

Proposed Adjustments to the Enhanced Approach to Fragile States

Discussion Paper

ADF-12 Replenishment
February 2010
Cape Town, South Africa



AFRICAN DEVELOPMENT FUND

Executive Summary

In 2008, the ADB's Board of Directors adopted the Bank Group's Strategy for Enhanced Engagement in Fragile States and the Operations Guidelines of the Fragile States Facility (FSF) in accordance with the guidance received from Deputies during the consultations for ADF-11. The approach codified in these two documents constitutes the African Development Fund's strategic framework for country-tailored assistance, and responds to the diversity of needs and opportunities that characterizes fragile states. The Fund had increased its assistance to fragile states for macroeconomic stabilization and governance reform, infrastructure rehabilitation, institutional and human capacity development, and arrears clearance and debt relief as of 2003.

During the ADF-11 period, the Fund increased funding for eligible countries through three sources: the FSF, regular Performance-Based Allocations (PBAs), and the regional operations (RO) envelope. By the end of the current ADF cycle, FSF resources of UA 535 million are expected to be committed to 15 eligible fragile states. Nine countries are expected to receive UA 248 million from the FSF's Supplemental Support Window and 15 countries will have received UA 19 million of FSF Targeted Support Window for projects designed to strengthen the capacities and technical functions of key ministries. The ADF has also played a key role in clearing arrears of UA 256 million for two countries, paving the way for these countries to re-engage with the wider donor community and qualify for debt relief assistance under the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative. By the end of the ADF-11 cycle, the amount of FSF, PBA and RO resources committed to eligible fragile states is expected to total UA 1084 billion. With regard to the distribution of resources by sector, in the nine countries eligible for FSF supplemental support, 54 percent of PBA and FSF resources has been allocated to rehabilitate infrastructure, 38 percent to governance and capacity-building operations, 4 percent to agriculture, and another 4 percent to human development sectors.

Early indications of performance in fragile states show improvements in CPIA scores and project portfolio performance indicators. As expected, there are differences between countries in the pace of progress, and overall performance is relatively weaker in fragile states than in other ADF countries. The Fund has therefore enhanced its engagement in country policy dialogue and its support for governance reform, and additional efforts are being made to strengthen portfolio management. For example, the average time lapse between approval and first disbursement in fragile states was reduced by nearly 70 percent in the first 2 years of ADF-11 compared to similar 2-year period in ADF-10. General improvements in project portfolio performance in fragile states can also be observed between 2005 and 2008, with the disbursement ratio and the number of operations supervised twice a year increasing by 35 percent and 27 percent respectively, and the percentage of problem projects falling by 50 percent. Building on these improvements and taking into account the unique operational challenges in fragile states, the Bank Group is presently taking measures to strengthen its results measurement tools, enhance the quality at entry of operations, improve portfolio management, and intensify its engagement at the country level.

In ADF-12, the Fund will continue to implement the strategy and operational framework adopted in 2008. Drawing on lessons learned so far, Management presents the following proposals for Deputies' views and endorsement:

- The Fund should continue to support eligible fragile states through the FSF, maintain the ADF-11 cycle's strategic focus and maintain the use of policy-based operations in fragile states on a selective and judicious manner;
- The Fund should ensure enough resources to maintain a times-two multiplier of the average of the highest two annual PBAs in ADF-11 for Pillar I and provide timely and adequate arrears clearance support to countries that may qualify for FSF eligibility during ADF-12;
- Given the exceptional size of the arrears clearance required for Zimbabwe with respect to the overall limited funds available in the FSF, the resources required should be ring fenced; and
- Management will refine the eligibility criteria for continued assistance and establish exit modalities to facilitate countries' smooth transition out of the FSF at the end of ADF-12.

The ADF is a trusted partner in fragile states and bases its comparative advantage on increasing its support early and re-engaging readily as countries emerge from crisis. The Fund will continue to lead the donor community in support of the region's most vulnerable countries. In doing so, it will work closely with other agencies to ensure that its support is complementary and comprehensive.

Table of Contents

Abbreviations	iv
1. Introduction	1
2. Review of the Fund’s Operational Approach to Fragile States Since 2008	2
<i>An Operational and Financing Framework Adapted to Fragile States</i>	<i>2</i>
3. Implementation During ADF-11: Emerging Challenges and Early Lessons	4
<i>Providing Additional Resources</i>	<i>4</i>
<i>Implementing ADF-11 Strategic Priorities in Fragile States.....</i>	<i>5</i>
<i>Improving Performance and Results Measurements in Fragile States</i>	<i>10</i>
4. Proposed Adjustments to the Strategy for Enhanced Engagement in Fragile States Under ADF-12	14
<i>Maintaining Strategic Focus.....</i>	<i>14</i>
<i>Financing Instruments.....</i>	<i>15</i>
<i>Establishing Resource Parameters for Supplementary Support, Arrears Clearance and Targeted Support</i>	<i>15</i>
<i>Refining the Eligibility Criteria for Second-Cycle FSF Assistance</i>	<i>16</i>
<i>Establishing Parameters for Phasing Out FSF Assistance.....</i>	<i>17</i>
5. Conclusion.....	18
Annex I: Policy-Based Operations in Fragile States	20
Annex II: Eligibility Criteria for Support from the Fragile States Facility	21
Annex III: Project Portfolio Performance Trend in Fragile States.....	23
Annex IV: Parameters for Establishing Fragile States Facility Resources During ADF-12	24
Annex V : Assessment of Eligibility for Continued and New Fragile States Facility Assistance in ADF-12.....	25
Annex VI: Key Elements of Phase Out Assessment	27

Tables

Table 1: The Fragile States Facility	3
Table 2: Performance-Based Allocations and Fragile States Facility Resources Allocated to Eligible Countries During ADF-11, Including 2010 Pipeline.....	5
Table 3: Sample Expected Outputs and Outcomes in the Nine Fragile States Facility Countries Eligible for Pillar I.....	7
Table 4: Working Assumptions for Arrears Clearance Operations During ADF-12	16
Table 5: Parameters and Thresholds for Phasing Countries Out of Fragile States Facility Pillar I.....	18

Figures

Figure 1: Performance-Based Allocations and Fragile States Facility Pillar I Resources	4
Figure 2: The Distribution of Resources Among Strategic Priorities in Nine Fragile States and Other ADF Countries During ADF-10 and ADF-11.....	6
Figure 3: Evolution of the Country Policy and Institutional Assessment Scores of Fragile States for 2007-2008.....	11
Figure 4: Comparison of Average Elapsed Time to Process ADF Operations.....	13

