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Review of the Bank Group Engagement in Fragile States

Discussion Paper

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Executive Summary

This paper provides a review of the Bank Group's support to fragile and conflict-affected countries as implemented under the Strategy for Enhanced Engagement in Fragile States (2008). It presents Management's vision for robust engagement in fragile states during the Thirteenth Replenishment of the African Development Fund (ADF-13) period, supported by a refined approach that reflects lessons from the Bank Group's operational experiences over the years and the independent assessment and recommendations of the Operations Evaluation Department. It also takes into account emerging global good practice and knowledge, such as those in the 2011 World Development Report (WDR) on Conflict, Fragility and Development and the New Deal for Engaging Fragile States endorsed at the High Level Forum on Aid Effectiveness in Busan in 2011.

According to findings of the independent evaluation and internal assessment of the development effectiveness of the Bank Group's support to fragile states, the implementation of the 2008 strategy for engaging in fragile states has borne broadly favourable results. The Strategy—accompanied by a dedicated financing mechanism, the Fragile States Facility (FSF), and an improved organizational structure with the establishment of the Fragile States Unit—has been instrumental in enabling the Bank Group to deepen its engagement in fragile states, nearly half of the 41 ADF-eligible countries. Thanks to this sharper focus and greater capacity, the Bank Group is now providing substantially enhanced strategic leadership in some of the most complex and politically challenging development situations. It is contributing to peace-building and state-building efforts both at national and regional levels. The Bank Group is also responding more expeditiously and flexibly to changing country circumstances, and it is investing more in institutional and human capacity development initiatives in fragile states.

To ensure effective implementation of its ambitious agenda, the Bank Group has marshalled all capacities and resources at its disposal, including more strategic use of its convening role, given its regional mandate and political legitimacy among member countries. It is targeting its advisory and knowledge activities better and providing more robust operational support – through project financing and policy dialogue – with higher volumes of financial resources and through flexible instruments. The Bank Group has also expanded its presence in fragile states through field offices and regional resource centres. Analysis of the Bank Group's contribution to development effectiveness in fragile states show encouraging progress has been made, albeit from a low base, in addressing some of the hallmarks of fragility – such as governance and economic reforms, capacity building and infrastructure development – with success on a par with Bank Group operations in other ADF countries.

These achievements notwithstanding, Management recognizes that there is room for improvement and a need for strengthening institutional efforts to ensure that the Bank Group's strategic contribution to fragile states meets its ambitious vision. Specifically, Management is exploring options to broaden the Bank Group's analytical framework for understanding state fragility and regional spill-over effects, assessing different development goals and state– and peace-building needs of fragile states and designing support programs that respond to these needs effectively and efficiently. Management also recognizes the need to refine the operational framework that guides Bank Group's support in situations of sudden changes or turnaround countries; improve the design, implementation and day-to-day management of capacity building activities supported by the FSF; and ensure robust staffing capacity with commensurate skill mixes, accountabilities and incentives – both at headquarters and field offices.

The timing of these reforms and the ADF-13 replenishment discussion is particularly opportune as the Bank Group rolls out its Long Term Strategy for 2013–2022 (LTS), on which the ADF-13 strategic directions and operational support to fragile states will be anchored. The LTS strategic objective of promoting inclusive growth, underpinned by a strong fragility analysis, would significantly contribute to better understanding and addressing issues related to state fragility and conflict in Africa. Similarly, the LTS focus on supporting Africa's resilience to climate change and gradual transition to a green economy has particular relevance to fragile states and regions, most of which suffer from conflicts over natural resources and environmental pressure. The core operational priorities of the LTS—infrastructure development, regional integration, private sector development, governance, and skills and technology— and the cross-cutting themes of gender and food security, are all important areas of support for fragile states that require sustained engagement over the coming years.

With an indicative pipeline of projects valued at UA 1.9 billion, the ADF-13 program of support aims to deliver the Bank Group's commitment for an ambitious and scaled-up support to fragile and conflict-affected countries through national and regional operations. The continuation of enhanced support through the FSF to eligible countries is critical to deliver on this mandate and to preserve the gains made thus far by beneficiary countries. It will also ensure that the reform efforts initiated under ADF-11 and ADF-12 are sustained and the positive trajectories are not jeopardized or interrupted at this critical stage in each country's recovery and transition process.

Management therefore recommends that the ADF continues to provide a dedicated financial and operational support through a special set-aside for fragile states, and that these resources be channelled through the FSF. Management also recommends the lengthening of the period of the FSF Pillar I supplemental support to eligible countries from six years (two ADF cycles) to at least nine or more years (three ADF cycles or more) and thereafter to be determined case by case based on an assessment of the country's fragility.

To ensure that the enhanced support continues to target countries that need it most, and that Bank Group's assistance makes significant contributions towards their transitioning out of fragility, Management proposes to:

- undertake further analysis and elaborate options for defining and assessing fragility;
- revisit the FSF eligibility criteria and resource allocation methodology to align them closely with adjustments to the definition of fragility and operational framework, as well as to changes that may be introduced to the Performance-Based Allocation (PBA) system that could have a bearing on fragile states; and
- refine the FSF phase-out framework that was introduced in ADF-12 to mirror more closely the revised eligibility criteria that will be elaborated in parallel.

Management will present fully elaborated proposals for consideration in the second ADF-13 replenishment meeting, based on initial guidance from the ADF Deputies on the above issues as well as on options related to resource allocation fragile states presented in the ADF-13 paper "Options for a More Robust ADF PBA System".

As part of its continuous reform agenda, Management is already implementing a number of measures designed to strengthen the Bank Group's internal capacity and effectiveness in fragile states – especially in areas of improved programming and business process, deeper political economy analysis and differentiated approaches for assessing risks and results, enhanced staffing capacity and skills, and investing in long-term strategic partnerships.

Combined, these efforts and reforms will enable the Bank Group to provide a robust and more effective assistance to the diverse group of fragile and conflict-affected regional member states.

Table of Contents

Boxes

Figures

Tables

Abbreviations

ADB	African Development Bank
ADF	African Development Fund
ADF-13	Thirteenth Replenishment of the African Development Fund
AU	African Union
CPIA	Country Policy and Institutional Assessment
CSP	Country Strategy Paper
ECOWAS	Economic Community of West African States
FSF	Fragile States Facility
HLP	High Level Panel
IGAD	Inter-Governmental Authority on Development
IMF	International Monetary Fund
LTS	Long Term Strategy
MDB	Multilateral Development Bank
MDTF	Multi-Donor Trust Fund
OECD	Organisation for Economic Co-operation and Development
PBA	Performance-Based Allocation
PPA	Portfolio Performance Assessment
RO	Regional Operation
SEP	Somalia Enhanced Program
UA	Unit of Account
UN	United Nations
WB	World Bank
WDR	World Development Report

REVIEW OF THE BANK GROUP'S ENGAGEMENT IN FRAGILE STATES

1. Introduction

1.1. Guided by the Bank Group Strategy for Enhanced Engagement in Fragile States (2008), the African Development Bank Group (the Bank Group or ADB) has repositioned itself as one of the leading development institution in fragile and conflict-affected regional member states (hereafter fragile states). The Strategy[1]—accompanied by a dedicated financing mechanism, the Fragile States Facility (FSF),[2] and an improved organizational structure with the establishment of the Fragile States Unit—has been instrumental in enabling the Bank Group to deepen its engagement in fragile states, which represent nearly half of the 41 countries eligible for financing from the African Development Fund (ADF).

1.2. The Bank Group's strategic leadership in fragile states and enhanced operational support are producing results. Recent internal and external reviews show that the Bank is making significant contributions to positive development outcomes and operational effectiveness in fragile states, as reflected in the most recent report of the Bank Group Development Effectiveness Review on Fragile States.[3] Similarly, a report by the Independent Evaluation Department on the effectiveness and relevance of the Bank Group's assistance to fragile states (1999–2011) concluded that while the Bank's support has been relevant and responsive to country needs and capacities, much more needs to be done to ensure that its strategic contribution to fragile states meets the ambitious vision laid out in the 2008 strategy. This observation is further supported in a review by a Bank-wide technical taskforce that assessed the operational achievements and challenges in implementing the strategy. A summary of the recommendations of the evaluation report and status of implementation of Management's commitments is provided in Annex I.

1.3. Building on these lessons, the Bank Group intends to substantially scale up support to fragile states and deepen further its strategic engagement at country, regional and global levels in the period ahead. This scaled up agenda will be anchored on the Bank Group Long Term Strategy 2013–2022 (LTS) and will be aligned with international aid effectiveness commitment enshrined in the New Deal for Engaging in Fragile States (2011).[4] The Thirteenth Replenishment of the African Development Fund (ADF-13) discussions provide a good opportunity for Management and ADF Deputies to agree on how the ADF could continue to support the delivery of this important mandate with the required financial resources and institutional commitments. To ensure that the discussions are well informed, Management has carefully taken stock of the challenges and issues identified by the various reviews as well as the applicable lessons from international good practice and emerging knowledge on fragility.[5]

1.4. The objective of this paper is thus to present to Deputies the main takeaway messages and lessons with a view to identifying areas for further actions and reforms to strengthen the Bank Group's strategic role and operational effectiveness in fragile states. Based on initial guidance from Deputies, Management will elaborate more concretely proposals and options for refining the 2008 strategy and operational framework in a follow-up paper (for the second replenishment meeting). The expected outcome is a package of reforms and a revised strategy that would be introduced during the ADF-13 period to equip the Bank Group to respond more effectively and efficiently to the broad needs and development challenges of Africa's fragile states. The review and reform process will also be informed by the guidance of the Boards of Directors of the Bank Group and the High Level Panel on Fragile States that was established in November 2012 (see terms or reference in Annex II).

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[1] ADB. 2008. *Strategy for Enhanced Engagement in Fragile States*. ADB/BD/WP/2008/37–ADF/BD/WP/2008/10; 2008. *Operational Guidelines of the Fragile States Facility (FSF)*. ADB/BD/WP/2008/103-ADF/BD/WP/2008/60; and 2010. *Fragile States Facility (FSF): Guidelines on Administration of Technical Assistance and Capacity Building (TCB) Program of Pillar III Operations*. ADB/BD/WP/2010/75-ADF/BD/WP/2010/44.

[2] The 2008 strategy was developed following a technical review of the 2001 *Bank Group Post-Conflict Assistance Policy Guidelines* under which the Bank had provided support for arrears clearance and additional resources to post-conflict countries.

[3] The publication will be available to Deputies along with similar publications on governance and regional integration.

[4] Fourth High Level Forum on Aid Effectiveness. 2011. *New Deal for Engaging Fragile States*. Busan, South Korea.

[5] Including on-going work by the OECD's International Network of Conflict and Fragility; the 2011 *World Development Report: Conflict, Security, and Development.* World Bank (WB), 2011; and the 2011 *New Deal for Engaging in Fragile States*.

1.5. Section 2 of this paper provides an overview of the implementation of the 2008 strategy and operational framework. Section 3 highlights the Bank Group's contribution to development effectiveness and strategic partnerships in fragile states. Section 4 presents the Bank Group's strategic outlook and program of support to fragile states under the ADF-13. Areas of on-going reform and key issues for further reflection are presented in Section 5, followed by conclusion and recommendations in Section 6. As this paper is part of the package of documents prepared for the first ADF-13 replenishment meeting, there are content linkages with other papers, especially the "Proposals for a More Robust ADF Allocation System" and the "ADF-13 Strategic and Operational Directions Overview Paper".

2. Overview of the Implementation of the Bank Group Approach for Enhanced Engagement in Fragile States and Lessons Learned

2.1. The Bank Group's work in fragile states is guided by the 2007 Principles of Good International Engagement in Fragile States[6] and international aid effectiveness commitments agreed between donors and partner countries in Paris (2005), Accra (2008) and Busan (2011). These principles and commitments provide the basis for Bank Group's partnership and coordination at the global and country levels. The Bank Group supports country-driven recovery and reform programs by building capacity and accountability in national institutions; investing in infrastructure development and service delivery systems; strengthening economic management for long-term growth and poverty reduction; and by contributing to national and regional efforts through operational and advisory support.

