

# HIGH LEVEL PANEL ON FRAGILE STATES

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Interim Paper: ADF 13 Third  
Replenishment Meeting

Paris, France  
25<sup>th</sup> September 2013

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## **Executive Summary**

*The High Level Panel on Fragile States, chaired by Her Excellency Ellen Johnson-Sirleaf, has been established to advise the African Development Bank and the broader international community on approaches to fragility and conflict in Africa. It will report in January 2014. This paper sets out some of the Panel's initial reflections, based on our consultations with African governments and civil society to date, to inform deliberations on the next ADF replenishment.*

### **Key messages**

- ◆ African countries would like the Bank to play a leadership role on conflict and fragility in Africa. As an African institution with a deep understanding of the region, it has both the mandate and the capacity to do so.
- ◆ The Bank's established areas of comparative advantage, including infrastructure, economic management, financial support, basic services, regional integration and support for the private sector, are directly relevant to addressing conflict and fragility in Africa.
- ◆ At present, however, the Bank is held back by a restrictive interpretation of its mandate that prevents it from engaging in key aspects of peace-building and state-building, and by rules and procedures that prevent it from acting with the speed and flexibility required.
- ◆ Building on its existing areas of expertise, we see a number of areas where the Bank should strengthen its approach in the coming years:
  - Supporting the economic aspects of security and justice, including physical infrastructure, the reintegration of ex-combatants, creating secure urban environments and promoting women's safety and rights to economic participation;
  - Acting as an intermediary for private sector investment, including blending ADF and private-sector lending to support pioneering investments, extending financial services to small and micro-businesses and improving regulation of the extractive sectors;
  - Addressing youth unemployment, through higher education, vocational and artisanal skills training and the promotion of inclusive labour markets; and
  - Supporting women's social and economic empowerment and their equal participation in peace-building and state-building processes.

- ◆ We offer a number of suggestions for how to build the Bank's organisational capacity on conflict and fragility, including:
  - More flexible interpretation of the Bank's mandate;
  - A fundamentally different approach to risk management, whereby operational and fiduciary risk are offset against the risk of inaction in fragile or transitional contexts;
  - A new, more flexible approach to capacity building;
  - Stronger partnerships and a willingness to lead on donor coordination within the 'New Deal' framework; and
  - A concerted effort to building the Bank's own internal capacity, including upgrading the Fragile States Unit to departmental status, investing in skills and reviewing rules and procedures.

## 1. Introduction

1.1 ***The High Level Panel and the purpose of this paper.*** President Kaberuka established the High Level Panel on Fragile States to advise the African Development Bank (AfDB or Bank) and the broader international community on new approaches to the challenge of conflict and fragility in Africa. The High Level Panel is led by Her Excellency Ellen Johnson-Sirleaf, President of Liberia, and includes seven other distinguished members with long and diverse experience of engaging with conflict and fragility in Africa and around the world.<sup>1</sup> President Kaberuka has invited the Panel to review the larger trends that are likely to drive conflict and fragility in Africa in the coming years and to generate new thinking on solutions. The Panel's Report will inform the Bank's forthcoming strategy on fragility in Africa, as well as wider regional and international policy debate.

1.2 The HLP is consulting broadly with African governments and civil society, including visits so far to Côte d'Ivoire and Guinea Bissau. Twelve African governments and a range of civil society representatives attended the Panel's official launch in Monrovia on 2 September 2013. The Panel has also commissioned research from a number of prominent authors. It is due to report in January 2014.

1.3 In the interim, President Kaberuka has requested that the Panel share some of its initial reflections with the ADF Deputies, to inform their deliberations on the next ADF replenishment. This paper therefore explores some of the issues and themes that we believe will be central to the policy agenda on conflict and fragility in Africa in the coming years. Within this wider agenda, we identify the Bank's areas of comparative advantage and how it could build on them in the coming period.

1.4 ***Conflict and fragility as a phenomenon, rather than a label.*** The High Level Panel takes a broad view of conflict and fragility in Africa. Some African states are caught in a protracted fragility trap, in which under-development, conflict and political instability reinforce each other. At the same time, Africa now faces new challenges to its stability, related to broader trends such as demographic pressures, urbanisation, youth unemployment, climate change and natural resource conflicts. These factors are likely to generate fragility in new places, whether transitory or long-term in nature. The international community has a poor record on preventing conflict in countries such as Mali that were not previously classified as fragile. Rather than treating fragility as a category of states, we therefore treat it as a phenomenon that could appear in many locations, and that calls for a coherent policy response wherever it arises. In this paper, we draw attention to a number of themes that influence both development potential and conflict risk across the region, including youth unemployment, urbanisation and natural resources.