Boxes

Box 1: Improving the Delivery of Basic Services: The Case of Comoros.....	7
Box 2: PBOs in Fragile States: The Case of Sierra Leone	8

Abbreviations

ADB	African Development Bank
ADF	African Development Fund
ADF-10	Tenth General Replenishment of the African Development Fund
ADF-11	Eleventh General Replenishment of the African Development Fund
ADF-12	Twelfth General Replenishment of the African Development Fund
CPIA	Country Policy and Institutional Assessment
FSF	Fragile States Facility
HIPC	Heavily Indebted Poor Country
IDA	International Development Association
MDRI	Multilateral Debt Relief Initiative
OECD	Organisation for Economic Co-operation and Development
PBA	Performance-Based Allocation
PBO	Policy-Based Operation
SEEFS	Strategy for Enhanced Engagement in Fragile States
UA	Units of Account

PROPOSED ADJUSTMENTS TO THE ENHANCED APPROACH TO FRAGILE STATES

1. Introduction

- 1.1 As part of its goal to become a more effective lead partner in fragile states, in 2008 the African Development Bank (ADB or Bank) Group adopted the Strategy for Enhanced Engagement in Fragile States (SEEFs) and operational guidelines, developed in accordance with the strategic orientation and underlying principles agreed with Deputies during negotiations for the Eleventh General Replenishment of the African Development Fund (ADF-11)¹. The Fragile States Facility (FSF) is the African Development Fund's (ADF) dedicated vehicle for providing additional operational support in this regard. The FSF was established in March 2008 as an operationally autonomous, special-purpose entity within the Bank Group, replacing the Post-Conflict Country Facility with a broader mandate.
- 1.2 The SEEFs and the FSF provide the framework for broader, more integrated and country-differentiated engagement with fragile states emerging from conflict and crisis. The SEEFs is designed to leverage the Fund's comparative advantage as a regional development institution so as to better address the needs of fragile and conflict-affected countries in Africa. Anchored in the Principles of Good International Engagement in Fragile States and Situations of the Organisation for Economic Co-operation and Development (OECD)'s Development Assistance Committee², the SEEFs (through the FSF) differentiates the Fund's operational support to fragile and post-conflict countries from the standard operational support the Fund provides to eligible countries. The strategy aims to help stabilize countries coming out of conflict or crisis, lay a strong foundation for peace-building and state-building, and revive service delivery in fragile and conflict-affected countries. It provides eligible countries with enhanced support over and above their Performance-Based Allocation (PBA) for a specified period of time; helps them clear their arrears to the Bank Group, re-engage with partners and qualify for debt relief assistance; and supports capacity and accountability building in national institutions.
- 1.3 During the ADF-11 Mid-Term Review, Deputies expressed their interest in continuing to support fragile states through the SEEFs during the Twelfth General Replenishment of the African Development Fund (ADF-12) period. The objective of this paper is to present the strategic orientation of the Fund's engagement in fragile states during ADF-12 and propose adjustments to the existing framework based on early lessons and implementation experience gathered during ADF-11. Some issues discussed here will inform the resource allocation framework discussed in the "Issues Paper on ADF Resource Allocation Framework".
- 1.4 Section 2 of this paper recaps the SEEFs. Section 3 discusses how the SEEFs was implemented under ADF-11 and highlights lessons and challenges that pertain to the framework and related operations. Proposed adjustments are discussed in Section 4, and conclusions follow in Section 5.

¹ African Development Bank, 2008. *Bank Group's Strategy for Enhanced Engagement in Fragile States* (ADB/BD/WP/200837 – ADF/BD/WP/2008/10); African Development Bank, 2008. *Operational Guidelines of the Fragile States Facility (FSF)* (ADB/BD/WP/2008/103 – ADF/BD/WP/2008/60).

² See the Policy Commitments and Principles for Good International Engagement in Fragile States and Situations of the Organization for Economic Co-operation and Development's Development Assistance Committee (DCD/DAC 62, 24 Nov 2006). The principles emphasize on the need to act quickly, build national ownership, and adapt responses to local contexts, taking into account the different requirements of situations of deteriorating governance, prolonged crisis, post-conflict and political transition, and gradual reform.

2. Review of the Fund's Operational Approach to Fragile States Since 2008

- 2.1 The SEEFs is designed to allow the Fund to operate more expeditiously and in a manner that is more flexible and more closely coordinated with other development partners than are other Fund operations. Specifically, the SEEFs is designed to:
- provide fragile states with sustained support tailored to reflect each country's needs and degree of fragility;³
 - provide more resources at critical junctures of fragile states' re-engagement and recovery process by means of flexible business policies and procedures that help reconstruct capacity and accountability in public sector institutions; and
 - enhance strategic partnerships and forge new collaborations with international and national partners with a view to better supporting integrated country transition strategies that address key linkages between peace building, state building and governance.

An Operational and Financing Framework Adapted to Fragile States

- 2.2 The FSF employs a distinct but complementary operational framework through which the Fund can more effectively deploy broader, integrated support to fragile states. Inter alia, the provisions governing the FSF
- Exempt some FSF-financed operations (through the Targeted Support Window) from the Bank Group's Sanctions Policy;
 - allow a selective and closely managed use of Development Budget Support Lending (Annex I);
 - stipulate flexible procurement rules, subject to appropriate safeguards, that allow for timely and internationally coordinated interventions⁴; and
 - set forth approval procedures and specify lines of authority for operations financed by the FSF's Targeted Support Window.
- 2.3 Mirroring the Fund's strategic priorities in fragile states, the FSF is structured in three financing windows (Table 1): The Supplemental Support Window (Pillar I), the Arrears Clearance Window (Pillar II) and the Targeted Support Window (Pillar III).

³ Conditions of fragility range from deteriorating governance and stability, prolonged crisis, post-conflict and political transition, and gradual reform and improvement. The "fragile states continuum" element of the Bank's strategy and operational framework for engagement responds to these conditions.

⁴ Similar to ADF, FSF resources are exempt from the rule of origin.