2.2. Distinguishing features of the Bank Group's approach as informed by the 2008 strategy for enhanced engagement and operational support include (i) understanding the different spectrum of fragility at state and regional levels and targeting support accordingly through flexible programmatic and financing instruments; (ii) a dedicated resource envelope, the FSF, that responds better to the needs of fragile states and enables a robust engagement by the Bank Group; and (iii) an enabling institutional arrangement. Effective implementation of the enhanced strategy and operational approach has been possible thanks to the commitment by the Bank Group to provide substantial amount of resources through complementary ADF resource allocation instruments including the Performance-Based Allocation (PBA), the FSF, and the Regional Operations (ROs) envelopes. The Bank Group's experience in implementing this approach is presented below.

I. Context-differentiated operational framework for addressing fragility at state and regional levels

2.3. To better respond to the broad range of issues and challenges that constitute state fragility, or situations of fragility,[7] the Bank Group's engagement is informed by context-differentiated analytical framework that recognizes the different needs, capacities and requirements of fragility, ranging from situations of deteriorating governance, prolonged crisis, post-conflict and political transition to gradual reformers (see Annex III). Experience has shown that the delineation between conflict/post-conflict and fragile situations is neither discrete nor linear, and that different types of responses are called for at different phases or situations of fragility.

2.4. The Bank Group's operational framework recognizes that the heterogeneity of fragility (and fragile states) requires different operational approaches, as well as innovation, greater understanding of political economy and conflict dynamics, and wider sharing of cross-country experiences. It also requires the willingness to stay closely engaged at the field level in difficult situations and a hands-on approach to building institutional and human resource capacities in fragile states. Perhaps most important, the 2008 strategy had envisioned that operational programming would be developed through a "fragility lens," which entails creating specialised

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6 OECD. 2007. *Principles of Good International Engagement in Fragile States and Situations*. OECD, DAC Paris.

7 Nineteen (19) African states, of which 17 eligible for support, are classified as "fragile" in the latest ADB/WB Harmonized List of Fragile Situations FY13 (Angola, Burundi, Central African Republic, Chad, Comoros, Republic of Congo, Cote d'Ivoire, Eritrea, Democratic Republic of Congo, Guinea, Guinea Bissau, Liberia, Libya, Sierra Leone, Somalia, Sudan, South Sudan, Togo and Zimbabwe). The term "Fragile Situations" indicates either a harmonized average CPIA rating of 3.2 or less, or the presence of a UN and/or regional peace-keeping or peace-building mission during the previous three years.

capacity to design and manage projects in fragile contexts marked by political tension or violent conflict. An important step towards working effectively in such contexts is the successful institutionalisation of political economy analysis and the adaptation of working principles, approaches and modalities best-suited to respond to the unique development challenges faced by fragile states.

2.5. Regional approaches, supported by concerted efforts by neighing countries and regional institutions such as the Bank Group, are critical for building sustainable security, peace and stability in Africa. Recent experiences in the Democratic Republic of Congo, Mali and Somalia show the importance of understanding the dynamics of conflict and political instability from a regional perspective and designing interventions both at the state and regional levels. The Bank Group's experience demonstrates that effective engagement in fragile states and regions requires working more closely with partners such as the United Nations (UN) agencies, multilateral development institutions, bilateral aid agencies and others that have different but complementary mandates (such as conflict management and resolution, peace-building and political settlements, and justice and security sector reforms). Fostering strategic partnerships is thus another important pillar of the current approach, reflecting Management's recognition that the Bank Group's assistance will deliver sustainable development impact in fragile states only within the context of a coordinated and complementary engagement by national, regional and international stakeholders.

2.6. While the Bank Group's context-differentiated operational framework has been useful, emerging knowledge on fragility and good international practice suggest that there is space for broadening the Bank Group's analytical framework for understanding fragility and assessing different development and state- and peace-building needs. Building on the implementation experience of the current framework, the Bank Group would need to refine its approach by (i) including in its differentiation fast-moving changes or turnaround situations that may occur during a given ADF cycle (such as Mali) and; (ii) better reflecting the regional dimension of fragility in the design and implementation of national and regional programs. This broader approach will guide the revision of the current strategy and operational guidelines for enhanced engagement in fragile states going forward.

II. Higher volume of resources and predictable aid —the FSF

2.7. To deliver on its commitment of enhanced strategic engagement and operational support, the Bank Group provides predictable and increased resources through the FSF. This approach draws on emerging evidence that points to the detrimental effect of aid's volatility (stop-and-go aid)[8] and the risk of abrupt withdrawal or decline in aid resources as countries struggle to break out of fragility traps. There is also a growing consensus among development practitioners that addressing the complex development challenges in fragile and conflict-affected countries requires – in addition to strong country leadership – sustained, predictable and increased levels of financial resources, and institutional commitments to stay engaged over the long run.

2.8. The FSF, established in 2008 as an operationally autonomous, special-purpose entity within the Bank Group, has three distinct and grant-funded windows: supplemental support (Pillar I), arrears clearance (Pillar II) and targeted support (Pillar III). FSF-supported operations are implemented through specific operational policies and procedures including an exemption to the Bank Group sanctions policy to enable early support for certain technical assistance, judicious use of development budget support in circumstances where it might not otherwise be available and more flexible procurement rules in certain circumstances, approved ex-ante by the Board of Directors.

2.9. The financing framework differentiates high-income and poor fragile states, and on this basis such countries as Angola, though a post-conflict nation, did not qualify for FSF support. Under ADF-11 and ADF-12, country-by-country assessments were conducted at the start of each cycle to determine eligibility for FSF Pillar I support. The two-stage criteria assessment looks closely at the country's commitment to consolidate peace and security, level of unmet social and economic needs, macroeconomic conditions and debt policies, financial management practices and transparency of public accounts.

[8] WB. 2011. *Avoiding the Fragility Trap in Africa*.

2.10. Table 1 summarizes the key operational objectives of the three windows of the FSF and the respective allocation of UA 1.4 billion during the ADF-11 and ADF-12 cycles. The independent evaluation affirmed the positive contribution, relevance and effectiveness of the FSF, especially Pillar I and Pillar II, while also underlining the need for improving the orientation and management of Pillar III. The evaluation also found that the resources channelled through the FSF have enabled the Bank Group to substantially scale up its operational support and to finance recovery projects in infrastructure and governance reforms, particularly the 9 post-crisis and transitional countries that were beneficiaries of the FSF Pillar I during the period covered by the evaluation. Timely and internationally coordinated support for arrears clearance have been critical in enabling countries (such as Côte d'Ivoire and Togo in ADF-11) to normalize their relations with international donors and creditors and qualify for debt relief assistance. Furthermore, support for institutional capacity development is a defining feature of the FSF Pillar III and an area of overwhelming need for all fragile and conflict-affected countries. In response to the findings of the evaluation, Management has taken measures to improve the implementation of activities supported by Pillar III to better address the capacity needs of fragile states and to enhance the Bank Group's strategic contribution in this critical area.

Table 1: Key elements of the FSF

	Supplemental Support (Pillar I)	Arrears Clearance (Pillar II)	Targeted Support (Pillar III)
Operational objectives	Augments country PBAs for rehabilitation and reconstruction of infrastructure, governance reforms and rebuilding institutional capacity	Clears arrears of eligible re-engaging and transitional countries, thus paving the way for additional debt relief through the Heavily Indebted Poor Country initiative and the Multilateral Debt Relief Initiative	Provides well targeted capacity-building and technical assistance to eligible countries. The support includes using nonsovereigns to deliver targeted services, and building and managing Bank Group knowledge on fragility and conflict
Countries benefiting in ADF-12	Nine re-engaging and transitional countries receiving second cycle of support in ADF-12. Three new entrants—Sudan, South Sudan and Zimbabwe—granted access for first cycle support [a]	Seven re-engaging and transitional countries benefited from the window and three were targeted to access support in ADF-12—Sudan, Somalia and Zimbabwe	Support is accessed by 17 fragile states
Total resources allocated, million (UA 1,415)	**658.9**	**670.8**	**85.4**[b]
ADF-11, UA 586.9 million	*253.94*	*308.46*	*24.5*
ADF-12, UA 828.1 million	*404.94*	*362.29*[c]	*60.9*

Notes: *a. The Boards of Directors granted exceptional eligibility to Sudan and Zimbabwe, subject to each country developing credible arrears clearance strategy and financing plan; b. Includes UA 60.0 million provided from the 2010 net income of the Bank (all Pillar III resources in ADF-12 were carried over from ADF-11); c. Includes the UA 3.19 million carried over from the ADF-11 cycle.*

2.11. The FSF has served well its purpose of channelling additional and predictable resource to support the overwhelming reconstruction and recovery needs of fragile and post-conflict countries. Underscoring the importance of addressing the regional dimension of fragility, the ADF's strategic focus and augmented resources have enabled fragile states to leverage better the RO envelope of more than UA 230 million under ADF-11 and ADF-12. Annex IV shows the resources allocated from the three windows of the ADF (the PBA, RO and FSF) to 12 Pillar I beneficiaries during the ADF-11 and ADF-12 cycles. A key observation from the implementation of the FSF since 2008 is that the set-aside approach employed by the ADF preserves the principle of additionality as FSF resources represent a significant proportion of the total resources going to fragile states (an average of over 40% of ADF-11/12 allocations) and a substantial increase over what each country would have received through the PBA alone. At the country level, the FSF additionality over the ADF-11/12 PBA country allocations ranges from 35% at the lower end (e.g. the Democratic Republic of Congo) to 200% at the higher end (Burundi, Comoros, Guinea Bissau and Togo). The method used to allocate FSF Pillar I resources— the “2x top-up factor”[9] and allowing countries to frontload their entire allocation— has been useful in ensuring predictability and transparency of the allocation process, albeit limiting the ADF’s capacity to respond to emerging needs in mid-cycle. Management’s reflection on this issue, also identified by the independent evaluation as the main shortcoming of the eligibility criteria and allocation methodology for FSF Pillar I, is presented in Section 5.

III. An enabling institutional structure

2.12. The Fragile States Unit was created in 2008 to ensure effective implementation of the strategy for enhanced engagement. It was housed in the Vice Presidency for Sector Operations until it was transferred to the First Vice President and Chief Operation Officer’s Complex in September 2012. The Unit has 8 established professional positions, to be boosted to 15 – 18 over a three-year period (2013-2015). The move responds to a recommendation of the independent evaluation to realign the Unit’s placement and capacity with its coordination and support functions across the Bank. The Unit administers the FSF and provides specialized analytical, technical and advisory support to regional and sector departments, particularly for preparing country programming documents and for designing and implementing operations and programs in fragile states.

2.13. To ensure effective policy dialogue and operational support on the ground, the Bank Group has invested in building a strong country presence in fragile states. Through its enhanced decentralization agenda, the Bank Group increased the number of field offices in fragile states from 4 in 2007 to 11 in 2012 (Angola[10], Burundi, Central African Republic, Chad, Democratic Republic of Congo, Liberia, Sierra Leone, Sudan, South Sudan, Togo and Zimbabwe). It also maintains a customized presence in Sao Tome and Principe and Guinea Bissau. Regional offices and resource centres provide additional capacity and expertise, especially where the Bank is not physically present or the capacity of the country office is limited.

2.14. These important efforts notwithstanding, ensuring robust staffing capacity with commensurate skill mixes, accountabilities and incentives – both at headquarters and field offices – remains an important endeavour for the Bank Group and an area Management has identified for further action and improvement under ADF-13 (see Section 5). Sustained institutional capacity and a strong country presence is essential to fully realize the Bank Group’s ambitious objective of helping more than a third of its regional member countries transition out of fragility and of asserting its strategic leadership in all African countries and sub-regions affected by conflict and fragility.

3. Bank Group’s Contribution to Development Results and Strategic Partnerships in Fragile States

3.1. Between 2008 and 2011 the ADF financed 124 operations in the 17 FSF-eligible countries to support economic growth, private sector development, governance, regional integration, gender and human development, and physical infrastructure and service delivery. While the full development impact of these operations will take time to become empirically evident, analysis of selected country development indicators and ADF operational support (based on projects exiting the ADF portfolio between 2009 and 2011) shows encouraging positive trends as well as persistent challenges.