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<sup>1</sup> Ms Sarah Cliffe, Ms Geraldine Fraser-Moleketi, Ms Rakiya Omar, Mr Gilbert Hounbo, Dr Greg Mills, Professor Callisto Madavo and Dame Barbara Stocking.

1.5 ***What have we learned?*** At a time when a growing number of African states are achieving impressive growth rates and increasingly able to finance their development from a diversity of sources, states affected by conflict and fragility risk

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***Box 1 Learning from the past***

- We must support country-led state-building and peacebuilding processes, to build up stable and effective institutions and domestic capacities for peace.
- We must get better at identifying and addressing the root causes of conflict and fragility, and not just responding to their symptoms.
- Successful state-building and peacebuilding must rest on stable political foundations. Political dialogue, aimed at achieving a viable and inclusive political settlement, is an immediate priority.
- We must ensure security and justice, with security forces under civilian control and capable of protecting the population and a strong and independent judicial system, to defend the constitutional process and ensure that people do not take the law into their own hands.
- As the ‘New Deal for Engagement in Fragile States’ stresses, country leadership and ownership is a pre-condition for effective international support. However, in a divided society, broad-based ownership must be built over time. Elected leaders must invest in building a shared national development vision. Global partnerships such as the G7+ can help to reinforce country leadership. The international community needs to discipline itself not to undermine country leadership with too many competing priorities and policy initiatives.
- In conflict situations, women’s leadership has emerged as a critical element for achieving peace.
- We need to find effective ways of supplementing and building up government capacity in transition contexts.
- In crisis situations, urgent international support is often required to ensure the provision of basic services to the population. However, delivering services in parallel to the state undermines state-building. Despite the practical challenges, services must be delivered through or in partnership with the state, to build its legitimacy.

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falling ever further behind. We know that ‘development assistance as usual’ is not enough to close this gap. We need to coordinate our humanitarian, development, diplomatic, security and other interventions towards addressing conflict and fragility at their source. Over the past two decades, many lessons have been learned on how to do this. Box 1 summarises some of the propositions that have informed our deliberations.

1.6 ***The role of the AfDB.*** Our consultations have revealed what an important position the AfDB plays in Africa’s development architecture. During our consultations, we repeatedly heard that the Bank is prized for its African character, its deep understanding of Africa’s development challenges and its close relationships with its Regional Member Countries. The Bank’s partnerships with the African Union

and the Regional Economic Communities are also key assets. For all these reasons, African countries would like to see the AfDB play a leadership role in responding to conflict and fragility.

1.7 There is also a recognition that The Bank's record to date is a mixed one. Through its Fragile States Facility (FSF), the Bank has been building up its capacity to engage effectively in situations of conflict and fragility. It has pioneered the use of budget support in fragile contexts and has helped transitional countries to clear their arrears to the multilateral development banks and re-access development finance. The Bank performs well in its core areas of infrastructure, the delivery of basic services and economic governance. Yet it is hampered by a restrictive interpretation of its mandate that prevents it from engaging in critical dimensions of state-building and peace-building. It is also hampered by rules and procedures that make it excessively risk averse and unable to respond with the speed and flexibility required when responding to conflict and fragility.

1.8 **Outline.** Section 2 of this paper offers a preliminary overview of the policy issues that we think will matter most for conflict and fragility in Africa in coming decades. Within that broader agenda, Section 3 looks at the Bank's areas of current and potential comparative advantage, while Section 4 briefly discusses some of the institutional implications for the Bank.

## 2. An emerging agenda for conflict and fragility in Africa

2.1 In recent years, a consensus has emerged on a number of key elements to the international response to conflict and fragility. As there is an extensive literature on all these areas, we will not discuss them individually in this paper. They include the following.