Table 1: The Fragile States Facility

Elements of the Strategy	Priority Areas of Intervention	Resources (UA millions)
Pillar I: Supplemental Support Window		
Provides beneficiary countries with resources over and above their regular Performance-Based Allocations. The supplemental amounts consist of the average of the country's two highest ADF-10 country allocations, minus the UA 5 million minimal allocation, multiplied by a top-up factor of 2.17 and subject to a floor of UA 10 million and a ceiling of UA 60 million.	Governance and institutional capacity building and the rehabilitation and/or reconstruction of basic infrastructure	254
Pillar II: Arrears Clearance Window		
Assists countries in clearing long-standing arrears and normalizing their relationship with the Bank Group, re-engaging with other donors, qualifying for HIPC/MDRI debt relief and improving their debt sustainability	Arrears clearance	308
Pillar III: Targeted Support Window		
Provides a limited pool of additional grant resources to all fragile states	Capacity building via the secondment of technical experts; the temporary provision of service delivery; knowledge building	85
Total Resources Available		648

Notes: HIPC/MDRI=Heavily Indebted Poor Country/Multilateral Debt Relief Initiative; PBAs=Performance-Based Allocations; UA=units of account

Source: African Development Bank

- 2.4 The strategic priorities listed in Table 1 are reflected in various country-tailored programming instruments that frame the Fund's strategy in recipient countries⁵. The guidance provided by Deputies during ADF-11 negotiations has been integrated into a full-fledged eligibility determination process overseen by the Board of Directors. Programming instruments used to determine FSF eligibility include Country Strategy Papers and updates, Joint Assistance Strategy papers, and Country Briefs, all of which include detailed results logframes. Where applicable, arrears clearance documents that detail the country's reengagement process and financing burden-share arrangements are presented jointly with the programming instrument.
- 2.5 The Board of Directors determines countries' eligibility for supplemental support (Pillar I) based on a two-stage evaluation process (Annex II). In the first stage, countries must meet socioeconomic and peace and security-related criteria that demonstrate their commitment to consolidate peace and their capacity to absorb support for the resumption of the reconstruction and recovery process. In the second stage, they must meet criteria related to sound macroeconomic and financial management to substantiate their commitment to reform and their capacity to implement and monitor fiduciary safeguards. Two additional criteria determine countries' eligibility for arrears clearance support (Pillar II). Both depend on countries' eligibility for the Heavily Indebted Poor Country (HIPC) Initiative and their willingness to respect the Bank Group's preferred creditor status. Finally, targeted support (Pillar III) has the most flexible criteria. Under Pillar III, any ADF country that meets the Multilateral Development Bank Working Group's 2007 definition of "fragile state" is eligible for support.⁶

⁵ Interim or full Country Strategy Papers are required for countries that have prepared interim or full Poverty Reduction Strategy Programs. Country Briefs (which replace Country Dialogue Papers) are used to facilitate strategic dialogue options in countries that do not qualify for full-fledged Country Strategy Papers because of arrears or conflict-induced sanctions.

⁶ A country is eligible for Pillar III if its average Bank and World Bank Country Policy and Institutional Assessment (CPIA) score is below 3.2 or if it has experienced United Nations or regional peace-building, peace-keeping or mediation operations over the past 3 years.

2.6 A key feature of the Fund's enhanced approach in fragile states is the magnitude and length of FSF-funded supplemental assistance. During the ADF-11 replenishment discussions, Deputies agreed to increase support to countries eligible for supplemental assistance within a shorter time horizon. Accordingly, the ADF provides these countries with their standard PBA plus the highest two of three annual allocations of the PBA awarded in the previous ADF cycle (a 2x multiplier). Under the current framework, the base period for FSF support is 3 years, with possibility of a second 3-year cycle if the country meets FSF eligibility criteria and if it has performed satisfactorily in a formal quantitative and qualitative assessment that uses targets and benchmarks agreed with the Fund at entry⁷.

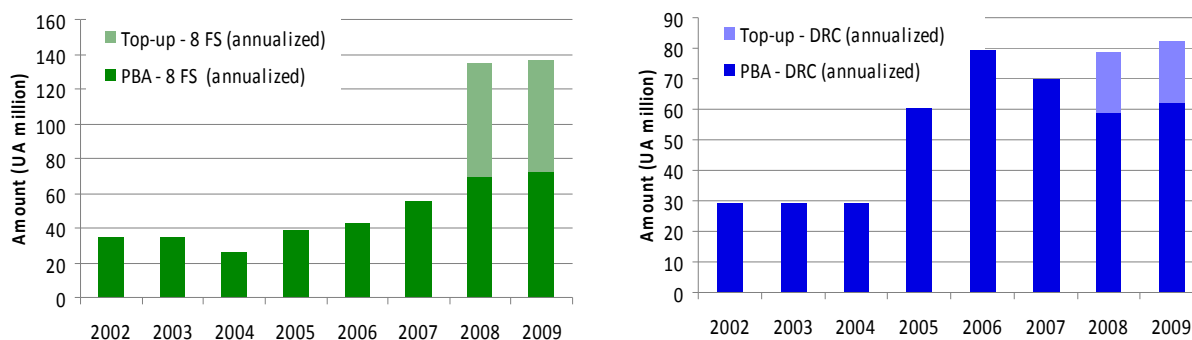
3. Implementation During ADF-11: Emerging Challenges and Early Lessons

3.1 In mid-2008, the Fund began to implement the SEEFS and operational support to qualifying countries through the FSF. As of end-2009, operations worth Units of Account (UA) 514 of the total UA 648 million of FSF resources⁸ were approved for implementation in 15 out of 17 fragile states eligible for FSF assistance. The SEEFS's "fragile states continuum" approach was reflected in the prioritization of strategically targeted support to countries whose situations ranged from continued crisis to relative stability with a better functioning government⁹. Below is a summary of the Fund's implementation experience in ADF-11 with regards to (i) the provision of augmented support through the FSF; (ii) the implementation of strategic objectives as agreed with Deputies; (iii) the status of performance and results in fragile states; and (iv) the Fund's engagement in strategic partnerships and multidonor collaborations.

Providing Additional Resources

3.2 The 2x top-up factor was implemented as agreed with Deputies. The first graph of Figure 1 shows the trend of increases in the resources allocated to fragile states and demonstrates how PBA increases, in conjunction with FSF supplemental funding, have augmented the resources available to fragile states. The second graph illustrates the effect of the resource cap (of UA 60 million) on resources available to the Democratic Republic of Congo, for which supplemental funding represents a relatively small portion of overall resources.

Figure 1: Performance-Based Allocations and Fragile States Facility Pillar I Resources



Note: DRC=Democratic Republic of Congo; FS=fragile states; PBA=Performance-Based Allocation

Source: African Development Bank

⁷ The targets and benchmarks are country-specific and are outlined in the Bank's programming document of each FSF-eligible country. They are aligned to the country's Poverty Reduction Strategy Paper or to the Transitional Result Matrix prepared for post-crisis and transitional countries. Benchmarks for countries benefiting from arrears clearance programs include meeting the decision point of the Heavily Indebted Poor Country initiative. For non-arrears clearance countries, the benchmarks are linked to progress in reviving the economy, consolidating macroeconomic reforms and improving governance.