[9] The 2x top-up factor is calculated by multiplying by two the average of the two highest 3-year PBA allocations under the previous ADF cycle.

[10] Although Angola is not an FSF beneficiary, it is among the 19 African states listed as “fragile” in the harmonized MDB list.

Development effectiveness of Bank Group's engagement in fragile states

3.2. In its latest Development Effectiveness Review[11], the Bank Group's Quality Assurance and Results Department, in collaboration with the Fragile States Unit, documented the Bank Group's contribution to development outcomes, outputs and effectiveness in ADF-supported fragile states at country (Level 1), operational (Level 2) and institutional (Levels 3 and 4) levels as at end-2011. The Review notes that as a group, fragile states are making significant progress, albeit from a very low baseline, including by developing better policies and improved economic management. Stronger institutions are emerging and capacity for state-building and governance is growing, leading to more stable macroeconomic environments and a renewal of growth. The Bank Group's support for good economic management, governance reforms and private sector development is contributing to sustainable development and job creation. Liberia and Sierra Leone, for example, have received Bank Group–enhanced support since 2004 and are among the six fastest-growing African economies and the global top-10 list. Box 1 presents some examples and snapshots extracted from the Development Effectiveness Review.

3.3. Bank Group's support for regional integration is another important area of development effectiveness. Cross-border trade and economic integration provide strong mutual incentives for ensuring regional stability and peace, enduring social ties and shared prosperity within and across countries. The case of Togo is telling: ADF support for regional road links between Togo and Burkina Faso and between Togo and Benin restored Togo's space in the region and lifted critical bottlenecks in West Africa's transport links. Another showcase project expected to be approved in 2013, the Côte d'Ivoire–Liberia–Sierra Leone–Guinea Electricity Interconnection Project, will link the four fragile countries belonging to the Mano River Union and allow them to benefit from access to cheaper energy and greater solidarity. Other important regional projects targeting fragile states or fragility prevention include Phase I of the Drought Resilience and Sustainable Livelihoods Program in the Horn of Africa and the Nigeria–Cameroon Road Project, which not only completed an essential link on the Lagos–Mombasa Trans African Highway but also contributed to consolidating peace in the disputed Bakassi peninsula. The Fund has also contributed to stabilizing fragile situations through selected Regional Public Good projects such as support to regional payment systems (West Africa and East Africa), support to Lake Chad Basin Commission, and capacity-building for the Inter-Governmental Authority on Development (IGAD).

3.4. Analytical studies and knowledge products by the Bank Group are contributing to increased understanding of the causes of fragility and the ways to build resilient states. Recent examples include a study on the political economy in South Sudan that fed into the preparation of the "South Sudan Interim Country Strategy Paper (CSP)" and the "South Sudan Infrastructure Action Plan"—and joint work with the WB, the European Commission and the International Monetary Fund (IMF) on the "Common Approach to Budgetary Aid in Situation of Fragility"[12]. The Common Approach to Budgetary Aid in Situation of Fragility sets out a common approach to improve coordination and pool risk management in the provision of budget support in fragile states. Other important studies include lessons from diaspora engagement in nation-building and the role of disarmament, demobilization and reintegration programs in peace- and state-building initiatives.

3.5. *Policy and institutional performance*: Trend analysis of the Bank Group's annual Country Policy and Institutional Assessment (CPIA) and Governance ratings over the period 2005-2012 shows that fragile states are making a steady progress. During this period the average CPIA rating for the 17 fragile sates rose by 14% (from 2.5 to 2.9), and overall Governance rating rose by 16% (from 2.3 to 2.7) – higher than the rate of improvement of 10% on average in non-fragile states. The pace of CPIA and governance performance improvement in the 9 FSF Pillar I beneficiary countries is even higher, rising by an average 31% (from 2.4 to 3.4) during the same period. This trend indicates that reform commitments by the countries and sustained support by the Fund and other development partners are producing results.

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11 ADB. 2012. *Development Effectiveness Review 2012: Fragile States and Conflict Affected Countries*.

12 ADB and the WB. 2011. *Providing Budget Aid Support in Situations of Fragility: A World Bank- African Development Bank Common Approach Paper*.

Box 1: Snapshots of the ADF's contribution to development results in fragile states

Between 2008 and 2011 the Bank Group implemented 124 operations financed from the ADF's Fragile State Facility (FSF), the PBA and the ROs windows. The operations focused mainly on rebuilding infrastructure, governance reforms and capacity-building, regional cooperation, and addressing cross-cutting issues across the 17 FSF-eligible countries. The results are drawn from projects that exited the ADF portfolio between 2009 and 2011.

Infrastructure, sanitation, transport, energy and telecommunications. The ADF helped reconstruct or rehabilitate more than 850 kilometres of feeder roads, helping link agricultural production zones to their markets. It currently funds 42 infrastructure projects in fragile states, with a total value of about UA 0.9 billion, and 5 new projects worth UA 169 million have been approved.

Improving governance and transparency. The ADF addressed various facets of poor governance across FSF-eligible countries, conscious that it is both a result of conflict and a source. Support for improved governance covered public financial management and natural resource management. In Liberia it has supported the Extractive Industries Transparency Initiative (EITI) as part of the effort to ensure that the interaction between the countries and international companies is sustainable and profitable for both sides and not a further source of instability. Bank support has helped Liberia become the first African country and the second in the world to comply with the EITI standards.

Regional integration and trade. The ADF provided capacity-building support to the International Conference on the Great Lakes and the Mano River Union, to strengthen their leadership in key regional integration programs. The FSF resources have also provided technical and financial support for trade facilitation, including the development of new laws and customs systems, and for regional integration. The Bank Group is also conducting research on regional financial infrastructure, macroeconomic convergence and nontariff barriers.

Social and private sector development. The Bank Group helped construct or rehabilitate 570 community centres and social facilities, and it ran training programs to help poor people (especially women) launch new businesses. Along with other microfinance and social services these programs benefited more than 2.7 million people and helped create nearly 120,000 microenterprises.

Gender and human development. The ADF built 174 education support facilities and recruited and trained 12,771 teachers, with an emphasis on mathematics and science. In Guinea the ADF provided training opportunities to 20,000 young women and girls whose schooling was interrupted by conflict. In Sierra Leone, the Bank Group is supporting the Government to mainstream gender in its Poverty Reduction Strategy Paper - Agenda for Prosperity (2013 – 2017).

Agriculture and food security. Fragile states often depend heavily on food imports, as large proportions of their population engage in subsistence agriculture. The ADF helped to boost agricultural productivity by enabling improved land use on more than 26,000 hectares. It supported the construction or rehabilitation of more than 1,100 rural markets and storage centres and the drilling or repair of 3,000 boreholes. It also supported the training of more than 3,200 farmers, 60% women, in agricultural technology and land use. Between 2009 and 2011 these activities benefited 540,000 people. The ADF now has 37 agriculture projects in fragile states, worth around UA 325 million, and a further 7 projects, worth about UA 100 million, have been approved.

3.6. *Portfolio performance in fragile states:* Management has emphasized close supervision of project implementation and performance in fragile states given the challenges of weak leadership, volatile political environments, poor infrastructure and frequent disruptions in the provision of public and private services. The proportion of operations formally supervised twice a year increased to 63% in 2011, very close to the 2012 target of 65% and exceeding the Bank-wide target of 60%. The Development Effectiveness Review found that the share of problem projects in fragile states dropped by half between 2009 and 2011, from 14% to 7%, and the proportion of operations eligible for cancelation from 6% to 4%, while the disbursement ratio in fragile states rose from 15% to 20%. Although more remains to be done to further improve portfolio performance in fragile states, the trend is encouraging considering the fact that the portfolio indicators are on par with or even slightly better than those for other ADF countries.

3.7. These results are confirmed by the Country Portfolio Performance Assessment (PPA), which shows that fragile states on average scored above 3.5 (on a scale of 1 to 6), comparing favourably against other ADF-eligible countries. Among the countries benefitting from FSF Pillar I, three countries scored an average of 3.5 or less in PPA over 2011–2012, two between 3.5 and 4.0 and eight 4 or above (Table 2). Above-average portfolio performance scores indicate that resources are being used effectively.

Table 2: Portfolio Performance Assessment scores for fragile states

PPA ≤ 3.5	3.5 < PPA < 4.0	PPA ≥ 4.0
Sierra Leone (3.15) DRC (3.25) Burundi (3.5)	Côte d'Ivoire (3.8) Guinea Bissau (3.9)	Chad (4.3), CAR (4.5), Comoros (4.5), Congo Rep. (4.5), Eritrea (4.5), Guinea (4.8), Liberia (4.5), Togo (4.5)

Note: Scores indicate the average PPA for 2011–2012.

3.8. While the Bank Group's lending and non-lending activities, in coordination with other development partners, have achieved significant progress, Management recognizes the need to continually improve the quality and development effectiveness of the Bank Group's assistance to fragile states. This is even more so important given the wide array of daunting and long-term development challenges fragile states face.

Partnerships and Bank Group's contribution to international practice and knowledge on fragility

3.9. Since the Bank Group is part of the larger aid architecture, the success of its work in fragile states requires close coordination and collaboration with other partners, in the spirit of the Paris, Accra and Busan aid effectiveness commitments. The Bank Group is working more closely with African institutions, international financial institutions, UN agencies and other development actors in areas that are outside Bank Group traditional mandate, such as political economy analysis, justice and security sector reforms. It has participated in several initiatives, starting in 2007–2008 with the preparation and monitoring of the implementation of the Principles of Good International Engagement in Fragile States and related work-streams (e.g. on peace- and state-building) led by the Organisation for Economic Co-operation and Development (OECD). In 2008 the Bank organized and co-chaired a roundtable on fragility and conflict on the Third High Level Forum on Aid Effectiveness in Accra, which contributed to the establishment of the International Dialogue for State and Peace-building.

3.10. *Contribution to global knowledge and practice on fragility:* The Bank Group participated in the preparation of the 2011 World Development Report (WDR) on Conflict, Security and Development and of the 2011 New Deal for Engaging in Fragile States (Box 2). It convened a validation workshop for the WDR, making critical inputs in addressing fragility, such as South-South cooperation. Based on its regional experience, it pointed to the good practices where African countries serve as hubs to mobilize support in addressing a sub-regional member state's insecurity. For example: Kenya helped build regional stability and economic resilience in Somalia and South Sudan; Ghana helped address state-building in Liberia and Sierra Leone; and the Economic Community of West African States (ECOWAS) helped resolve conflicts in that sub-region, notably in Liberia. The Bank Group's support to regional consultations on peace- and state-building in 2011 (such as the 2011 "High-level Conference on Post Conflict Peace-building: the Rwanda Experience") and other follow-up activities contributed to the New Deal and to the peace and state-building goals released by the OECD in November 2012.

3.11. *The Global Facility for Employment Creation in Fragile Situations:* Employment generation is a key element of social cohesion and political stability in fragile and conflict-affected states. The Global Facility for Employment Creation in Fragile Situations was established in 2012 as a joint initiative by several multilateral development institutions.[13] The objective is to promote greater attention to the jobs agenda in fragile contexts and to support equitable access to jobs through partnerships between the private and public sectors. The facility has four operational pillars: policy development and coordination; direct interventions and programs; shared knowledge management; and monitoring and evaluation (results tracking). The facility also aims to promote common approaches to employment generation in fragile contexts, reduce duplication of efforts, maximize synergies and the impact of interventions and share knowledge on job creation in fragile contexts. Specific attention is given to the needs and capacities of conflict-affected groups, with particular attention to unemployed women and youth. In the first phase, initiatives

[13] The facility is a joint initiative by the Bank Group, the WB Group (including the International Financial Corporation and the Multilateral Investment Guarantee Agency), the International Labour Office, the UN Development Programme, the UN Economic Commission for Africa and the UN Peace Building Support Office.

are being piloted in Burundi, Côte d'Ivoire, Guinea, Guinea Bissau, Haiti, Liberia, Myanmar, Nepal and South Sudan.

