) **Establishing Strategic Frameworks and Coordination** – Multi-dimensional nature of state fragility – encompassing peace, security, economic and administrative domains –implies that no single donor can or will be able to address all the development challenges in fragile states.

vi) **Speedy Response and Adaptability** – Fragile states require urgent response as situations are fluid and change very rapidly.

vii) **Prioritization and Sequencing of interventions** – In complex fragile states environments, where virtually every sector requires reforms, appropriate sequencing of reforms is crucial for achieving intended outcomes.

viii) **Long-term and sustained engagement** - Solid turnaround in political and economic environments in fragile states and situations in Africa is not likely to take place within the short run.

ix) **Regional Dimensions of State fragility** – Strategy should take into account the regional dimension of state fragility, primarily because of huge spill-over effects that fragile states generate to their neighboring countries and sub-regions.

4. RESOURCE NEEDS AND FINANCING OPTIONS

4.1 *Case for Scaling Up*

4.1.1 Scaling-up the operational activities of the Bank is required in meeting its development objectives in fragile states, particularly in post-conflict countries that usually have a huge backlog of unmet investment needs in almost all sectors. Many such countries receive low aid flows in relation to their needs and performance indicators[6]. Bank support to these states over the past has been extremely modest primarily because of the limited resources allocated to them through the Performance Based Resource Allocation (PBA) system. The Bank will ensure effective use of enhanced resources allocated to fragile states, including assessing, jointly with other partners, the total financial resource flows to fragile regional member states from donors and financial institutions, the resource flow cycle over time – and the absorptive capacity.

4.1.2 The Bank has assessed three alternative approaches to finance scaled up support to fragile states. Any such approach will need to be implemented in a manner to ensure that the basic incentives and principles embedded in the PBA system are safeguarded. The three alternative financing approaches considered are as follows:

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[6] For detailed discussion of this issues, see OECD-Development Co-Operation Directorate (DCD) "Monitoring Resources Flows to Fragile States: 2005 Report" June 2006.

- Altering the allocation formula within ADF to give more weight to indicators directly relevant to fragile states;

- Creating a separate window within the ADF for fragile regional member states, using a different allocation formula for each window; and

- Establishing an additional grant window through transforming the existing Post-Conflict Country Facility (PCCF) into a Fragile States Facility, which would top up the resources allocated and provided to the most marginalized states by the ADF under its PBA system.

4.2 *Option I: Modifying Performance-Based Allocation Formulae under ADF.*

4.2.1 This option would change the current PBA system by introducing and giving a stronger weighting to indicators directly relevant to fragile states. This option is in line with the approach taken in 2002 when the Post-Conflict Enhancement Factor (PCEF) was added to the PBA system under the ADF-IX lending cycle. However, while seemingly simple, this option has a number of drawbacks:

- Experience has shown that the application of the PCEF has had only a limited impact on ADF resource allocations to fragile states. Under the on-going ADF-X, the net contribution of the PCEF to the nine (9) beneficiaries is estimated at UA 68.5 million or 2.4 percent of the total ADF-X allocations of UA 2.9 billion[7] made;

- Most importantly, substantial enhancement of the PCEF would be required to accomplish Bank's objectives in fragile states. The enhancements would seriously undermine the weighting system, and thus credibility, of the PBA formula; and

- Besides the other needy non post-conflict fragile states that cannot benefit from the PCEF, there is also the issue of introducing additional operational complicities to a PBA system that is already too complex, thus rendering it less transparent and more difficult to execute.

4.2.2 By introducing direct competition between fragile and non-fragile states and penalizing the better performing non-fragile states, there would be heightened risks of moral hazard and the erosion of the country's incentives system embedded in the PBA. Such an approach could also fail to achieve the holistic operational approach required in fragile states encompassing the introduction of more flexible financing instruments, accompanied by appropriate business practices, policies and procedures.