⁸ In ADF-11, the FSF's UA 647.9 million in resources were provided for by the ADF (UA 515.3 million) and the ADB (UA 132.6 million) and are composed of a UA 408.4 million ADF-11 set-aside, UA 107.0 million Post-Conflict Country Facility carry-overs from previous ADF cycles, and UA 132.6 million ADB carry-overs and 2008 net income allocations.

⁹ ADF countries with a composite average ADB/World Bank Country Policy and Institutional Assessment (CPIA) score of 3.2 or below include Burundi, the Central African Republic, Chad, Comoros, Congo, Côte d'Ivoire, the Democratic Republic of Congo, Djibouti, Eritrea, Guinea, Guinea Bissau, Liberia, Sierra Leone, Somalia, Sudan, Togo and Zimbabwe.

3.3 Table 2 below lists all resources provided or allocated to the nine countries eligible for FSF supplemental support (Pillar I) during ADF-11. After adjusting for the increase in the ADF-11 replenishment size and for performance-induced increases in country entitlements, the 2x resource top-up (that was determined on the basis of ADF-10 allocations as described above) translates into increase of country entitlements by an average 82 percent in eight out of nine Pillar I-eligible countries, and by 57 percent when the Democratic Republic of Congo is included. For Comoros and Sierra Leone, the FSF supplemental allocation produced a top-up effect of 170 percent and 140 percent of these countries' respective PBAs.

Table 2: Performance-Based Allocations and Fragile States Facility Resources Allocated to Eligible Countries During ADF-11, Including 2010 Pipeline

(UA millions)

Country	PBA (a)	FSF Pillar I (b)	FSF Additionality (percent)	ROs + FSF Pillar III + Others ^{1/} (c)	Total Resources (a+b+c)
Burundi	51	46	0.90	66	163
Central African Rep.	19	12	0.62	6	37
Comoros	6	10	1.71	4	20
Congo, Dem. Rep.	209	60	0.29	33	302
Côte d'Ivoire	50	46	0.91	20	116
Guinea Bissau	13	10	0.76	2	25
Liberia	36	13	0.36	8	57
Sierra Leone	26	36	1.40	3	65
Togo	28	14	0.51	0	42
TOTAL	438	248	0.57	142	827
Total, excluding Congo, Dem. Rep.	229	188	0.82	109	525

Note: ADF=African Development Fund; FSF=Fragile States Facility; PBA=Performance-Based Allocation; ROs=regional operations. 1/ 'Others' include Bank resources such as emergency funds and public-private partnerships.

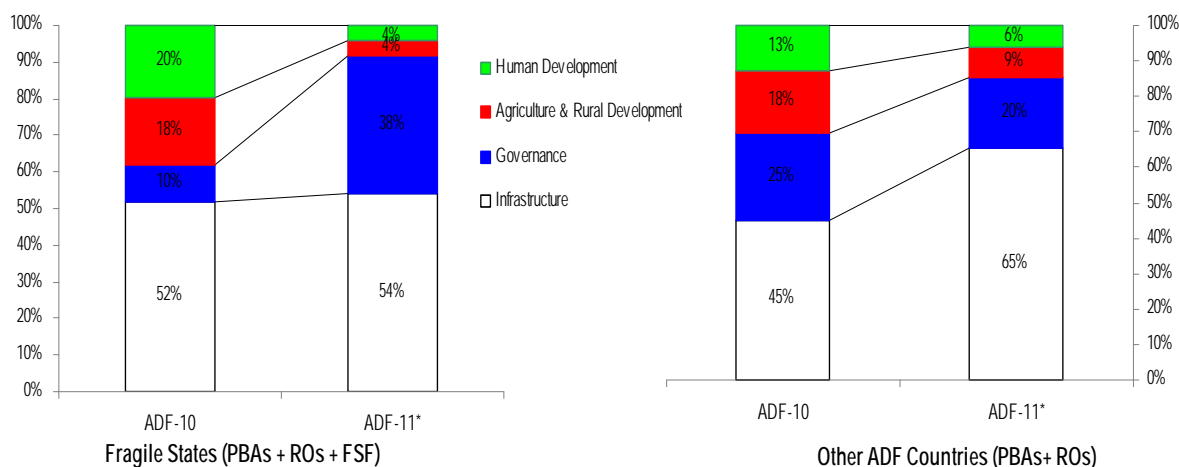
Source: African Development Bank

Implementing ADF-11 Strategic Priorities in Fragile States

3.4 During the first 18 months of SEEFS implementation, the ADF has both significantly increased the size of its operational portfolio¹⁰ in fragile states and maintained a strategic focus that conforms to the operational priorities agreed with Deputies and the institution's comparative advantages. This alignment is reflected in Figure 2, which compares the distribution of resources in the nine FSF-eligible countries to distribution in other ADF countries during the Tenth General Replenishment of the African Development Fund (ADF-10) and ADF-11 cycles. Compared to interventions in other ADF countries, interventions in fragile states concentrated on rebuilding institutional capability and accountability through governance-related interventions. A brief update of the implementation of strategic priorities under each pillar is presented in subsequent paragraphs. This update builds on the progress report submitted to Deputies during the ADF-11 Mid Term Review.

¹⁰ The number of approved projects in the nine Pillar-I eligible fragile states was higher by 53 percent in the first 2 years of ADF-11 compared to the first 2 years of ADF-10. Similarly, the amount of resources approved, excluding regional operations and arrears clearance, in the first 2 years of ADF-11 was higher by 73 percent compared to a similar 2-year period in ADF-10.

Figure 2: The Distribution of Resources Among Strategic Priorities in Nine Fragile States and Other ADF Countries During ADF-10 and ADF-11



Notes: FSF=Fragile States Facility; PBA=Performance-Based Allocation; RO=Regional Operation.

(*)=ADF-11 includes approved and projected operations. All figures exclude arrears clearance operations.