Box 2: Emerging knowledge and practice on fragility

WDR on Conflict, Security and Development 2011

WDR 2011 brought together key messages relevant to revising the Bank Group framework for engaging with fragile and recovering countries. It identified critical elements needed for countries to break out of cycles of violence, such as the need to:

- Prioritize reform of institutions responsible for citizen security, justice and jobs.
- Sequence and pace other reforms over time, such as political reform, privatization and decentralization.
- Organize international assistance so that it is speedy and strengthens incentives for reform and accountability systems at the national level.

The Report also recommended directions for international policy:

- Providing more integrated support focused on the roots of fragility.
- Ensuring internal reform of agency systems to provide rapid action to restore confidence.
- Providing long-term support for institution-building and coordinated international actions.
- Aligning regional governance efforts and regional institutions.

The New Deal for Engaging Fragile States

The recently launched "New Deal," which builds on the vision and principles articulated in the Millennium Declaration to the Monrovia Roadmap, proposes key peace- and state-building goals (see also Annex V). It focuses on new ways of engaging. And it identifies commitments to build mutual trust and achieve better results in fragile states. The members of the Dialogue agree to use the goals as a foundation for progress toward the Millennium Development Goals and to guide development partnership in fragile and conflict-affected states.

The five goals are:

- *Legitimate politics.* Foster inclusive political settlements and conflict resolution.
- *Security.* Establish and strengthen people's security.
- *Justice.* Address injustices and increase people's access to justice.
- *Economic foundations.* Generate employment and improve livelihoods.
- *Revenues and services.* Manage revenue and build capacity for accountable and fair service delivery.

3.12. *Enhancing operational and policy coordination at the country and regional levels:* More recently the Bank Group held consultations with the WB's Global Center on Conflict, Fragility and Development in Nairobi, the European Union and the IMF on ways to improve institutional coordination and support in Africa's fragile states. Some of the specific areas of collaboration the partners agreed to implement include: sharing views and information with respect to experiences and lessons learned in implementing the New Deal; committing to a supportive engagement with fragile states; sharing risk assessments and pooling risks in budget support operations and similar activities; sharing schedules of upcoming budget support opportunities and exploring opportunities for potential synergies; and enhancing collaboration, starting with the Central African Republic, Côte d'Ivoire and Somalia through the country teams of the partner institutions. The partners will share economic and sector work, political economy analysis and fragility assessments in the Sahel region. The Bank Group, UN Economic Commission for Africa and the African Union (AU) have established a joint secretariat in Addis Ababa to coordinate their support to fragile states and advance the African Solidarity Initiative. This work is anchored in the AU Policy on Post Conflict Reconstruction and Development, which the Bank Group helped prepare and was adopted at the 2006 AU Summit in Banjul, The Gambia.

Bank Group's strategic role in supporting peace-building efforts

3.13. In recent years the Bank Group has applied its regional leadership and convening role more deliberately to support national and regional peace-building efforts and to facilitate donor relations in countries like Sudan, South Sudan and Zimbabwe. The Bank has intensified dialogue with Somali stakeholders and regional political leaders and its collaboration with other development partners to design a program of support to address the unique and urgent challenges affecting Somalia and the Horn of Africa. These efforts complement the ADF's traditional engagements in its core operational priorities.

- *Advisory and technical support to Sudan and South Sudan negotiations:* Since late 2010 the Bank Group has been providing analytical capacity and advisory support to the AU High Level Implementation Panel on Sudan in the context of the post-referendum negotiations between Sudan and South Sudan, particularly on financial and economic issues. The expert advisors provided by the Bank were critical in strengthening the capacity of the Panel on various technical issues, such as debt resolution, currency and banking, and trade and regional economic cooperation—and in developing the related option papers for the negotiations. This support has been instrumental in the significant progress made in negotiating complex and politically sensitive issues. The Bank is committed to supporting the peaceful settlement of the remaining post-secession issues, which are critical for sustaining peace and stability in the region as well as ensuring the economic viability of the two states.

- *Darfur Water Project for Conflict Resolution and Peace Building—Phase1:* With financing from the African Water Facility, the Bank Group launched the Darfur Peace-building Water Project in December 2012. Water for human and livestock consumption is an important part of conflict resolution and peace-building in Darfur, a region severely affected by economic and political instability, prolonged insecurity and conflict over access to water and land. The project will initially focus on rehabilitating water infrastructure, improving basic sanitation and supporting the preservation of the livelihoods (livestock and small-scale farming) of families in 20 rural towns. While relatively small in size, the project is of great importance as it provides a strategic entry for the Bank Group to catalyse additional support from the international community. The successful implementation of the project is expected to leverage up to USD100 million in investments to improve water systems in the region under phase 2.

- *Rebuilding the Somalia State and Resilience:* The Bank Group launched a regional initiative in 2011 for building long-term resilience to drought and chronic food insecurity in the Horn of Africa. Support to Somalia, most severely affected by the crisis, is critical to the success of the initiative and the Bank Group's investments would contribute significantly to peace, reconciliation, security and reconstruction efforts in Somalia—even more so given the recent developments toward peace and political stability. The Bank has already started sensitizing development partners and mobilizing support for a coordinated recovery program and scaled-up engagement to build Somalia's long-term resilience. A roundtable meeting, "Rebuilding the Somalia State and Resilience within the Horn of Africa," held during the Bank Group's 2012 Annual Meetings, initiated discussions and agreed in principle on a framework to establish the Somalia Enhanced Program and mobilize resources through the FSF.

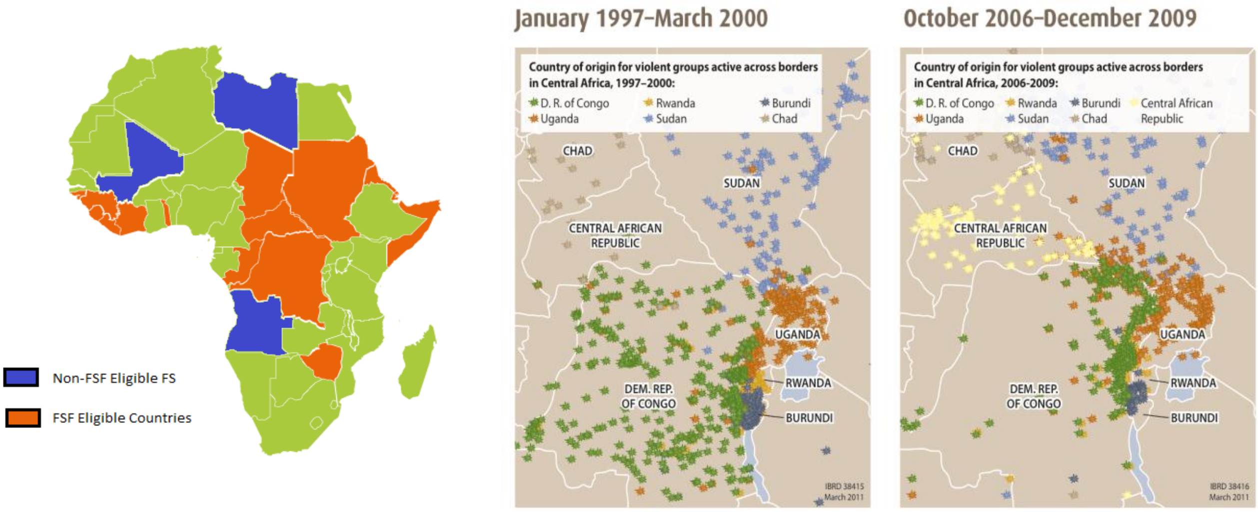
- *Zimbabwe Multi-Donor Trust Fund (MDTF):* Following Zimbabwe's Global Political Agreement in 2008, the Bank Group took a leadership role in supporting the country's economic recovery efforts and facilitating the improvement of donor relations with the establishment of the Zimbabwe MDTF in 2010. The Fund has so far mobilized UA 80.8 million from seven donors (Australia, Denmark, Germany, Norway, Sweden, Switzerland and the United Kingdom). It supports critical recovery and rehabilitation in water, sanitation and energy sectors. FSF Pillar III resources innovatively financed the cost of an independent procurement agent (a key requirement for implementation), assisted in the country's transition in advance of its eligibility for arrears clearance and supported capacity-building in public financial management, statistics and debt management. This restored capacity has contributed to Zimbabwe's substantial progress in economic management, and is paving the way for the country to re-engage with the international community.

4. ADF-13: Support to Fragile States in Context of Bank Group's Long Term Strategy

4.1. The Bank Group is well placed to lead partnerships with the international community to help Africa's fragile states transition out of fragility, given its development mandate and accessibility to its clients both as majority shareholders and recipients of the Bank Group's assistance. Africa has the highest number of fragile states. Nearly 200 million people (about 20% of the continent's population) reside in these states, which continue to demonstrate slower economic growth than other low-income countries, higher inequality and lower human development indicators, and are way off-track in achieving the 2015 Millennium Development Goals. Indeed, no low-income country coping with fragility and conflict has yet achieved a single Millennium Development Goal. Not surprisingly, fragile and conflict-affected countries also lag far behind other low-income countries in all other development performance measures, such as the Human Development Index, governance and transparency, institutional capacity and ease of doing business.

4.2. As highlighted in previous sections, the Bank Group's support to fragile states takes into account the regional dimension of conflict and fragility. The history and pattern of intrastate conflicts in Africa show that fragility and conflict are rarely contained to a country. Movements of displaced people across international and traditional boundaries, proliferations of small arms transnational organized crime, human trafficking and disruptions in livelihoods and trade all contribute to adverse spill-overs to neighbouring countries (Figure 1). That is all clearly evident in the Horn of Africa, in Central Africa and the Great Lakes and in the Mano River Union and neighbouring countries in West Africa and the Sahel region.

Figure 1: Africa's fragile states and regional spill-overs of fragility



Source: ADB (fragile states map; Raleigh and Others, 2010 (Central Africa conflict regional spill-over map)

Promoting inclusive and green growth in fragile states

4.3. The Bank Group's strategy and operational framework for supporting fragile states under ADF-13 and onwards will be anchored on the Bank Group LTS. The LTS aims to contribute to Africa's broad development agenda as well as to address the particular challenges in fragile states. It will support economic growth that is more inclusive, leading to deep reductions in poverty and equitable and sustainable development. It will also support Africa's gradual transition to green economies at the country and regional levels—to protect livelihoods, contribute to greater food security, promote sustainable use of natural resources and spur innovation, job creation and economic development. The LTS clearly recognizes that the quality, sources and distribution of growth and employment are particularly important, indeed critical to political stability in fragile states. It commits the Bank Group to scale up significantly its interventions in these countries and continue to invest in lasting solutions by building institutional and human capacity, promoting transparent and accountable governance, creating employment opportunities, particularly for the youth, and revitalizing economic activities through infrastructure development and creating secure environments for sustainable development.

4.4. The Bank Group's inclusive growth agenda, underpinned by a strong fragility analysis, would help in better understanding and addressing fragility and conflict in Africa. The impact of conflict and unresolved grievances are manifested differently among segments of society and socio-political fault lines, creating distinct risks and vulnerabilities across gender, age, income, class and ethnicity. The gender and age dimension of conflict is a great concern. Women and girls are often targets of gender and sexual-based violence, abductions and human trafficking, while boys and young men are forcibly recruited into armed groups, criminal gangs and other illegal activities. Poverty and a lack of employment opportunities often feed into disaffection and popular social unrest, which, left unaddressed, could quickly descend into much broader political crisis. Addressing fragility through an inclusive development process thus inherently implies confronting legacies of marginalization and exclusion from political processes and policy decision-making. It also implies ensuring the protection of legal and human rights for all citizens and broadening access to economic opportunities and basic public services. All these values are at the core of building state's political legitimacy, effectiveness and resilience, and constitute aid effectiveness objectives, to which the international community has committed in the New Deal's peace- and state-building goals.