- i) **Promoting stable and inclusive political settlements**, which integrate combatants into the constitutional process and establish institutions for the peaceful resolution of disputes and grievances. Political settlements should be inclusive of different social groups, creating a foundation for democratic government that serves the population as a whole and enjoys widespread legitimacy.
- ii) **Ensuring security and justice.** Security and justice are among the most pressing needs of the population in conflict-affected environments, and a precondition for progress in all other areas. They are also public goods that all states must have the capacity to provide, if they are to be stable and legitimate. Security services need to be both effective and firmly under democratic control. The judiciary must be able to adjudicate fairly and impartially. Non-state justice and security providers may play an important role, but also need to be accountable under the law. An external security guarantee may be required in the most difficult cases.

**iii) Building critical state capacities.** There are other state capacities that are essential in states recovering from conflict and fragility, although their sequencing will depend on the country context and country preferences. They include:

- The ability to make and enforce laws;
- The ability to raise revenues, formulate budgets and manage expenditure, including public sector salaries and other recurrent expenditures;
- The ability to select and manage critical public investments;
- The ability to deliver essential public services; and
- Accountability mechanisms that ensure basic integrity in government.

State-building is about building these capacities, so the state itself can address underlying drivers of conflict and achieve the legitimacy it needs for stable government.

**iv) Supporting indigenous capacities for peace.** The World Development Report 2011 recognised that domestic actors are often best placed to find solutions to complex conflicts. State-building should therefore be complemented by programming that helps to build local capacities for peace, including through civil society organisations, traditional authorities, communities and the private sector. Women play a vital role in all these processes; their leadership role should be recognised and supported. However, external support for non-state actors should not bypass or marginalise the state; rather, the goal should be to encourage broad engagement of civil society in the state-building process.

2.2 To these well-recognised imperatives, we suggest that the following issues will be critical in addressing the root causes of conflict and fragility in Africa in the coming period.

**i) Promoting the private sector in small, isolated economies.** Many of Africa's most fragile states are small, internationally isolated countries that lack the resources to provide adequate public security and other basic public goods. Their domestic markets are too small to support efficient production. The extractives sector aside, the barriers to new investment are substantial, relating not just to the poor state of infrastructure and the lack of skilled labour, but also to the difficulties that pioneer investors face in establishing new value chains.

For states in this category, tackling fragility over the long term requires identifying and supporting a credible, long-term development pathway. Investments in transport infrastructure and regional integration are a

necessary part of this, but not sufficient. We also need to find more direct ways to support private investors. We should explore allowing the private finance arms of development agencies to draw on grant funding, enabling them to invest on economic as well as commercial criteria and support pioneering investments with the potential to open up new markets. We should support regional investment vehicles that pool risk across states at different levels of development. We should explore new approaches to political risk and other insurance services.

- ii) *Addressing extreme poverty and inequality.*** Poverty and inequality are both a consequence and a driver of conflict and fragility. The proposed post-2015 commitment to ‘leave no-one behind’ will, in practice, be substantially about addressing entrenched poverty in states affected by conflict and fragility. Many of Africa’s most destitute people are those who have been driven from their homes or lost their livelihoods as a result of conflict. They are acutely vulnerable to shocks, both external and within the household. Where inequality reinforces existing social divisions, particularly along ethnic or religious lines, it can be a potent driver of conflict.

To address extreme poverty and inequality in Africa, we need a better understanding of the underlying causes of vulnerability. We need better surveillance systems, to track and respond to acute need. We need to better integrate humanitarian and development efforts in situations of chronic conflict and fragility, by providing adequate social safety nets for the most vulnerable. We need to extend the protection of the law to those living outside the formal economy and to invest in mechanisms to protect basic human rights. We need to understand more about the coping mechanisms of the extreme poor and how they can be strengthened, looking at areas such as remittance flows.

- iii) *Managing complex social changes.*** In the coming decades, Africa will go through a period of dramatic and potentially disruptive social change. It is the most demographically dynamic region in the world, with young people entering the labour market in ever greater numbers. Youth unemployment has already emerged as a driver of political instability. Population growth is putting natural resources under increasing stress and triggering rapid urbanisation, with its accompanying adjustment costs and social challenges. Some of those we have consulted believe that unplanned urbanisation represents one of the most potent threats to Africa’s stability. The rapid spread of information and communication technologies (ICT) is bringing about many positive changes, including a better connected and informed citizenry, but also can act as a multiplier of social unrest.