Source: African Development Bank

- 3.5 **Crosscutting Issues:** Similar to other Fund operations, crosscutting issues (gender, environment and climate change) are integrated into country programming documents. The aim is to ensure that operations in fragile states address the impacts of conflict and crisis on vulnerable populations, especially women; that they adhere fully to the Bank Group’s environmental standards, especially as regards post-conflict rehabilitation and population resettlement; and that the Bank Group’s climate adaptation and mitigation strategies are fully incorporated into project design and implementation. Given the importance of gender dimensions of fragility and poverty, the Fund is engaged in various initiatives including the provision of Pillar 3 assistance to support microfinance and income generating activities to rural women’s groups in the Central African Republic; and, co-financing of the Conflict Affected States in Africa¹¹ program through the Private Sector and Microfinance Department to support financial literacy and capacity building trainings in four countries (Central African Republic, Democratic Republic of Congo, Liberia and Sierra Leon).
- 3.6 **Regular and supplementary financing (FSF Pillar I):** Regular PBAs and FSF Pillar I funds are fungible. Combined, the resources were allocated to much-needed infrastructure rehabilitation projects (54 percent or UA 428 million), governance-related operations (38 percent or UA 299 million), and, to a lesser extent, agriculture and human development projects (4 percent or UA 33 million each). A selection of the outputs and outcomes expected in the nine countries is provided in Table 3.

¹¹ The program is led by the International Finance Corporation.

Table 3: Sample Expected Outputs and Outcomes in the Nine Fragile States Facility Countries Eligible for Pillar I

Infrastructure Sector Projects <i>2 projects: UA 37.2 million</i>	Policy-Based Operations <i>6 projects: UA 136 million</i> <i>Percentage of project that strengthened the policy</i>
<ul style="list-style-type: none"> • Water points/wells drilled/equipped: 507 • Water facilities constructed/rehabilitated: 2382 • Roads constructed: 252 km • Feeder roads constructed: 130 km • People with improved transport access: 2,314,000 	<ul style="list-style-type: none"> • Public financial management: 67% • Business climate: 22% • Economic governance: 11%
Agriculture Sector Projects <i>3 projects: UA 52.3 million</i>	Social Sector Projects <i>3 projects: UA 66.8 million</i>
<ul style="list-style-type: none"> • Improved land use: 53,351 ha • Heads of livestock provided/vaccinated: 11,040 • Farmers trained: 5904 	<ul style="list-style-type: none"> • Facilities constructed/rehabilitated: 763 • Jobs created: 2,301,800

Note: UA=Units of Account

Source: African Development Bank

3.7 Current infrastructure operations aim to improve beneficiaries' access to basic services by providing potable water (Box 1), rehabilitating roads to vital commercial and social service points, and ensuring a reliable supply of electricity. Governance operations have focused on building national capacity for better public financial management, improving the business climate (especially for private sector development), and promoting economic and financial reforms. The goal in agriculture is to restore productivity and improve the food security and incomes of rural households. Technical assistance and institutional capacity building have focused on training national staff so as to bolster governments' capacity to undertake key day-to-day functions.

Box 1: Improving the Delivery of Basic Services: The Case of Comoros

The Comoros Drinking Water Supply and Sanitation (DWSS) project aims to improve the socioeconomic conditions of 200,000 people, nearly 29 percent of the total population, by providing them with sustainable access to clean drinking water and sanitation services. The project is expected to (i) increase the proportion of the population with access to drinking water from 10 percent in 2009 to 55 percent in 2015; (ii) increase sanitation service coverage from 7 percent in 2009 to 20 percent in 2015; and (iii) help reduce the prevalence of water-borne diseases by 20 percent by 2013. It is also expected to reduce the time needed by women and girls to fetch water from an average of 2.5 hours to less than 45 minutes, thus lightening workloads and freeing time for other activities, such as education.

Although the Fund re-engaged with Comoros only 2 years ago (in 2007) after suspending operations for 15 years, it is already a lead donor in the water sector. The Fund is at the forefront of the DWSS initiative and has helped the Government create the Water Sector Committee for better aid coordination. The DWSS will help to address major constraints and challenges related to (i) the absence of an institutional framework and development strategy; (ii) very poor access to drinking water attributable to an inadequate and defective distribution system and the non-treatment of water; (iii) the inadequate financial resources allocated to the sector; and (iv) endemically weak national capacity. The project also has a capacity-building component designed to strengthen organizational audit systems, improve executives' technical and management expertise and strengthen water management systems on the Islands of Mohéli and Anjouan.

Funded by six donors, including the Bank Group, the DWSS project will be implemented over 3 years (2010-2012) and will cost Units of Account (UA) 21.52 million. The Bank Group will contribute 49 percent (UA 10.00 million) of the total cost with resources drawn from the Fragile States Facility (UA 8 million) and Rural Water Supply and Sanitation Initiative (UA 2 million).

- 3.8 To permit a rapid and internationally coordinated response, the SEEFS and the operational guidelines of the FSF provide for the selective use of quick-disbursing instruments such as budget support in fragile states. The inherent benefits of predictable resource flows, reduced transactions costs, and country ownership have made budget support particularly important in assisting post-conflict countries with a limited revenue base and large unmet financing needs for basic service delivery. Furthermore, in the changed operating environment that has resulted from the economic and financial crisis, the Fund's flexible and judicious use of policy-based operations (PBOs) has proved valuable in responding to fragile states' particular needs. Subject to heightened scrutiny by the Board of Directors, budget support operations therefore take place in countries whose governments are committed to reform, where the conditions for close monitoring and coordination exist, and where adequate fiduciary safeguards are in place, or can be put in place specifically for the operation concerned. The case of Sierra Leone (Box 2) demonstrates that when fiduciary risks are properly mitigated, PBOs are a flexible and effective tool for helping countries reform by building adequate capacity and stronger institutions. Annex II discusses highlights of PBOs in fragile states and the ADF-12 paper, "Review of Policy-Based Operations Under ADF-11", analyzes the Fund's use of PBOs in general.
- 3.9 The share of PBOs in fragile states is expected to account for 33 percent of all FSF and PBA-supported activities by the end of ADF-11 (UA 228 million out of UA 695 million)¹². Of total PBO resources, 73 percent were used for exceptional operations necessitated by (i) the financial and economic crisis for import support operations in the Central African Republic, the Democratic Republic of Congo, and Togo (36 percent), and (ii) the facilitation of Côte d'Ivoire's arrears clearance (37 percent)¹³. The remaining 27 percent (UA 61 million) was provided to six countries (Burundi, Chad, Comoros, Guinea Bissau, Liberia and Sierra Leone) for governance capacity-building programs. PBO resources to these six countries were provided on an incremental basis, whereby three countries (Burundi, Liberia and Sierra Leone) with Country Policy and Institutional Assessment (CPIA) scores of 3.2 or above received 72 percent of the UA 61 million. Nearly all (90 percent) PBOs implemented in fragile states are supported by technical assistance or institutional support programs funded directly by the ADF or funded in coordination with countries' development partners.