4.5. The LTS focus on supporting Africa's resilience to climate change and gradual transition to a green economy also has particular relevance to fragile states and regions. The Bank Group is working with countries to promote sustainable infrastructure, manage natural assets efficiently and sustainably and build physical, social and economic resilience. Natural resources are critical in the economies of most of Africa's fragile states, and struggles over control of these resources have fed into several major conflicts over the last two decades (the Democratic Republic of Congo, Liberia, Sierra Leone). Desertification and environmental pressure are another source of vulnerability and chronic food insecurity in the Sahel and Horn of Africa—and a source of friction and conflict as populations and livestock are forced to move across traditional territories in search of water, pasture and arable land (Somalia, Sudan). These important issues are taken into account in the Bank Group's climate adaptation and mitigation strategies for project design and implementation. The ADF will continue to support (with additional resources from sources of climate finance) the conservation and sustainable use of natural resources, transparency and good governance in extractive industries, energy efficiency, trans-boundary water resource management, and capacity building in fragile states in sub-regions, such as the Mano River Union and the Lake Chad Basin Region.

4.6. The core operational priorities of the LTS—infrastructure development, regional integration, private sector development, governance, and skills and technology—are all important areas of support for fragile states that require sustained engagement and scaled-up resources. The LTS has also emphasized mainstreaming the cross-cutting issues of gender and food security in fragile states. These efforts will be informed by rigorous country-specific analysis of the key drivers of fragility and their implications for the Bank Group's engagement and operational guidance notes. Management is also exploring the appropriate balance between Bank Group traditional operational priorities and those recently identified by the growing body of knowledge on addressing fragility which underscores the need to support political settlements, justice and security sector reforms. The Bank Group has already established a strong track record of support to fragile states that includes rebuilding infrastructure, strengthening public finance management systems and building capacity in public institutions that deliver economic revitalization. Such investments are at the core of state-building objectives and contribute significantly to peace and stability. Looking ahead, Management will dedicate more efforts to correct the missed opportunities identified in the report of the independent evaluation, such as providing broader support to public sector reform, building the capacity of not only states but also non-state actors, addressing inequality and exclusion, targeting highly strategic areas of reform such as justice and rule of law and building aid coordination capacities.

Program of support for fragile states under ADF-13

4.7. Under ADF-13 the Fund will continue to provide enhanced support to fragile states, building on investments initiated in ADF-11 and ADF-12. It will position itself to respond to emerging needs and opportunities more proactively and purposefully. Based on the knowledge and experience accumulated, the Bank Group will provide differentiated approaches to the specific challenges facing each fragile state. The Bank Group would need to mobilize substantial amount of resources from all internal financing windows (in addition to the ADF) – including the Bank's net income, private sector window and bilateral and thematic funds—as well as from external sources to finance a scaled-up program of support to fragile states under ADF-13. Major initiatives that would require substantial financial resources are summarized below.

- *Continuing support for current FSF Pillar I beneficiaries to preserve, consolidate and scale up gains:* Nine countries are benefiting from second cycle Pillar I supplementary support, while three countries (South Sudan, Sudan and Zimbabwe) were granted eligibility for first cycle allocation under ADF-12. For the first set of nine countries, a discount factor was applied to their FSF allocation in accordance with the phase-out framework agreed with Deputies during the ADF-12 replenishment discussions (see also paragraph 5.21). It is important that the Fund continue supporting these countries in their recovery and development efforts and provide the requisite resources as they transition out of fragility. It is also critical that special attention is given to fragile states that are experiencing slippages and set-backs (such as the Central African Republic and the Democratic Republic of Congo) and position itself to provide substantial support the newly independent South Sudan whose development needs are particularly enormous.

- *Early support to re-engaging countries (Somalia, Sudan and Zimbabwe) and staying engaged in countries undergoing crisis (Mali):* FSF resources have positioned the Bank Group to provide strategic leadership and advisory support in Somalia, Sudan and Zimbabwe. The flexibility embedded in the FSF would also serve well other countries, for example Mali, which has been experiencing political crisis and deterioration stability following a military coup in early 2012. These are countries undergoing complex political challenges that limit the ability of other development partners and bilateral donors to remain engaged or revive development support. Recent developments in Somalia, in particular, indicate that it is entering an encouraging but critical new chapter that calls for substantial financial and political support from the international community. The Bank Group Country Brief for Somalia currently under preparation identifies some strategic areas of Bank Group intervention to be implemented through a proposed Somalia Enhanced Program (SEP). The Program aims to rebuild long-term resilience and support inclusive economic growth in Somalia and the Horn of Africa. The SEP would facilitate the re-engagement of Somalia with the international community, finance the Somalia component of the Bank Group's drought resilience project launched in 2012 and strengthen existing governance and human and institutional capacity building activities. Resources required to finance the SEP are expected to be mobilized through the FSF, while the roll-out and implementation of the Program will be coordinated with recovery operations supported by other donors.

- *Arrears clearance support:* Under ADF-13 the Fund will continue to provide capacity building and technical assistance to accelerate progress toward full normalization of relations with Somalia, Sudan and Zimbabwe (by the Bank Group and the wider donor community). Such support is critical for unlocking development resources from the Bank Group as well as other donors and creditors and for qualifying for debt relief assistance. The cost of arrears clearance for Somalia, Sudan and Zimbabwe at the end of 2013 is estimated to be UA 689.3 million (Table 3). Deputies would recall that during the ADF-12 Mid Term Review it was agreed that FSF Pillar II resources would be rolled into ADF-13 in the event that none of the eligible countries qualify for arrears clearance support during the remainder of the ADF-12 period.

Table 3: Projection of outstanding arrears to the Bank Group as at end-December, 2013

(UA millions)

Country	Arrears to ADB	Arrears to ADF	Arrears to Nigeria Trust Fund	Total
Sudan	129.37	88.04	—	217.41
Zimbabwe	397.06	10.50	—	407.56
Somalia	15.36	47.19	1.74	64.29
Total	**541.79**	**145.73**	**1.74**	**689.26**
Resources available (FSF)	**362.29**	**—**	**—**	**362.29**
Financing gap	179.5	145.73	1.74	326.97

4.8. ADF-13 regional support will continue to build on important initiatives under implementation and to roll out new programs and projects. The Bank Group's support for peace-building in Sudan and South Sudan, under the leadership of the AU, has particularly been useful in identifying a framework for innovative partnership with regional institutions worth replicating. Examples of regional initiatives under ADF-13 include:

- *Horn of Africa support for drought resilience and sustainable livelihoods:* To address the recurrent droughts and chronic food insecurity in the Horn of Africa, the recent episode of which affected more than 12 million people, the Bank Group has developed a comprehensive program—the Drought Resilience and Sustainable Livelihood Program—as a major regional initiative to mitigate the impact of droughts and build long-term resilience, stabilize the natural environment and restore livelihoods. The program primarily targets eight countries in the Horn: Djibouti, Eritrea, Ethiopia, Kenya, Somalia, Sudan, South Sudan and Uganda. To be implemented in collaboration with the IGAD and its member countries, it requires significant resources, and the Bank is working in partnership with other multilateral and bilateral partners in addition to employing ADF resources. The estimated resources required in the next five years is about USD 750 million (UA 490 million), and under ADF-12 the project's first phase has commenced targeting Djibouti, Ethiopia, Kenya and the IGAD Secretariat with financing of UA 91.21 million.

- *Response to the food and political crisis in the Sahel:* Similar to the challenges in the Horn of Africa, an estimated 16 million people are directly affected by the recent food crisis, and a deteriorating security in the northern Sahel which is aggravates the situation further. To break the recurrent cycle of famine, the Bank Group, in collaboration with the Permanent Interstate Committee for Drought Control in the Sahel,[14] has designed a program of support aimed at strengthening the resilience of the region and reducing its vulnerability to climate change and food insecurity. The estimated cost of the program is USD 473 million. The Bank plans to tap into the ADF-13 resources to finance part of the program and coordinate with other development partners to mobilize additional resources.

- *Central Africa and Great Lakes Region:* The Central African and Great Lakes region remains hobbled by the legacy of decades of conflict and poor governance. Recent developments also point to a worrying sign of potential resurgence of regional instability and conflict. To improve economic recovery and peace-building in the region, the Bank is supporting a number of regional infrastructure projects and the Multi-Country Demobilization and Reintegration Transitional Support Program, set up in 2009 with several development partners. The Program is to benefit countries of the Great Lakes Region, specifically Angola, Burundi, Central African Republic, the Democratic Republic of Congo, the Republic of Congo, Rwanda and Uganda. In the coming years the Bank will seek, whenever possible, to support social and economic reintegration to promote job creation and social stability in the region. In addition, the Bank Group will continue to support the Lake Chad Basin Initiative as part of its effort towards combating the adverse impact of climate change and promoting food security by investing in agriculture and fisheries. The cost of the initiative's five-year program (2013–2017) is estimated at 117 million euros. As the lead partner of the Lake Chad Basin Commission, the Bank Group will continue to provide support and facilitate efforts to strengthen partnerships and mobilize

[14] The Permanent Interstate Committee for Drought Control in the Sahel countries are Burkina Faso, Cape Verde, Chad, The Gambia, Guinea, Guinea Bissau, Mali, Mauritania, Niger and Senegal.

resources from other sources.

- *Mano River Union (Côte d'Ivoire, Guinea, Liberia and Sierra Leone) road and energy infrastructure:* Protracted conflict and instability in the region have destroyed the physical and institutional infrastructure and impeded regional integration and economic growth and development. Unlike other ECOWAS countries, Côte d'Ivoire, Liberia and Sierra Leone have much of the regional road network within their borders still unpaved. Despite post-conflict interventions, 30%–60% of the regional road network is in poor condition, contributing to high road transport costs, limiting the pace of doing business and slowing the implementation of other post-conflict recovery programs. The region also badly needs reliable energy. The Mano River Union regional initiative is building the energy and road backbones respectively with the Côte d'Ivoire–Liberia–Sierra Leone–Guinea Interconnection and the PIDA Trans-African Highway. ADF-13 support will connect people and markets in the region by closing most of the infrastructure gap, promoting trade and private sector development and helping the region get out of fragility and instability.

ADF-13 indicative pipeline of projects in fragile states

4.9. The foregoing national and regional programs and initiatives would require significant resources under ADF-13. The cost of the indicative pipeline of public sector operations for the 17 countries classified as fragile sates during the ADF-12 period is estimated at UA 1.9 billion (Table 4), excluding the cost of arrears clearance mentioned in paragraph 4.7 and private sector operations. This estimate is based on careful analysis of the lending program in CSPs and the Bank Group three-year rolling programme and budget document, which Management uses to establish a filtered pipeline of operations that is updated annually.

4.10. In terms of financing envelopes, over a third of the operations in the indicative pipeline are multinational projects that would be financed by the RO and PBA envelops. The remainder of the pipeline is composed of national projects that would require financing from the PBA and FSF envelopes. Projections for FSF financing have not been made given that the size of the set-aside for fragile states under ADF-13 is yet to be agreed with Deputies and that the eligibility criteria and resource allocation methodology could potentially be refined.

Table 4: ADF-13 indicative pipeline financing needs for 17 fragile state countries

(UA millions)

ADF financing envelope	Indicative pipeline cost
National operations (PBA and FSF) [a]	1,294.85
ROs	578.20
Total	**1,873.04**

Notes: a. Excluding the cost of arrears clearance estimated at UA 689 million as at end-2013 (see Table 3).

5. Addressing Operational and Strategic Challenges: Toward a Package of Reforms

5.1. Even with better field experience, greater development effectiveness and strong portfolio performance, several challenges have emerged over the five years that the Bank Group has been implementing its current approach for engaging in fragile states. While noting several strengths in the current strategy, the independent evaluation (2011) and the Bank's internal taskforce have identified areas that require improvement, including:

- Improving programmatic approach through strong "fragility lens", including political economy analysis in the conceptualization and design of policy documents, country strategies and project interventions that can lead to peace- and state-building.
- Improving engagements with fragile states through a better application of the growing body of knowledge and experience generated by the Bank Group and its partners.
- Making the FSF and the eligibility criteria more flexible and responsive to changing needs and circumstances.
- Improving the management of Pillar III for a more effective technical assistance and capacity building support. Systematically monitoring and evaluating the projects and programs and using the evidence to improve project cycle management.
- Aligning the Bank Group's institutional arrangements and resources to implement the strategy for enhanced engagement.