These social changes are both threats and opportunities for Africa. Countries with institutions capable of responding effectively will be able to maximise

the positive elements while minimising disruption. Less resilient states, however, may find some of these challenges overwhelming. The international development community should engage more actively in cross-sector and multi-disciplinary challenges like youth unemployment and urbanisation. Key infrastructure, public services and inclusive job markets need to be put in place before these changes lead to destabilising pressures.

- iv) *The extractive industries*** have a critical role to play in Africa's development, both for better and worse. In many countries, they offer the potential for a major injection of development finance that can be used to narrow infrastructure deficits and promote growth. They can also distort economies, cause governance to deteriorate and trigger conflict. The extractive industries are opening up new partnerships with the BRICs. These partnerships can be highly beneficial, provided African countries are clear-sighted in pursuing their long-term interests. However, African states, particularly those weakened by conflict and fragility, currently negotiate with the BRICs on unequal terms.

To gain the full benefits of their natural resource wealth, African states need to be more activist in managing their extractive sectors. They must make and enforce laws that create the right incentives for investors, so that they generate fair employment and opportunities for local businesses. They need more support from international partners in areas such as tendering and contract negotiation, developing tax systems and negotiating mineral/infrastructure swaps. They need support with channelling natural resource revenues into productive investments, including through sovereign wealth funds. We see this as an area for more collective action by African states, through continental and regional institutions, so as to pool expertise, strengthen bargaining power and bring peer pressure on states that squander their opportunities.

- v) *Climate disruption and resource conflict.*** Climate disruption and extreme weather are becoming more frequent across Africa and will get worse. Africa is the most vulnerable continent to climate disruption, both from the direct impact of climate extremes and because of its low capacity to adapt. Climate disruption and environmental degradation act as threat multipliers for conflict and fragility. They can increase fragility through various pathways, including shortages in key resources such as land and water, the collapse of traditional livelihoods and forced migration. Where resource conflicts cross national boundaries or existing social divisions, they can be destabilising. For states already weakened by conflict and fragility, there is a real risk that climate disruption exacerbates political divisions and weakens institutions, reducing adaptive capacity still further. This opens up the possibility of a vicious circle of reinforcing effects that we must take early action to avoid.

Climate disruption may also trigger pockets of instability in states that are otherwise stable.

We need to factor climate disruption into the policy response on conflict and fragility in Africa – including on states that are currently not seen as fragile. We need to invest in analysis and early warning systems indicating where resource conflicts may emerge, and to build up robust institutions for conflict management. We need to strengthen the management of cross-border resources, particularly water, using the authority of the African Union to back up bilateral agreements and dispute-resolution mechanisms. We need to explore new ways of promoting adaptation in fragile contexts, including through innovative risk-sharing mechanisms with the private sector.

- vi) *Regional drivers of conflict.*** Africa’s most intractable conflicts take the form of regional conflict complexes, including in the Great Lakes and the Horn of Africa. Within these regions, destabilising influences such as small-arms trade, trade in conflict minerals, smuggling and other criminal enterprises and refugee movements spill across national borders, creating interlocking conflicts that are impossible to resolve without concerted action at the regional level. For the time being, we lack the inter-governmental or regional institutions capable of dealing with cross-border challenges.

We see this as a key frontier in the development of Africa’s security architecture. We need to invest in Africa-wide rules and institutions for addressing regional drivers of conflict. We need to move from reacting to the symptoms of regional conflict towards addressing its root causes. This means moving from national projects to coordinated regional responses, with African institutions in the driving seat. We need to invest in better management of borders, to facilitate helpful regional integration while protecting against harmful cross-border influences. We need to intensify our efforts to stamp out illegal trade from conflict zones, to address one of the economic drivers of fragility.

### **3. Identifying the Bank’s comparative advantage**

3.1 The broad agenda on conflict and fragility in Africa that we have sketched here requires coordination action at the national, regional and international levels. For the African Development Bank, the challenge is to determine where it has the comparative advantage and where it should develop its capacity in the coming years, building on its existing expertise and performance record.

#### **3.2 Building on existing strengths**

3.2.1 The AfDB is Africa’s premier development finance institution. As an African body, it has the legitimacy to play a leadership role in its areas of comparative

advantage. It also brings a deep understanding of the development challenges facing the continent and a set of working relationships with national governments, Regional Economic Communities and other continental institutions such as the African Union.