Box 2: PBOs in Fragile States: The Case of Sierra Leone

Since emerging from a decade of destructive conflict in 2002, Sierra Leone has embarked on ambitious policy and institutional reforms, achieved a smooth democratic transition of government, and made great strides towards economic growth and poverty reduction. Along with other donors, the ADF has been a key supporter and financier of Sierra Leone's recovery plan.

The Fund's approach: The Fund has implemented a series of policy-based operations and institutional support projects in Sierra Leone totaling UA 51 million. The first two Economic Rehabilitation and Recovery Loans focused on the stabilization and reconstruction of basic services delivery. The Fund's support to the third and ongoing Economic Governance Reform Program aims to strengthen public financial management systems and revenue administration. All budget support operations in Sierra Leone have been appraised and implemented in close coordination and collaboration with the World Bank, the European Union and the UK Department for International Development using a Multi Donor Budget Support (MDBS) framework that is in line with the Paris Declaration. This partnership framework fosters mutual understanding and mitigates possible risks through regular policy dialogue between the Government and MDBS partners held at least once every quarter. The MDBS framework also provides mechanisms for the annual review of progress in the implementation of macroeconomic policies and core public financial management, including budget execution, fiduciary controls, procurement and accounting systems, and reporting on the use of public resources.

Achievements: Aided by the Fund's budget support operations, Sierra Leone has made noticeable improvements to its public financial management, as documented in the 2007 Public Expenditure & Financial Accountability report in which it compares favorably to other countries in the region. The report shows a positive trajectory of change in the comprehensiveness and transparency of budget and

¹² This figure excludes arrears clearances funded under Pillar II.

¹³ Because of operational delays, the magnitude of Côte D'Ivoire's arrears, and its weak cash position, an exceptional policy waiver was granted to allow the proceeds of a budget support operation to be used to pay the country's share without jeopardizing the burden-share principle. The necessity of the Bank coordinating its arrears clearance and re-engagement operations closely with other donors makes this kind of policy flexibility central to success.

external scrutiny: Sierra Leone scored A or B on all indicators¹⁴. Between 2005 and 2008, Sierra Leone's total Country Policy and Institutional Assessment ranking rose from 3.0 to 3.3, and according to the World Bank's Worldwide Governance Indicators, the country made major gains between 2003 and 2007 in four of the six areas covered.

Lessons learned: Key lessons include (i) that PBOs can be critical to strengthening country systems when they are complemented by institutional strengthening projects or targeted technical assistance and by policy dialogue at the country level; (ii) that country leadership is critical to implementing reforms, even though the capacity to deliver may remain a major challenge; (iii) understanding how a country's governance system works is fundamental to addressing the development challenge; and (iv) close donor coordination and strict monitoring are key to ensuring that the proper mitigation of fiduciary risks. The Fund is applying these lessons to its budget support operations in other fragile states such as the Central African Republic, Côte d'Ivoire and Liberia.

- 3.10 **Pillar II arrears clearance** operations were instrumental in triggering donor re-engagement and helping countries qualify for debt relief assistance under the HIPC Initiative and the Multilateral Debt Relief Initiative. Two operations valued at UA 256 million were implemented as planned, with Togo and Côte d'Ivoire successfully clearing their arrears to the Bank Group and other donors in well-coordinated re-engagement programs that led them to quickly reach the HIPC Initiative decision point and receive interim debt relief.
- 3.11 To date, the Bank Group has provided arrears clearance assistance to eight out of nine Pillar I-eligible fragile states. In six cases, this assistance was supported through the Post Conflict Country Facility and the FSF¹⁵. As of end-2009, three countries had reached the HIPC Initiative completion point, five decision-point countries were receiving interim debt relief and were expected to reach completion point by 2011, and one country, Comoros, was expected to reach the decision point in early 2010. The Bank Group's arrears clearance operations and subsequent debt relief assistance have thus made critical and significant contributions toward reducing beneficiary countries' debt stock and debt service obligations and improving their debt sustainability outlook. By leading donor reengagement after years of sanction-induced absence, the Bank Group's support has been critical in generating net positive transfers of aid and freeing resources for poverty reduction and development expenditures.
- 3.12 Implementing operations under Pillar II has underlined the importance of planning arrears clearance exercises to be conducted within a given cycle, both in terms of timing and in terms of amounts, so as to avoid shortfalls. There is the prospect that Somalia, Sudan and Zimbabwe may qualify for arrears clearance support during the ADF-12 cycle. Sufficient resources will need to be secured, and may have to be generated over and above the ADF-12 resource envelope when the international community develops and agrees on the framework for arrears clearance for these countries.
- 3.13 **Pillar III targeted assistance** (UA 19 million) was provided to a wider range of countries (15 of the 17 assessed) for sector and economic studies, capacity-building activities, and technical assistance, including secondments. Resources from this window were instrumental in supporting capacity-building initiatives that could not be addressed by the Fund's traditional instruments and in assisting countries where the Fund does not have regular operations because of ongoing crises or arrears-induced sanctions. In addition to the nine countries that received assistance under Pillar I, six countries (Chad, Djibouti, Guinea, Somalia, Sudan and Zimbabwe) received assistance from Pillar III for technical assistance and capacity building. The limited pool of ADF-allocated Pillar III resources coupled with high demand triggered a need for additional resources, which were provided through an exceptional UA 60 million net income allocation made by the ADB.

¹⁴ These indicators included the availability of budget information, the orderliness of and participation in the budget process, and the timeliness and regularity of accounts reconciliation.

¹⁵ Arrears clearance operation for the Democratic Republic of Congo and Guinea Bissau were implemented prior to the establishment of the PCCF in 2004.