Management's actions and commitments to improve institutional effectiveness

5.2. Management has made some progress in implementing the commitments and remedial measures outlined in the Management Response to the findings of the independent evaluation. It established the High-Level Panel to advise and guide the Bank Group as it develops a revised strategy for engaging in fragile states. It relocated and increased the capacity of the Fragile States Unit in the First Vice President–Chief Operating Officer's Complex in September 2012 to give it higher visibility and enable it to undertake its mandate that cuts across Bank Group complexes.

5.3. Management is also taking actions to address other institutional and operational constraints to strengthen the Bank Group's capacity and effectiveness in serving fragile states. Key areas of on-going efforts include: (i) reviewing and updating the operational instruments and procedures to improve their compatibility with the business demands and operational challenges in fragile states; (ii) strengthening institutional capacity and expertise; and (iii) deepening strategic partnerships.

I. Reviewing and updating Bank Group operational instruments

5.4. As a learning institution, the Bank Group continually reviews and updates its instruments and approaches to deliver development assistance, especially for supporting fragile states.

- *Better application of "fragility lens" in country/regional programming and strategies:* Management will substantially improve and differentiate CSPs to ensure that issues of fragility and conflict are adequately captured and addressed—and that detailed analysis and understanding of the political economy as well as the drivers of conflict are applied to inform programming documents and project appraisal reports. Such documents would lay out how Bank Group's support is geared towards addressing the causes of fragility and provide the appropriate results framework against which progress could be monitored and evaluated. Management is in the process of changing the current format of CSPs and Country Briefs to achieve the required differentiation. Since much expertise in the political economy resides outside the Bank, developing country strategies and programming will require close coordination and collaboration with other partners, including the UN, key multilateral and bilateral actors and regional organizations, all in support of country-led national strategies.
- *Rigorous analysis of the regional and sub-regional dimensions of state fragility:* Bank Group regional and national programming documents ensure that the Bank Group pursues a holistic country development strategy that fully recognizes the role of neighbouring states

in preventing others from sliding into fragility and in facilitating turnarounds of any fragile state in their sub-region. It will also continue to carefully appraise and implement high-priority multinational operations that could have a higher payoff in stabilizing sub-regions through strengthening the economic, social and political ties of countries. Management will reflect on how best to scale up support to regional programs that address fragility, either through regional earmarks in the FSF or through enhanced incentives for fragile state participation in ROs funded through the ROs envelope.

- *Guidelines for operationalizing MDTFs:* MDTFs pool funding by groups of donors to support agreed development objectives. They are important for operationalizing strategic partnerships and providing assistance to fragile states where speed, flexibility and closer donor coordination are essential for effective delivery of development assistance. Led by the Policy Department, Management will elaborate guidelines on the use of MDTFs for Board consideration in the fourth quarter of 2013.

- *Adapting and using financing instruments better suited to the needs of fragile states:* Instruments such as the Protection of Basic Services (PBS) have proven effective in protecting and promoting basic social services in the context of a political crisis and interruptions in direct budget support. The PBS is a high-volume, fast-disbursing instrument that finances recurrent expenditures for basic services at subnational levels based on adherence to shared program principles. Capacity building support is built into the programs to strengthen governance and service delivery systems, transparency and accountability. Bank Group's experience implementing the PBS instrument in countries such as Ethiopia will provide useful lessons. Management is also exploring options that would enable the Bank Group to leverage more of its private sector window and the FSF in support of fragile states.[15] Private sector investments in fragile states play important catalytic role as they contribute to job creation, economic revival and service delivery. For fragile states that are showing gradual improvement, Bank Group will provide support through innovative private sector facilities and instruments to enhance economic growth as a mechanism to consolidate stability, recovery and overall improvements in living standards. For example, in Sierra Leone the Bank is supporting the establishment of a Public Private Partnership Unit to enhance the capacity of the Government to better manage, coordinate and advise on public private partnership contracts in the areas of energy, transport infrastructure and agricultural transformation. The Fragile States Unit has initiated economic and sector work to identify some additional targeted mechanisms that can enhance the role of the private sector in fragile states.

- *Improving business process and risk management*: The Bank Group's application of financial management and procurement arrangements has not provided the flexibility or operational efficiency expected in the 2008 strategy for engaging in fragile states. Reasons cited by staff include the rigidity in the procedures—seen to apply across the board, regardless of local conditions—and the lack of sufficiently specific guidance on applying fiduciary safeguards in fragile sates for operations financed both by the FSF and the ADF (or other Bank financing windows). The underlying impediment is the tension between the Bank Group's desires to maintain fiduciary standards applicable to Bank Group operations across the board and at the same time to engage more deeply in fragile states which often require context-tailored approaches. Management will review the application of the Bank Group's procurement, risk assessment and financial management framework in fragile states to identify where additional flexibility, or clear guidance, is needed. To inform Management's reflection on this issue, the Fragile States Unit has prepared an early draft report of economic and sector work on "Managing Risks in Fragile Contexts".

- *Results measurement and monitoring:* The Bank Group will incorporate the newly released peace- and state-building indicators in its results measurement and monitoring framework for fragile states. The indicators are designed to inform and contribute to on-going development planning processes, and are applied by stakeholders to identify the drivers and features of fragility and conflict and the sources of resilience in a country.

[15] This would include ensuring access (by fragile states) to newly introduced financing instruments such as the ADF Partial Risk Guarantee, as well as those currently under development and highlighted in the "Long-Term Financial Capacity of the ADF" paper.

II. Strengthening institutional effectiveness in fragile states

5.5. In addition to the actions already taken, Management has focused on enhancing country presence and staffing capacity to better support fragile and conflict-affected countries.

- *Decentralization and human resource capacity:* Management continues to ensure that the organizational capacity of the Bank Group is adequate to support implementation of the proposed strategy for assisting fragile states in Africa. In addition to the coordination and advisory role provided by the Fragile States Unit (with increased staffing under ADF-13), decentralization is expected to improve implementation of the Bank Group's ambitious agenda by increasing the staff strength in field offices. By expanding Bank's presence in fragile states, Management expects to improve country programming and portfolio management, bolster government capacity and enhance donor coordination and aid harmonization.

- *Management of FSF Pillar III operations:* The independent evaluation had identified that the management of Pillar III activities by the Fragile States Unit was taking up too much staff time and constraining the Unit's capacity to engage more deeply in analytical work and strategic leadership on issues of fragility. The Fragile States Unit has started devolving day-to-day management of the FSF Pillar III portfolio to field offices and sector departments. Such a move would relieve the Unit some of its direct management activities. Broader recovery operations will continue to be identified, prepared and implemented by sector departments, while FSF Pillar III would be reserved for situations that required targeted, innovative or rapid assistance, including pilot projects that could be scaled up.

- *Support for specialised staff skills development:* Management plans to roll out a sequenced Group-wide training program as part of its internal capacity-building, in collaboration with the Human Resource Department and the African Development Institute, starting in 2013. The program will start by training managers, task managers and staff working in fragile states (including Fragile States Unit staff, country departments, sector departments, field offices and essential support departments such as Procurement and Legal) to improve their understanding, knowledge and skills on the implications of fragility and conflict to their regular work. The training will improve the quality and relevance of CSPs and other programming documents, project design and implementation, and advisory and analytical services in support of peace-building and development strategies. The Fragile States Unit will lead in preparing and implementing the training program on addressing fragility and conflicts.

- *Strengthening staff incentives and accountabilities:* To attract and retain high-calibre staff in fragile states considered "hardship areas", the Bank has to periodically review its staff compensation and benefits package. Currently the Bank Group grants some benefits to staff working in fragile states in line with the donor community's practices in the country, though the benefits are not as comprehensive as those of comparator institutions such as the WB.

III. Expanding and deepening strategic partnerships

5.6. The Bank Group has nurtured strategic alliances and appropriate division of labour among international development partners based on institutional comparative advantages, as highlighted throughout this document. Going forward, the Bank Group will move beyond aid coordination to achieve deeper partnerships and benefits through the framework of "one country one plan" underscored in the New Deal. It will support partner countries implementing the international commitments in the New Deal and their participation in the International Dialogue for Peace-Building and State-Building that brings together donors and partner countries to discuss and agree on how to improve the effectiveness of aid in fragile states.

Issues for further reflection and preliminary guidance from Deputies

5.7. This section presents some of the key issues identified by Management for further reflection and adjustment, in consultation with ADF Deputies. Deputies' comments and initial guidance, as well as guidance from the High Level Panel, will inform further analysis and elaboration of options for discussion in the second ADF-13 replenishment meeting.

I. Defining and assessing fragility

5.8. The 2008 Bank Group strategy for engaging in fragile states was designed to respond to the heterogeneous group of countries affected by conflict and fragility. The strategy purposely refrains from providing a single definition of fragility or prescriptive approach for assessing fragility. Deputies will recall that the Bank Group partnered with other international financial institutions to develop, through a Multilateral Development Bank (MDB) Working Group, the 2007 shared approach of classifying countries on the basis of their performance against indicators designed to capture the quality of policies, governance issues and capacities of institutions. Thus according to this shared approach a country is classified as fragile state if it has an ADB/WB harmonized average CPIA rating of 3.2 or less—or a UN or regional (AU, European Union) peace-keeping or peace-building mission during the preceding three years.

5.9. The shared approach has enabled the MDBs to map out common sets of fragile states, rather than have each institution operate with its own list of countries, given the wide variation in the nature, causes, and duration of fragility in countries where MDBs engage. The use of the CPIA to identify fragile sates has, however, proven inadequate for several reasons, including the fact that the CPIA was not designed to capture issues of fragility and conflict. It has also proven ineffective in galvanizing common operational approaches for dealing with situations of fragility at the subnational level in countries such as Mali that have had good performance.

5.10. In preparation for the second ADF-13 replenishment meeting (June 2013), Management proposes to undertake further analysis and elaborate options to improve the definition and modalities of assessing fragility.

- One option could be to continue using the CPIA, augmented by detailed case-by-case assessment of fragility and conflict at the country level for ADF and non-ADF countries that could potentially fall into fragility or conflict, as for Libya and Mali. Such an approach would be useful in ensuring enhanced collaboration and coordination between the Bank Group and other MDBs. Alternatively, the Bank Group could develop a more fragility-oriented and updated fragile state performance index, or fragility assessment index, in consultation with other MDBs. The index could include relevant elements of CPIA indicators, the New Deal's peace- and state-building indicators released in late 2012 and other indicators that measure state fragility and resilience.
- Pursuing any of the options—and elaboration of analytical inputs and assumptions—would ensure alignment with the New Deal, which calls for country-led fragility assessments and greater collaboration and coordination between the Bank Group and other MDBs. The Bank Group has initiated discussions on this issue with the WB, IMF and European Union.

5.11. Related to the issue of definition, Management will also deliberate on the term "fragile states," which the independent evaluation and some partner countries consider "stigmatizing" and "potentially destabilizing," besides being applied in countries that may well be on the path to recovery. The term is also limited, in that it does not lend itself to transitional situations or sudden or short-lived crisis. Building on the current context-differentiated framework, the Bank Group would also take into account countries undergoing sudden changes and refine the operational approach applicable across a broader spectrum of fragility, or situation of fragility, at regional, state and intrastate levels.

II. Revisiting the two-stage eligibility criteria for FSF Pillar I

5.12. The ADF Deputies will recall that eligibility for the FSF Supplemental Support is based on a country being assessed as fragile, using the 2008 MDB definition of fragility outlined above, in addition to meeting the two-stage criteria that assess country commitment to consolidating peace and security, as well as having significant unmet socioeconomic needs, owing to prolonged conflicts or crisis; and to improving macroeconomic conditions and pursuing sound debt and financial management practices (Table 5). Eligibility for the FSF Supplemental Support Funding is therefore "deliberately biased" toward countries hardest hit by conflict or crisis.