4.3 *Option II: Creating Separate Window within ADF-Window*

4.3.1 This approach could complicate the ADF allocation process and its performance based character. This is because each ADF-window would have its own PBA-system. The system that would operate for fragile states would also be complex, as it would have to capture both the traditional CPIA criteria as well as performance criteria specific to fragile states, with considerable weighting to the latter. Operating two different systems in this way

[7] The total PBA to the 9 PCEF beneficiary countries was UA 449.4 million out of a total UA 2.89 billion allocated to all 40 ADF-eligible RMCs, thus the share of PCEF beneficiaries was about 15.6% of the total. But the total PBA of the 9 PCEF beneficiaries would have been UA 380.9 million, instead of the UA 449.4 million, if they were to receive only their performance-based allocations, and no PCEF additional resources. Accordingly, with the PCEF applied, the net contribution the PCEF makes to the 9 beneficiaries is estimated as UA 68.5 million. This is equivalent to 2.4% of the total allocation to all ADF eligible RMCs.

would be difficult to manage, and like Option 1, could serve to undermine the credibility of the Bank's PBA system. Concerns specifically include:

- *Dividing* - perhaps artificially—the ADF into *two groups of countries*, which could be mistakenly seen as the "performing" and the "non-performing" groups. However, given the nature of fragile states, their level of performance may be more volatile and unstable than other countries, making it difficult to establish a robust "graduation" process from "ADF- 2" (the new window) into "ADF-1" (the traditional window);

- *Introducing confusion into the ADF allocation* process and its performance-based character. This is because there would now be two PBA systems within ADF, one for each window. This could risk undermining the credibility of the PBA system used for "ADF1";

- Not addressing the *non-allocative aspects of support for fragile states*, as outlined in the proposals for enhancing Bank's assistance to fragile states. The proposals outline a range of instruments that would be used to meet the range of situations in fragile states, which a linear PBA system can only imperfectly capture;

- More broadly, in terms of *communication*s, to the extent that the second window introduces new procedures, has a different client base, and different development objectives (establishing stability and the core institutions, capacities, services and infrastructure needed for a functioning society), it may be increasingly problematic for it to be using the same ADF name that is used for what would be expected to be increasingly successful economies in ADF moving toward middle income status;

- The establishment of a second ADF window could also *complicate replenishment procedures*, as a common agreement would need to be reached on the size and focus of each. This would be an additional challenge to the process, given the differing priorities, preferences and funding constraints among donors, as well the greater degree of uncertainty in programming for fragile states.

4.4 *Option III: Transform Post-Conflict Country Facility (PCCF) into a Fragile State Facility (FSF), with a New Grant Window*

4.4.1 The third option is that of utilizing the existing mechanism through an enhancement of the Post-Conflict Country Facility (PCCF) into a Fragile States Facility (FSF) with two windows:

- The traditional Arrears Clearance Window (ACW) for designated countries emerging from conflict; and

- A second Support Grant Window (SGW) with scaled up resource allocation for selected fragile regional member states.

4.4.2 A key advantage of this option is that it builds on an existing mechanism, rather than creating a new one, and would benefit from some of the administrative experiences of the PCCF. The option could serve to strengthen the performance incentives by removing the PCEF from the regular PBA, which would be used across the board for allocating ADF resources. The PCEF would be replaced by a Fragile States Performance Indicator (FSPI), still to be developed, which will form the basis for allocating resource from the FSF.

The proposed FSPI would need to sufficiently capture some of the key aspects of performance and outcomes in fragile states that are clearly missing from the Country Policy and Institutional Assessment (CPIA).

4.4.3 The Bank will use the additional resources mobilized to top-up the PBA allocations to needy fragile states. The allocation of the top-up resources will also be performance-based, as assessed using the proposed FSPI that will be developed by the Bank in close consultations with other partners. This indicator will aim at capturing aspects of performance that are particularly relevant to fragile states and that are not well captured by the CPIA - levels of assistance from other donors, regional and global spill-over effects, susceptibility to conflict, service provision and administrative control of government across a country's geographical territory. Allocations made on the basis of the FPSI would be supplemented by specific country performance benchmarks, which would be outlined in the country programming document of each fragile state. Allocation decisions would not result in an entitlement but rather provide the reform-parameters in which programming could take place.