- 3.14 Examples of some of the key activities supported by Pillar III are the secondment of experts to key government ministries in Burundi, Comoros, Liberia, and Sudan; economic and sector work (i.e. research and analysis) to strengthen policy development expertise in Chad, the Democratic Republic of Congo, Djibouti, and Guinea; and legal technical assistance and capacity building of selected ministries in the Central African Republic, Chad, Sierra Leone, Somalia, Sudan, Togo, and Zimbabwe.
- 3.15 To better guide the use and administration of Pillar III resources, Management has recently finalized the draft program document, "Guidelines for the Administration of the Fragile States Facility: Pillar III Capacity Building Program (FSF-CBP)". Drawing from the experience of FSF implementation so far, the guidelines lay out the objectives and guiding principles of Pillar III support, an implementation strategy, and rules and procedures for processing program and project proposals and monitoring arrangements. The document is scheduled for Board discussion in February 2010.
- 3.16 **Voluntary donor contributions:** As agreed with Deputies, the FSF has been designed to absorb voluntary contributions from ADF members and other development partners, including emerging donors. These contributions could be earmarked for specific country operations or used to support general operations under any of the FSF's three windows. As of end-2009, the FSF had received confirmation of a grant of UA 1.2 million (Danish Krone 10 million)¹⁶ in voluntary contributions from the Danish International Development Agency in support of the Fund's capacity building program in water and sanitation in Zimbabwe. The flexibility afforded by this structure is important to helping countries with substantial unmet needs where the Fund is being asked to take the lead but can neither undertake regular operations nor provide the resources necessary for substantive engagement. Receiving voluntary funds for arrears clearance operations would also ease the burden on FSF Pillars I and III. This makes the FSF an important and sometimes the only source of financing for Bank Group-supported activities in fragile states.

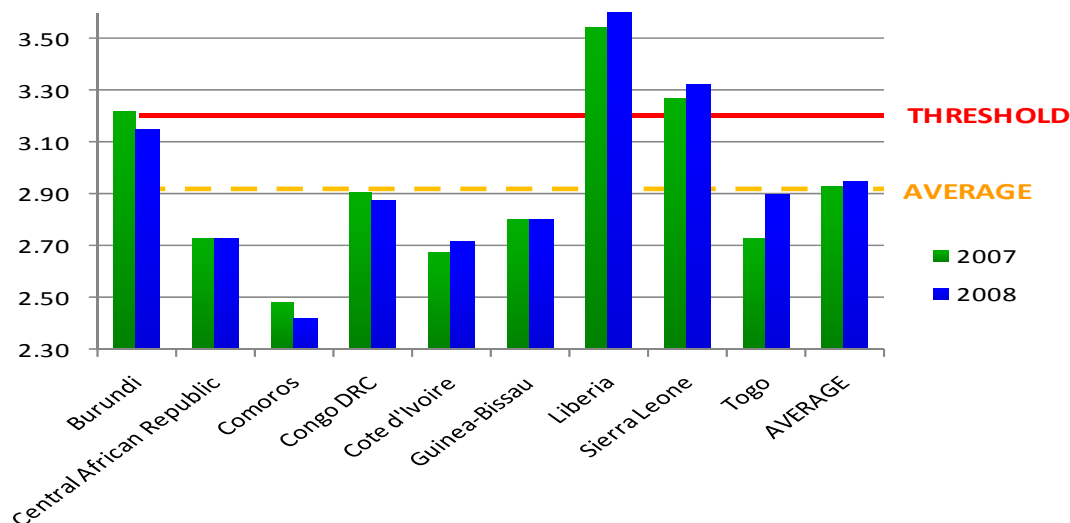
Improving Performance and Results Measurements in Fragile States

- 3.17 In measuring and tracking development effectiveness and outcomes in fragile states, the Fund faces challenges that are in no way unique, and that it is actively addressing. First, like many donors, the Fund is still learning how best to measure results in fragile states, given the frequent lack of baseline data. Second, given that progress in fragile states is often slow, donors must continuously reassess whether programs are on course to achieve the desired outcomes. Third, results assessments must be flexible to accommodate a constantly changing and volatile environment in which progress is nonlinear. The Fund is taking a number of measures to address these issues (discussed in para. 3.22-3.24).
- 3.18 In terms of performance at the country level, although fragile states' aggregate CPIA scores improved between 2004 and 2008, Figure 3 shows that progress between 2007 and 2008 was uneven. There were also wide differences in country performance, with Burundi, Liberia and Sierra Leone meeting or exceeding the 3.2 CPIA threshold while Comoros and Côte D'Ivoire lagged with a score of 2.7 or less. This performance does not reflect the impact of the SEEFS, which was only adopted in 2008¹⁷.

¹⁶ Using the January 2010 exchange rate of Danish Krone 1 = UA 0.1234

¹⁷ An even shorter time has elapsed since the bulk of FSF projects were approved in June-July 2009. At end-2009, only two projects, both in Liberia, had been operational for more than 6 months. Overall, 23 PBA and FSF funded operations had been approved by end-2009. Of these, 19 were effective. Furthermore, 12 of the 19 projects had been operational for less than a year and 42 percent for 6 or less months.

Figure 3: Evolution of the Country Policy and Institutional Assessment Scores of Fragile States for 2007-2008



Source: African Development Bank

- 3.19 Similar performance challenges can be observed at the project level. Using portfolio performance as an initial proxy for expected outcomes and impacts, the 2008 Annual Portfolio Performance Report, which analyzes 56 operations in fragile states—49 (87 percent) of which predate the SEEFS—shows that performance was weaker in fragile states than in other ADF countries: the fragile states portfolio had a higher share of operations at risk (47 percent compared to 39 percent in the portfolio of other ADF countries) and more problem projects (21 percent compared to 6 percent in other ADF countries). Both of these statistics indicate a higher percentage of operations eligible for cancellation (17 percent).¹⁸ While unsurprising in light of fragile states' unique operational challenges, these findings provide an important point of reference against which the SEEFS' implementation progress and impact should be tracked in coming years.
- 3.20 As an early indication of the impact of the Bank Group's increased efforts to improve portfolio performance, analysis of business process indicators (such as the time lapse between approval and first disbursement) with regards to projects approved in fragile states in the first 2 years of ADF-11 show improvement compared to a similar 2-year period in ADF-10. The analysis also shows similar or better performance in fragile states than in other ADF countries (para. 3.25). We also observe improvements in all portfolio performance indicators in 13 fragile states between 2005 and 2008. For example, the disbursement ratio and number of operations supervised twice a year increased by 35 percent and 27 percent respectively, while the percentage of problem projects decreased by 50 percent. See Annex III for more comparisons of portfolio performance indicators between 2005 and 2008.
- 3.21 While highlighting the areas where the Fund should accelerate its efforts, the aforementioned findings on CPIA scores and project portfolio performance also confirm the validity of the premise of the Fund's enhanced engagement insofar as several points are concerned.
- Although the SEEFS links amounts of resources to countries' performance as reflected in CPIA scores, fragile states' unique vulnerability justifies the SEEFS's main objective of providing additional resources based on needs. The positive trend in project portfolio performance also demonstrates that the Fund's enhanced support in fragile states is showing early results.

¹⁸ African Development Bank, October 2009. *2008 Annual Portfolio Performance Review Report*.