Table 5: Eligibility criteria for FSF supplemental support

Stage 1 eligibility criteria	
Commitment to consolidate peace and security	To demonstrate commitment to consolidating peace and security after crisis or conflict, the country should have: • Signed comprehensive and internationally recognized peace agreement or a post-crisis or reconciliation agreement, and no on-going hostilities of any significance. • A functioning governmental authority or transitional government broadly acceptable to stakeholders and the international community.
Unmet social and economic needs	Post-crisis and transitional states are considered to face a uniquely challenging combination of circumstances demonstrated by: • Continuing severe economic difficulties caused by conflict, as evidenced in contraction of real gross domestic product per capita by 10% or more since 1990. • Extremely low levels of human development as indicated by the country's rank in the bottom quintile of the UNs' Human Development Index.
Stage 2 eligibility criteria	
Improved macroeconomic conditions and sound debt policies	Assessment of a country's program to improve its macroeconomic performance and debt management policy should be conducted in close collaboration with other partners and based on key performance benchmarks used to guide engagement and assess the country's progress over the medium term.
Sound financial management practices	Assessment of a country's commitment to pursue sound public financial management practices should be based on progress in reforming its public expenditure management system, addressing corruption seriously and reviving or strengthening its revenue mobilization institutions.
Transparent public accounts	Monitoring of the transparency of public accounts should assess the regularity of reports or publications on government revenues and expenditures, external debt obligations and new borrowings.

5.13. To better respond to the wide range of fragility and to ensure that non-post-conflict fragile states benefit from the FSF Pillar I, the two-stage eligibility criteria could be modified by supplementing it with detailed case-by-case assessment of commitments and programs to address a broader spectrum of drivers of fragility. The approach has the advantage of ensuring a more comprehensive assessment of eligibility for FSF Pillar I. Also in line with the requirements of the New Deal for Supporting Fragile States, the proposed assessment could be conducted jointly with the country and its development partners.

III. Eligibility for FSF Pillars II and III

5.14. *Pillar II:* No changes are being proposed for eligibility to FSF Pillar II. Management negotiates eligibility for this support with ADF Deputies on a case-by-case basis. Eligible countries should be potential candidates for the Heavily Indebted Poor Countries debt relief initiative, and must not have reached the decision point of the program. Over the ADF-12 the Board of Directors and the Deputies had identified Somalia, Sudan and Zimbabwe as potentially eligible for FSF Pillar II support.

5.15. *Pillar III:* Currently, eligibility for FSF Pillar III is open to all countries classified as fragile state. Management is of the opinion that the objective of Pillar III, of supporting targeted capacity building efforts, should be maintained. Adjustments to the eligibility criteria and resource allocation could potentially be considered, if warranted, depending on the definition of fragility and operational framework that would be adopted in ADF-13 (as noted in paragraphs 5.8-5.11).

IV. FSF Resource Allocation Modality

5.16. Performance plays an important, albeit indirect, role in the resource allocation methodology applied for FSF Pillar I. The amount of Pillar I resources allocated to eligible countries is determined based on the lagged average of the country's two highest PBA allocations in the previous ADF cycle, multiplied by two (a top-up factor of 2) and subjected to a floor of UA 10 million and a ceiling of UA 60 million. While this approach has had the advantage of transparency and predictability, it has the weakness of being unresponsive to changing country circumstances and needs during a given replenishment cycle. This is because the size of FSF envelope is fixed during the ADF replenishment discussions based on Deputies' endorsement of the modality for allocating FSF Pillar I resources.

5.17. The paper on options for improving the PBA system has offered some options designed to strengthen the PBA framework for fragile states. If adopted, these changes may have direct or indirect implication to the FSF resource allocation modality. Management is therefore of the view that it would be more prudent to revisit this issue after the initial feedback from Deputies on the broader issue of resource allocation to fragile states discussed in "Options for a More robust ADF PBA System" paper and related issue discussed in this review paper.

V. Period of enhanced engagement and exit strategy

5.18. It may be recalled that the Bank Group 2008 operational framework for supporting fragile states was provided for six years, or two ADF cycles, starting with ADF-11 and subject to funding. The underlying assumption that informed the determination of the period of enhanced support was that, as the performance of fragile states improve, their PBA allocation would also rise—therefore putting their allocation on par with other ADF countries. However, the evidence shows that annual CPIA rating improvements, even for strong reformers, are quite modest and that it takes much longer for countries to attain a significant change in their CPIA score that would result in appreciable increase in their PBA allocation.

5.19. International good practice, the experience of other partner institutions, including the WB and the OECD's Development Assistance Committee, and credible findings from research point to the desirability of providing enhanced or exceptional support to fragile states, especially the post-conflict category, over a longer period of more than 10 years in order to increase the chance of reinforcing economic recovery in these countries. Indeed, the 2011 WDR clearly demonstrates that recovering from conflict can take up to 30 years and that the path out of fragility for even the most successful countries can be measured in a similar timeframe. Management is convinced that continuing the enhanced support to fragile states beyond the ADF-12 cycle would ensure that recovery and reform efforts are sustained. The continued FSF support would also reduce volatility in resource allocation to the FSF beneficiary countries.

5.20. Accordingly, **Management proposes to lengthen the period of the FSF Pillar I Supplemental Support for eligible post-conflict and crisis countries from six years (two ADF cycles) to at least nine or more years (a minimum of three ADF cycles or more) and thereafter to be determined case by case based on an assessment of the country's fragility.** A lengthened phase-out approach would be more responsive to different country circumstances and ensure a smoother exit from the FSF, especially considering the destabilizing effect of sudden or significant drop in resource allocation on countries benefiting from the FSF.

5.21. **Management also proposes to refine the ADF-12 phase-out framework to mirror more closely the revised eligibility criteria that would be elaborated for the second ADF-13 replenishment meeting.** ADF Deputies will recall that the FSF phase-out framework, introduced under ADF-12, was designed based on three simple criteria: a harmonized CPIA rating of 3.3 or more; gross national income per capita of USD 500 or more; and a period of six years or more of enhanced support that FSF beneficiaries have received from the Bank Group. The additional parameters to be considered in revising the phase-out framework may include indicators that measure progress toward the peace- and state-building goals and/or factors slowing down the transition, most notably a resurgence or continuation of conflict in parts of country, particularly if this includes regional or global drivers beyond the country's control.

6. Conclusion and Recommendations

6.1. Over the last several years the Bank Group has progressively enhanced its strategic role in and operational support to fragile and conflict-affected regional member countries. This has been more so evident since 2008 with the adoption of the Bank Group Strategy for Enhanced Engagement in Fragile States. The complex and context-specific development challenges faced by fragile and conflict-affected regional member states, often with negative regional spill-over effects, has necessitated the Bank Group to continuously adapt to diverse and fast-evolving circumstances, consistent to its commitment to remain relevant to all its regional member countries. The unparalleled legitimacy the Bank Group enjoys from its clients has also meant that there is a high expectation for the Bank Group to take on a proactive and leadership role in fragile and conflict-affected countries as the convener, voice and resource (financial, advisory and knowledge) platform for enhanced and sustained engagement.

6.2. Entering the ADF-13 period, the Bank Group is equipped, perhaps more than any other time before, to deliver an ambitious program of support to Africa's fragile and conflict-affected countries and regions. The LTS provides the strategic directions and institutional anchoring for deeper engagement in fragile states, while the lessons and operational experiences gained in implementing the enhanced strategy and emerging global knowledge serve as the source of innovation and important reference for what has worked and what has not worked.

6.3. Evidence from the various reviews support the conclusion that the implementation of the 2008 strategy and related operational and financial framework has enabled the Bank Group to significantly scale up its support to fragile states over the ADF-11/12 period, and that the continuation of this support over a longer period of time is critical for ensuring the momentum of progress is maintained and gains are not reversed or lost.

6.4. Management therefore recommends that

- the ADF continues to provide a dedicated financial and operational support through a special set-aside for fragile states, and that these resources be channelled through the FSF; and
- the period of the FSF Pillar I supplemental support for eligible countries be lengthened from six years (two ADF cycles) to at least nine or more years (three ADF cycles or longer) and thereafter to be determined on a case-by-case based on an assessment of the country's fragility.

6.5. Management underscores the importance of ensuring the FSF remains an effective vehicle for addressing the unique financing and operational challenges in fragile states. To this end, Management proposes to:

- undertake further analysis and elaborate options for defining and assessing fragility;
- revisit the FSF eligibility criteria and resource allocation methodology to align closely with adjustments to definition of fragility and operational framework, as well as to take into account changes that may be introduced to the PBA system and may have implications to fragile states; and
- refine the FSF phase-out framework to mirror more closely the revised eligibility criteria that will be elaborated in parallel.

6.6. Based on feedback and initial guidance from the ADF Deputies, Management will present fully elaborated proposals and options for consideration during the second ADF-13 replenishment meeting. The final agreed changes and improvements will feed into the preparation of a revised Bank Group strategy for engaging in fragile states.

6.7. Management is fully cognizant that there is room for improvement in a number of areas including the need to make country programming documents and project appraisal reports for fragile states more fragility-sensitive; to improve business processes (such as financial management and procurement procedures) and enable the Bank Group balance better the operational risks and rewards inherent in working in fragile states; and to strengthen the capacity of the Bank Group to deliver timely and high-quality assistance. These are areas where Management has already started taking actions.

6.8. Deputies are invited to take note of this report and provide their guidance.

Annex I: Summary of Recommendations of the independent evaluation of the Bank Group's assistance to fragile states and Implementation Status

Management's Commitment	Implementation Status
Recommendation 1: *Revise the resource allocation mechanism for fragile states.*	
■ ORMU and ECON will present to Senior Management by ***April 2012*** a discussion note on potential improvements to the PBA system. In doing so, the note will fully address the operational and policy implications of PBA adjustments to fragile states. ■ Building on the findings of the discussion note, the High-Level Panel on Fragile States will formulate by ***June 2012*** recommendations on improvements the FSF resource allocation mechanism. ■ Following the discussions by Senior Management, proposals will be presented to the Boards of Directors and ADF Deputies in the context of ADF-13 negotiations.	**On-going** ■ PBA review paper was drafted by staff and discussed by Senior Management (Q1-Q2 2012). ■ The High Level Panel (HLP) on Fragile States was established in Q4 2012; and is expected to commence advisory role in Q1 2013. ■ Proposed changes to PBA system and FSF resource allocation framework are being presented for Deputies' guidance during the ADF-13 replenishment discussions (Q1-Q2/3 2013).
Recommendation 2: *Rationalize key organizational roles.*	
■ OSFU will gradually devolve day-to-day management for all Pillar 3 capacity-building operations to field office or sector staff in line with available capacity by ***December 2012.*** ■ OSFU will work with CHRM to design training modules that equip key operational staff in field offices, regional and sector departments with the knowledge and skills they need to better support clients and operations in fragile states. ■ OSFU with ORVP will develop fragility-responsive portfolio management KPIs by ***June 2012***.	**On-going** ■ OSFU has started to devolve management of Pillar III activities to Field Offices in Q2/3 2012. ■ Training series on Justice and Security Sector has been held in 2011 and 2012. The first training on application of "Fragility Lens" on programming and strategy documents scheduled for Q1 2013. ■ KPIs to be developed as part of the revision of the strategy for engaging in fragile states.
■ OSFU will systematically participate in Country Team Meetings to provide inputs and guidance to CSPs and operations in fragile states as needed. ■ OSFU will by ***July 2012*** systematically review operations and country strategies in fragile states and flag potential issues to OpsCom. ■ OSFU will develop by ***August 2012*** a guidance tool to support country teams in applying a fragility lens when preparing Country Strategy Papers (CSPs) in fragile states.	**On-going** ■ OSFU participates systematically in review of CSPs and appraisal reports. ■ OSFU is developing Guidance Note which will be finalized taking into account changes that will be introduced in the revised strategy.
Recommendation 3: *Reconsider the organizational home of OSFU.*	
Management will review institutional arrangements, including the role and position of OSFU with a view to strengthening OSFU's effectiveness in order to meet its core mandate and objectives. To this end, specific recommendations will be prepared by the High-Level Panel on Fragile States by ***June 2012*** as part of its final report.	**On-going** - The HLP was established in Q4 2012 and it is expected to deliver its report in Q2/3 2013.