4.4.4 These resource allocations would imply a topping-up of the ADF-contributions for each eligible fragile country on the basis of their FSPI-performance. In this way, transparency as well as performance incentives for allocating resources to fragile states would be enhanced. It would also allow flexibility to adjust resource allocations in accordance with a country's performance, using agreed benchmarks. Establishing a new grant window and transforming the PCCF into a Fragile States Facility is attractive in:

- ***Strengthening incentives for performance and the PBA system.*** Stripping out the PCEF, an "enhancement factor" that alters the ratings of all countries, would strengthen the CPIA-based PBA system for ADF resources. Using a tailor-made performance measure to underpin decisions on the use of FSF resources would further strengthen performance incentives for fragile states. The CPIA–based PBA system would also gain in transparency, as performance ratings would no longer be modified;

- Providing a ***transparent (and publicly accountable) basis for allocating enhanced funding for fragile states*** by topping up ADF resources to qualifying fragile states;

- Preserving the ***integrity of the allocations and operational activities planned under the Arrears Clearance Window;***

- Permitting ***flexibility in allocations in response to changing conditions*** on the ground in fragile states, by definition subject to high risks but also high rewards for timely action;

- Providing ***operational flexibility to develop and apply new modalities and instruments*** *(as outlined in the Fragile States paper*), while respecting the operational principles and taking advantages of the economies of scale of operating within the ADB Group; and

- Proving ***flexibility in funding arrangements***, in accordance with the willingness of donors to contribute, and (possibly) their preferences regarding country or functional allocations, without the need to negotiate burden sharing.

5. POSSIBLE SOURCES OF FUNDING

5.1 The envisaged strategy recommends the mobilization of additional resources for fragile states on a scale that will have a material impact on their prospects for stability and long-term economic growth and development. In principle resources required for scaling up activities in fragile states could be obtained from the following sources:

- *ADF-Contribution*: A significant contribution from ADF-XI resources would give credibility to the ADF's commitment to enhancing assistance to fragile states in Africa, and provide important multi-year predictability;

- *Direct contributions from ADF donors*: Funding could also be obtained from direct contributions from ADF donors. An advantage could be that it would facilitate "voluntary" contributions from ADF-donors, and not be subject to negotiated burden-sharing;

- *Contributions from non-traditional sources*: A third source of funding would be from non-traditional sources, including countries, such as South Africa, India, China, Middle Eastern countries, that have not been as deeply involved in the regular ADF process and may be willing to provide funding in support of fragile states; and

- *Carryover Resources from Previous ADF-Replenishments*: Another source of possible funding could be the unutilized resources from previous ADF-Replenishment cycles.

6. PROPOSED BUSINESS PROCESSES, INSTRUMENTS AND MODALITY

6.1 *Enhancing Business Processes:* The Bank intends to implement the strategy on fragile states using new and more innovative business practices and procedures that are fully consistent with the requirements of the Principles of Good International Engagement in fragile states. This proposal is based on the realization that delivery of development assistance in fragile states and situations is dependent on highly efficient business processes, practices and procedures. The envisaged business processes will aim at ensuring that the Bank operational activities are not unnecessarily hampered by the existing procedures which are inefficient and time consuming, while concomitantly safeguarding the fiduciary standards of the Bank.

6.2 Delays, particularly in disbursements and procurements should be avoided because speed and flexibility are essential preconditions to succeed in fragile states and situations. Disbursement procedures for fragile states must also be flexible enough to take advantage of any windows of opportunities and respond to changing conditions on the ground. The pattern of disbursement must also improve the predictability of aid-flows at country level. Over the past, volatile aid flows has tended to be potentially disruptive, especially in fragile regional member states.