3.2.2 Drawing on these advantages, there are a number of areas where the Bank already plays a leading role. These include:

- **Infrastructure:** The AfDB is the leading investor on infrastructure development across Africa, with an emphasis on major transport infrastructure to support regional integration and overcoming infrastructural bottlenecks to the structural transformation of African economies.
- **Economic management:** The Bank's work in the governance arena focuses on economic management, including revenue raising, budgeting, public financial management, the business enabling environment and the management of natural resource revenues – all areas in which the Bank has extensive expertise to offer.
- **Financial aid:** The Bank has been a pioneer in the provision of budget support to countries emerging from conflict. Through the Fragile States Facility, it helps transition countries clear their arrears to the international financial institutions and access development finance.
- **Basic services:** The Bank also plays an important role in helping to restore basic services in transition contexts through its programming on health, education, social safety nets and rural development, among other areas.
- **Regional integration:** The goal of promoting regional economic integration is included in the Bank's charter. It is the continent's leading investor in regional infrastructure and is helping to put in place institutional frameworks and harmonised regulations to support the free movement of goods, services, people and capital. It is well placed to support regional public goods and address drivers of conflict and fragility that call for action at a regional level.
- **Private sector operations:** The Bank has an active private sector arm that finances private investments that contribute to national development. In recent years, it has begun combining private-sector lending with ADF funds, opening up new possibilities for attracting private-sector investment into strategic projects.

3.2.3 These areas of expertise are all directly relevant to addressing fragility and conflict in Africa. Building on this experience, we encourage the Bank to address conflict and fragility more explicitly in its strategies and in the design of its operations. Where encouraged to do so by its partner countries, it should play a leading role in state-building and peace-building processes, in particular on the economic aspects. It

should bring a fragility and conflict ‘lens’ to all its operations in fragile contexts. Its prioritisation and sequencing of interventions, its selection of partnerships, the way it engages with national and local government, its use of country of systems and its choice of geographic focus can all support state-building and peace-building goals, by building national capacities and addressing underlying socio-economic drivers of conflict. The Bank should develop strategic partnerships with other African and international institutions leading in different areas, and develop complementary initiatives based on its comparative advantage and country preferences, while avoiding overwhelming national leadership with too many competing initiatives.

### 3.3 Potential new focus areas

3.3.1 From the areas set out in section 2 above, we see four broad areas where the Bank should build its engagement in the coming years, taking on a leadership role within the international community.

*i) **Economic aspects of security and justice.*** At present, the Bank is held back by a narrow interpretation of its mandate, which obliges it to avoid supporting the security and justice sector, which is one of the core priorities for states affected by fragility and conflict. Clearly, the Bank is not equipped to be the lead institution on security and justice sector reform. However, the actors that lead in these areas, such as the United Nations, often lack the resources to fund essential infrastructure or the expertise to engage in more technical areas such as payroll systems. Where there is a demand from the partner country, the Bank should be able to support economic aspects of security and justice provision.

- The Bank should be free to finance the development of physical infrastructure for justice and security, as well as building systems such as public financial management. We understand that the Inter-American Development Bank plays this role in the Americas.
- The Bank should be willing able to support transitional processes such as disarmament, demobilisation and reintegration (DDR) led by partner countries or other development partners, whether through financial support or by focusing on economic aspects such as promoting livelihood opportunities for ex-combatants.
- The Bank should help African countries manage the challenges associated with rapid urbanisation. Unplanned urban development is potentially a major source of fragility in many places. By bringing a conflict and fragility lens to its infrastructural support, the Bank can help its partner countries develop a safe and secure urban environment. It should build capacity in Africa’s more fragile countries to combine infrastructure development with urban planning, service

delivery and the promotion of inclusive labour markets and livelihood opportunities.

- Ensuring the provision of justice and security for women must be a core priority. In conflict situations, women are the most vulnerable to personal insecurity, impunity and violations of their rights. Insecurity is a direct obstacle to their ability to be equal partners in post-conflict reconstruction and development. Ensuring women's rights not just to be free from violence but also to own land and enjoy equal economic rights is essential to achieving community stability and sustainable peace-building.
- In appropriate cases, the Bank should be willing to fund the provision of safety nets, in order to alleviate the human consequences of conflict and to reduce vulnerability to shocks.