Recommendation 4: *Practice and promote more concerted, harmonized and coordinated international efforts.*	
■ Increased presence on the ground and intensified training of field office staff will lead to a more continuous donor coordination and strengthen coordination at the country level. ■ OSFU will intensify its strategic coordination with donors by participating more actively in international dialogue and strengthen partnership. ■ OSFU will launch an African Peer-to-Peer Learning Platform for fragile states and post conflict countries by ***September 2012***.	**On-going** ■ Field Offices in fragile states are being strengthened with support from the OSFU and increased staffing capacity. ■ The Bank Group has a strong working relationship with bilateral and multilateral development institutions in Africa including the AU, ILO, IMF, OECD, WB, UN Peace Building Commission, and UNDP. The Bank will continuously build on these and emerging partnerships.
■ All complexes will finalise plans to move staff to the field in 2012 with a special focus on the needs in fragile states by ***April 2012***. ■ PECOD will propose a new Delegation of Authority Matrix to delegate approval authority for procurement and fiduciary services and approval authority for operations to Field Offices by ***May 2012***.	■ Decentralization of staff to field offices is on-going. ■ Delegation of Authority Matrix was released in September 2012.
Recommendation 5: *Define target and M&E framework for the fragile states strategy.*	
■ The High-Level Panel on Fragile States will provide an actionable and time-bound results framework to track progress in implementing the roadmap to improve engagement with fragile states. ■ The High-Level Panel will define and present to management by ***June 2012*** a road map to track the progress fragile states are making, and the Bank's contribution to it.	**On-going** ■ Implementation matrix and results framework will be developed as part of the revised Bank Group strategy for engaging in fragile states.

Annex II: Terms of Reference for the Bank Group High-Level Panel on Fragile States

Introduction

The overall task of the HLP[16] is to provide the President of the Bank Group guidance and direction for preparing a new strategy and help put in place the policies and procedures to enhance Bank Group's effectiveness in addressing development challenges in fragile states.

Toward such policy, strategic framework and approaches, the Bank could be guided and advised by the HLP on:

- Strengthening its relationship with the affected countries, and increasing country ownership and leadership of the enhanced support to fragile states.
- Avoiding stigmatization in categorizing states, and using appropriate indicators to designate states according to their resilience or lack thereof, so that targeted instruments of support can be applied.
- Being selective in the interventions and differentiating country needs despite a regional focus.
- Working effectively with the affected regional member countries to obtain the kinds of results and outcomes that lead to transitioning out of fragility, and in accessing post-exit support.
- Building capable institutions, obtaining results on the ground, generating knowledge and applying them in improving broad development outcomes.
- Instituting stronger and more effective partnership arrangements for complementarity, given that Bank does not work on all aspects of building resilient states, notably peace-building, justice and security sector reforms, national reconciliation and so on.
- Facilitating coordination of aid flows to Africa's fragile states and helping them to implement the New Deal and other important frameworks.

Organization of the work of the HLP

The HLP will report to the President and be supported by a Core Team of senior Bank Management led by the FVP/COO. The main preparatory work, analysis and background papers to inform the HLP will be carried out by a Technical Team of Bank staff, coordinated by OSFU, under the overall direction of the FVP/COO.

The HLP would freely convene and solicit inputs and ideas from various sources. The members could also chair relevant sessions during stakeholder consultations, especially during the Annual Meetings in May 2013.

The President of the Bank and the HLP will agree on critical schedules by the time of the official launch of the HLP. The division of the core areas of advisory inputs by members of the HLP, an annotated outline and timeline concerning the final product will also be agreed by the said time. The timeline will take into consideration the schedule for the Bank's Annual Meetings in 2013 as well as the ADF-13 Replenishment Negotiations that end in the third Quarter 2013.

The Technical Team will be assigned to prepare the issue papers to be circulated for consultation with stakeholders and the HLP. The Technical Team will also prepare a first draft of the revised strategy under the direction of the FVP/COO and with the guidance of the HLP.

Following an extensive round of consultations, the draft will be put to the Governors' Dialogue at the Annual Meetings in May 2013, and in light of the discussions a draft strategy will be circulated to the Board by end of July 2013 with a view to approval in September 2013.

OSFU will serve as the Secretariat to the HLP, and be involved in drafting the strategy, minutes of meetings and agreements reached and providing logistical support.

Expected final product

Based on the findings, the HLP will advise and guide Management on the Bank's Operational Strategy for Engaging Fragile States.

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[16] The High-Level Panel is chaired by Her Excellency Ellen Johnson Sirleaf, President of Liberia. Members of the HLP include: Sarah F. Cliffe (WB Special Representative and Director of 2011 World Development Report), Honorable Gilbert Fossoun Houngbou (former Prime Minister of Togo), Hilda Frafjord Johnson (former Minister of International Development, Norway), and Geraldine Joslyn Fraser Moleketi (former Minister of Public Service and Administration, South Africa).

Annex III: Bank Group's Context-Differentiated Operational Framework for Addressing Fragility

Characteristics			
Marked deterioration	**Active conflict and / or prolonged crisis**	**Post-crisis/transition**	**Gradual improvement**
• Failing economic and financial management • Significant corruption and poor governance • No consensus between partners and government on development priorities • Deteriorating economic and social conditions	• Absence of legitimate government • Breakdown of effective administration • Civil conflict and/or political impasse • IFI and/or international sanctions • Marked reversal in economic and social indicators	• Post-conflict situation after peace agreement, reconstruction phase; • Post-crisis / political transition after reconciliation agreements	• Broadly stabilized situation • Improving government functioning • Presence of macro-economic reforms, increased donor support • Restoration of positive trends in key income and social indicators, albeit slowly and perhaps with reversals • Improved access to external finance
Strategic Approach			
• Focus on prevention – policy dialogue • Focus on improving governance	• Build knowledge base • Stay engaged through policy dialogue • Work with partners and regional institutions on peace-building, national reconciliation, justice and security sector reforms	• Post conflict / crisis – reconstruction • Focus on turnaround and graduation	• Stabilization – policy dialogue • Graduation, reform and normalization
Programming and Financing Instruments			
• CSPs • PBA-based ADF allocations • FSF – Limited capacity building support • FSF – Use of secondments • FSF – Use of non-sovereigns • Other Bank windows – trust funds, special funds	• Country Briefs • De Facto Government Engagement guidelines • ADF support where appropriate • FSF – Use of secondments under special circumstances– • FSF – Use of non-sovereigns • Other Bank windows – trust funds, special funds	• CSP, or Country Brief • FSF – Supplemental support for qualifying countries • FSF – Capacity building and secondments • FSF – Use of budget support and MDTF • Other Bank windows – trust funds, special funds	• CSP • PBA-based ADF allocations • FSF – Capacity building and secondments • FSF – Use of budget support and MDTF • Other Bank windows – trust funds, special funds, ADB private sector window

Annex IV: Breakdown of Resources Allocated to Fragile States under ADF-11 and ADF-12

Table IV-1: Resources allocated from country PBA, RO and FSF Pillars I and III envelopes in ADF-11 and ADF-12

(UA millions)

Country[a]	ADF 11					*FSF Additionality (%)*[b]	ADF 12					*FSF Additionality (%)*	Grand Total (ADF 11 & 12)
	FSF		PBA	RO	Total		FSF		PBA	RO	Total		
	Pillar I	**Pillar III**					**Pillar I**	**Pillar III**					
Burundi	46.1	0.8	36.5	54.5	137.9	*1.29*	57.2	6.2	29.4	16.9	109.7	*2.2*	**247.6**
Central African Rep.	11.9	2.8	18.6	2.2	35.5	*0.79*	26.4	1.4	16.2	41.0	85.0	*1.7*	**120.5**
Comoros	10.0	2.4	5.9		18.3	*2.11*	10.0	0.1	5.6		15.7	*1.8*	**33.9**
Congo, DRC	60.0	2.0	197.1	28.2	287.4	*0.31*	60.0	5.5	171.8	18.8	256.1	*0.4*	**543.5**
Cote d'Ivoire	45.9	2.0	67.0		114.9	*0.71*	60.0	5.5	61.4	20.6	147.5	*1.1*	**262.3**
Guinea Bissau	10.0	1.9	11.5		23.4	*1.03*	12.5	0.6	6.4		19.6	*2.1*	**42.9**
Liberia	12.9	4.5	36.6		54.1	*0.48*	52.4	3.0	39.4	8.6	103.4	*1.4*	**157.5**
Sierra Leone	42.8	2.5	31.1		76.4	*1.46*	28.7	3.9	23.9	12.0	68.6	*1.4*	**144.9**
South Sudan							17.0	3.3			20.4		**20.4**
Sudan		1.3			1.3		22.9				26.0		**27.4**
Togo	14.4	1.9	32.1		48.4	*0.51*	41.5	3.7	18.7	33.9	97.9	*2.4*	**146.3**
Zimbabwe		2.8			2.8		16.1	1.3			17.4		**20.2**
Total Allocations	**253.9**	**25.0**	**436.4**	**84.9**	**800.2**	***0.64***	**404.9**	**37.7**	**372.8**	**151.8**	**967.3**	***1.2***	**1,767.5**

Notes: a. includes countries that benefitted from FSF Pillar I resources during ADF-11 and/or ADF-12 period; b. FSF additionality calculated by dividing the sum of FSF resources allocated under ADF11 and ADF 12 by the sum of PBA resources allocated during the same period.

Annex V: The New Deal for Engagement in Fragile States

Introduction

The "New Deal for Engagement in Fragile States" (the "New Deal") was agreed by members of the International Dialogue on Peace-building and State-building ("the Dialogue") during the Fourth High-Level Forum on Aid Effectiveness held in Busan, the Republic of Korea, in 2011. This consensus among the Dialogue partners, comprising 19 fragile and conflict-affected countries, development partners and international organizations, shows the roadmap on how they will work together more effectively to support the transition of fragile states into states of resiliency.

The New Deal entails key peace- and state-building goals, focusing on new ways of engaging, and identifies commitments to build mutual trust and achieve better results in fragile states. The Dialogue asserted that the way assistance is delivered in fragile states must be improved. They noted that despite significant investment and commitments under existing frameworks, results and value for money have been modest. The partners also underscored that the long, hard process of transitioning out of fragility is contingent upon political buy-in, which requires country leadership and ownership. The existing context of failed political dialogue by the fragile states themselves and donors bypassing national interests in providing aid in technocratic ways underestimate importance of harmonizing international, national and local contexts. There is also a need to shift emphasizes to medium- to long-term sustainable results through building capacity and systems, from focusing almost exclusively on short-term results.

The partners also agreed to work together to pilot the New Deal in self-nominating countries that include the Central African Republic, the Democratic Republic of Congo, Liberia, Sierra Leone and South Sudan; and to report on delivery of the commitments at both country and global levels.

Three broad areas characterize the New Deal

Peace- and state-building goals: Use the peace- and state-building goals as a foundation to guide the work in fragile states and enable progress on the Millennium Development Goals. The fragile states and their international partners have already developed the indicators that may be used to help track progress at the global and country levels. The goals are further divided into five subgoals: legitimate politics, to foster inclusive political settlements and conflict resolution; security, to strengthen people's security; justice, to increase people's access to justice; economic foundations, to generate employment and improve livelihoods; and revenues and services that deal with managing revenue and building capacity for accountable and fair service delivery.

Focus: The partners committed to focus on new ways of engagement that support inclusive country-led and country-owned transitions. Fragile states would lead fragility assessment, prepare and implement a country compact, based on inclusive and a participatory political dialogue, and use the peace- and state-building goals to monitor progress, with donor support. The periodic fragility assessments would shed light on causes and features of fragility and sources of resilience. The partners would also support political dialogue and leadership that are credible and inclusive of youth and women's participation, at the national, regional and global levels to build capacity of government and civil society leaders and institutions to lead peace- and state-building efforts.

Trust: The Dialogue members committed to build mutual trust by providing aid and managing resources more effectively and aligning these resources for results. As such, efforts will be increased to enhance transparency as well as risk management to use country systems, strengthen national capacities and timeliness of aid and improve the speed and predictability of funding to achieve better results.