6.3 *New Instruments*: The Bank intends to develop additional financing instruments to complement existing ones. New operational guidelines may be prepared that could allow the Bank to participate in Joint Trust Fund (JTF) financing in fragile states – such as through the Multi-Donor Trust Funds (MDTFs). Thus far, the Bank has no financing instrument that could allow it to participate in JTF, which is crucial in enhancing harmonization and allowing partners to work together in difficult fragile state situations, particularly in post-conflict countries.

6.4 *Secondment of Professional Staff to Needy Fragile States*: The Bank intends to establish a new modality of seconding professional staff to needy fragile states. The aim of the secondment is to strengthen human capacity by filling manpower gaps in carefully selected domains of the public sector. The seconded professional staffs are expected to reside in the country and work alongside government civil servants, thus assist in transferring leadership and change management capacity and provide on the job training in order to ensure sustainability after the end of their secondment. A quick country-by-country assessment will be undertaken in order to determine the critical areas in need of such assistance in coordination with other donors.

7. IMPLEMENTATION ARRANGEMENTS

7.1 The starting point for developing a speedy and strong operational response in fragile states is to address existing institutional and operational bottlenecks in the current Bank operational strategy. Towards this end, the Bank is in the process of:

- Strengthening its internal capacity to effectively deliver development assistance to its regional member countries, including fragile states, which is being done through increasing resources and manpower in all its operations complexes; and

- Increasing field presence in fragile states. Stronger field presence is regarded as mandatory in improving operations and tailoring such operations to local needs and adapting them to the often rapidly changing environment in fragile states. The Bank's decentralization strategy for up to 2006 provides field offices to some core fragile states – Democratic Republic of the Congo; Chad, Sierra Leone and Sudan – and others could be opened if the need arises;

7.2 The Bank has also established the Fragile States and Post-Conflict Countries Focal Point (FSPC-FP). The FSPC-FP is expected to co-ordinate Bank-wide activities in support of fragile states. It will also lead the Bank in harmonization and alignment of its operational processes with those of partner institutions and agencies working in fragile states in Africa.

7.3 Further, it will work in partnership with other development partners working in Africa's fragile states, especially the OECD-DAC, the Bretton Woods Institutions, bilateral development actors, the UN system and Africa's sub-regional and regional organizations, particularly the African Union and the Peace Building Commission of the UN.

8. CONCLUSION AND NEXT STEPS

8.1 The overriding objective of the Bank's strategy is to enhance its engagement with the fragile regional member states, thus repositioning them on the path to sustainable growth and poverty reduction. The strategy is based on a four-fold typology or operational model, which is highly relevant to the fragile states and situations in Africa. Mobilizing additional resources for addressing the multiplicity of chronic problems and challenges constitutes an integral component of the strategy. Management has assessed three possible financing options for achieving this objective. Emerging from the assessment is the view that a better protection of the Bank's PBA system could be achieved through the financing option of transforming the Post-Conflict Country Facility (PCCF) into a Fragile States Facility (FSF) with an additional grant window.

8.2 Several sources of additional resources for the fragile regional member states have been identified: i) contributions from the ADF; ii) bilateral contributions from ADF donors; iii) contributions from non-traditional donors; and iv) unutilized resources from previous

ADF-Replenishment cycles. Further, the strategy proposes the development of a performance based Fragile State Performance Indicator (FSPI) for topping up the PBA resource allocations to needy fragile states.

8.3 The Bank remains strongly committed to enhancing its engagement in fragile states in Africa and will work closely with all other development partners involved in fragile states and situations in Africa. The Bank will also strengthen its collaboration with Civil Society Groups (CSGs) and Non-Governmental Organizations (NGOs) working in fragile states and situations in Africa.

8.4 Based on the recommendations, comments and observations provided by the ADF-Deputies, the Bank will further develop its strategy and prepare the complementary operational guidelines for implementing it. The strategy and the operational guidelines will be submitted for consideration by the Board of Directors and include:

- Operational Guidelines on the Fragile State Facility;

- Operational Guidelines on New Business Practices and Procedures Applicable to Fragile States;

- Operational Guidelines on modality of seconding professional staff to marginalized fragile states; and

- Operational Guidelines on Joint Trust Fund Financing in fragile states.