**ii) Acting as intermediary for private sector investment.** In many of its Regional Member Countries, the Bank is already using its finance support to leverage private-sector investment into infrastructure and other productive investments. We see this as a key frontier for addressing fragility over the longer term. We would like to see the Bank more active as an intermediary both for major private investments and for financial services for micro and small enterprises. We would also like to see it build on its role in the extractive sector.

- AfDB should develop the capacity to identify and support pioneering investments in fragile contexts, combining economic and commercial criteria. This means integrating its private-sector arm into its country programmes in fragile contexts, so that ADF resources and non-sovereign lending can be blended to form new instruments, such as political risk insurance and other risk-sharing mechanisms. These might best be organised on a regional level, to pool risk between more and less fragile states.
- At the other end of the spectrum, the private sector in situations of conflict and fragility is dominated by micro and small enterprises, both in urban and rural settings. The Bank should invest in promoting local entrepreneurship, to promote sustainable livelihood opportunities and inclusive growth. As a financial intermediary, it should help to bridge the gap between microfinance and the formal financial sector, helping to develop new financial services that enable farmers and other small entrepreneurs to group together and form viable small businesses.
- The Bank has been supporting its Regional Member Countries with their management of mineral resources for many years, through support for the Extractive Industries Transparency Initiative, improved management of natural resource revenues and support for contract

negotiation. We would like to see these efforts joined up into a more systematic approach to natural resource management. The Bank should help states to develop and implement legal frameworks that encourage investors to benefit local businesses and labour markets. It should encourage its Regional Member Countries to channel their natural resource revenues into productive investments. This is an area where regional standards and commitment would help to support national initiatives. With its continental mandate, AfDB is well placed to lead in this area, in partnership with the African Union.

**iii) Youth employment.** The Arab Spring demonstrated that youth unemployment can be a powerful driver of fragility. Since then, the Bank has been working with a number of African states to develop policy options on how to make labour markets work for young people, and how to tailor higher education and skills development to meet the needs of the private sector. We believe that the Bank should make this a focus area in fragile contexts, by supporting vocational and artisanal skills development. It should scale-up its support for science and technology, to enable young people to become regionally and internationally competitive. This would imply greater attention to developing regional labour standards and promoting labour mobility, allowing young people to access economic opportunities across regions.

**iv) Women's empowerment.** This is a principle that should run right across the Bank's approach to conflict and fragility. It means developing targeted measures in support of women's full participation in political, social and economic life. It means paying close attention to the distributional impact of development programmes, to ensure that women are equal beneficiaries. It means recognising and supporting the vital role played by women and women's organisations as interlocutors in peace-building and state-building processes. It means systematically building the capacity of women within government – for example, through measures encouraging partner countries to promote women's participation within counterpart structures.

3.4 The Bank should not necessarily be the lead in these areas. However, it should be willing to engage in these areas in partnership with others, on the request of its partner countries.

3.5 These are all new programming areas that the AfDB can begin to develop within the existing ADF allocations for fragile states, supplemented as required from the Fragile States Facility. We encourage the Bank to use the period of the next replenishment to build up its expertise in these areas and demonstrate its capacity to deliver. There may also be a case for donors to support the Bank in these areas with dedicated trust fund resources, to pilot new initiatives. In this way, AfDB can build a case for a substantial scaling up of ADF resources for addressing conflict and fragility at the next replenishment.

#### 4. Institutional implications for AfDB

4.1 The Bank has many strengths to bring to the challenge of conflict and fragility in Africa – not least, its position as an African institution that is known and trusted by African countries. It still has some way to go, however, to ensure that it is able to operate effectively in situations of conflict and fragility. In the course of our work, we will be developing recommendations for the Bank on how to build its capacity to deliver rapid, flexible and high-quality support to fragile states.

4.2 A number of points stand out at this stage. One is the need for ***a more flexible interpretation of the Bank's mandate***, to ensure it is able to work directly on conflict and fragility, rather than merely working around them. While other institutions are better placed to lead on the political dimensions of peace-building and state-building, the Bank's apolitical mandate should not force it to shy away from engaging in priority areas like security and justice. Where there is an appetite from its partner countries, it should be willing to offer financial and technical support in support of agreed peace-building and state-building goals, in collaboration with other institutions.

4.3 Second, ***situations of conflict and fragility call for a fundamentally different approach to risk management***. At present, the Bank's rules oblige it to prioritise operational and fiduciary risk. This makes the Bank too slow and inflexible to respond to new opportunities and changing priorities in fragile or transitional situations. The international learning is clear that, in such situations, a failure to act quickly and take advantage of windows of opportunity in itself poses substantial risk. Development agencies must make trade-offs across these different types of risk and, where appropriate, accept higher levels of fiduciary risk as a condition of timely support in volatile contexts. At present, the Bank is not well placed to make these trade-offs. Of course, the Bank needs to remain vigilant when operating in a weak institutional environment. But it needs methods of managing its risks that do not prevent it from acting quickly and flexibly in support of peace-building and state-building priorities. This must include a willingness to channel its funds through country systems, in order to support state-building.

4.4 Third, the Bank needs to adopt ***new approaches to institutional capacity building*** in fragile contexts. The record of capacity building support in fragile contexts is not strong, often because priorities are set by donors rather than recipients and are not flexible enough to accommodate shifting priorities in volatile or transition contexts. The Bank should scale up its investment in capacity building in fragile contexts through more flexible programming arrangements that allow governments to determine the priorities and sequencing of support. There may be a case for the Bank to offer full upfront financing of programmes that allow partner countries to use resources flexibly in pursuit of agreed goals, while remaining accountable for the results they achieve.

4.5 Fourth, we encourage the Bank to develop ***new financial instruments for situations of conflict and fragility***, building on the work of the Fragile States Facility. We welcome the Bank's pioneering use of budget support in fragile contexts. In situations where budget support is not suitable, we would encourage the Bank to explore alternatives such as managed payroll support programmes. We would welcome closer coordination between the ADF and the Bank's private sector window. By blending ADF with other resources, the Bank could develop new types of support for the private sector in fragile states, including equity investments and new types of risk-sharing instrument. We would also welcome reforms that allow resources from the Fragile States Facility to be used in support of regional projects.

4.6 The Bank needs to invest in ***partnerships to support its work on conflict and fragility***. The Bank has the mandate to lead on important aspects of conflict and fragility. It also has much to offer in areas where other organisations take the lead. We would like to see it more actively engaged in setting international and regional policy on conflict and fragility, working closely with organisations such as the African Union, the United Nations Peacebuilding Commission, UN operational agencies and the Regional Economic Communities. We believe the Bank should begin to take on the role of coordinating international donor support for national peace-building and state-building goals, using the New Deal as its guiding framework.

4.7 Finally, engaging effectively in situations of conflict and fragility requires ***a concerted effort to build the Bank's own internal capacity***. The Bank's Fragile States Unit has gained considerable experience since its establishment in 2008. As the Bank scales up its programming on conflict and fragility, we believe that it is time that the Fragile States Unit be upgraded to a department, with a clear mandate to lead on ensuring that commitments on conflict and fragility are operationalised across the Bank. It should help to build capacity within the Bank to produce, and make use of, political economy and fragility analysis, to inform programming choices. It should help to build up staff knowledge and data on particular conflict situations and on the four new themes mentioned above. The Bank should also undertake a comprehensive review of its rules and procedures for financial management and procurement in fragile contexts, with a view to increasing flexibility and speed of response.

## **5. Conclusions**

5.1 In the coming decades, Africa will present a highly dynamic context for development. Demographic pressures, urbanisation, new information technologies, climate disruption, natural resource exploitation and other long-term trends will interact with existing drivers of conflict and fragility in complex ways, opening up new threats and opportunities. We need to think beyond the existing toolkit of interventions to find new ways of addressing conflict and fragility at their source.

5.2 This paper has begun to set what the High Level Panel believes will be the most pressing policy challenges on conflict and fragility in Africa. Within that broader

agenda, we have sketched out what we believe to be the AfDB's areas of comparative advantage and the issues on which it should focus its attention in the coming years. These include addressing economic aspects of security and justice, acting as an intermediary for the private sector, promoting youth employment and ensuring that women are empowered to be full participants in peace-building and state-building processes.

5.3 This is a highly ambitious agenda, for the Bank, the international community and for African states themselves. For the Bank's part, it calls for a more flexible interpretation of its mandate, to enable it to be a full partner on peace-building and state-building, and rules and procedures that enable it to respond rapidly and flexibly.