- Sustained engagement is key to gradual improvements (Sierra Leone), and significantly heightened international efforts and a greater country commitment make a real difference (Liberia).
- The risk of slippage is a constant reality because the road to recovery is neither linear nor predictable (the Democratic Republic of Congo).
- While the Bank Group's new Results Measurement Framework provides a comprehensive approach to track its contribution to development results at the country level, its tools and methodologies should be calibrated, whenever possible, to capture the challenges particular to fragile states and to better inform differentiated quality-at-entry and supervision measures.

3.22 Going forward, the Bank Group will improve portfolio performance and better demonstrate its overall development impact by integrating lessons learned into its results and quality-at-entry tools, taking targeted measures to address operational challenges more proactively, and devoting more efforts to enhancing portfolio management in fragile states. These measures are currently supported by greater Fragile States Unit-managed coordination, Field Offices' closer engagement with clients,¹⁹ and stronger capacity-building components in all ADF-funded operations. Specifically, to improve project performance, results measurement and reporting, the Bank Group will

- sharpen its use of the Results Measurement Framework to ensure that adequate data is gathered at all stages, that logical framework formats are revised to focus on measurable quantitative targets, and that a new country outcome indicator to monitor progress by fragile states is included in the ADF-12 version of the framework;²⁰
- integrate CPIA scores as an additional country outcomes indicator as recommended during the ADF-11 Mid-Term Review. The two main advantages of this indicator are its coverage of the economic and political dimensions of fragile states and the fact that it is computed annually in consultation with governments;
- integrate and refine its use of governance-related indicators as Core Sector Indicators in 2010 and ensure (i) that indicators in all key sectors are disaggregated for fragile states, and (ii) that two or three new indicators are developed to track progress in areas of particular concern to fragile states, such as peace, stability and institutional capacity;
- prioritize its statistical capacity-building initiatives to focus more explicitly on improving baseline data collection (including gender-disaggregated data) and continually updating data throughout project design and implementation cycle; and
- strengthen portfolio management by increasing frequency of project supervision in fragile states to at least 3 times a year and doubling of budget resources to the Fragile States Unit in 2010.

3.23 In addition to the above measures specific to the results framework, broader institutional and business process reforms currently underway have positioned the Fund to translate its strategic vision into reality. With regards to institutional arrangements, the creation and staffing of the Fragile States Unit, coupled with the Bank Group's overall reform agenda and decentralization strategy, has created a structure for more integrated and fully coordinated engagement in fragile states. Already, the Fragile States Unit is playing an important and growing role in ensuring better country policy dialogue and in harmonizing and coordinating actions more closely with other development partners.

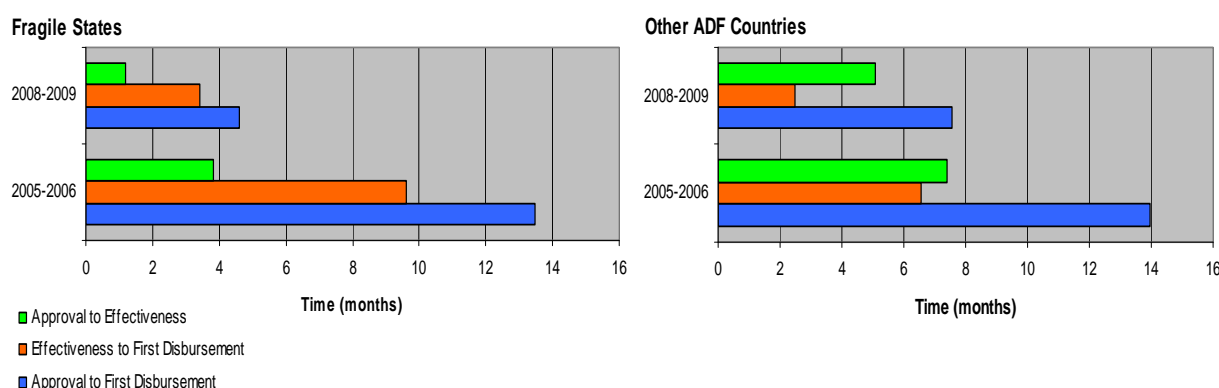
¹⁹ The Bank has Country Offices in three fragile states (Chad, Sierra Leone and Sudan) and a Regional Office in the Democratic Republic of Congo. Another three fragile states (the Central African Republic, Congo and Zimbabwe) are supported by Regional Offices in neighboring countries. One of Management's recommendations in its forthcoming Decentralization Roadmap is to increase the Bank Group's presence in fragile states in coming years by opening new offices and increasing existing country or regional offices' capacity to support neighboring fragile states. Increased country presence, supported by more staff and an appropriate delegation of decision-making authority, will be key to improving portfolio performance, achieving development results and meeting the Bank Group's commitments to the Paris Declaration on Aid Effectiveness.

²⁰ In this regard, the Bank has already initiated a participatory process to revise the existing logical framework for all operations: this process is expected to be completed during ADF-12. The revised logframe will be the central element of a new supervision report.

3.24 Similarly, the FSF's specialized procedures have paved the way for a fast-tracked, streamlined and simplified business process and have begun to improve the Fund's performance in fragile states (Figure 4). The Fund has also revised rules, procedures and tools to allow for a rapid and coordinated response as regards procurement, disbursements, rapid assessments and multidonor interventions. For instance, the Fund's revised procurement policy has built flexibility into early-stage, short-term operations in fragile states under the "Procurement under Disaster and Emergency Assistance" provision. Other procedural adjustments include the use of quick-disbursing instruments and the devolution of approval authority for Pillar III activities. In applying rapid and flexible business procedures, the Fund strives to maximize its ability to seize limited windows of opportunity while minimizing the risks inherent to operating in fragile contexts. It accomplishes the latter by applying strong safeguards, conducting a rigorous review process, and supervising and monitoring operations closely.

3.25 Figure 4 gives an early indication of the effect of institutional and business process measures in fragile states for projects approved in 2008 and 2009. It shows, for instance, that during the first 2-year period of ADF-11, the time lapse between approval and effectiveness (signature) and between approval and first disbursement was lower in 13 fragile states²¹ than in other 23 ADF countries. Furthermore, looking at the same group of fragile states, we observe a significant reduction (nearly 75 percent) in elapsed time in each of the three variables in 2008-2009 compared to 2005-2006 (i.e. the first 2 years of the ADF-10 cycle).

Figure 4: Comparison of Average Elapsed Time to Process ADF Operations



Note: Number of approved operations (n) in fragile states in 2008-09 = 29, and n in 2005-06 = 39
n in other ADF countries in 2008-09 = 110, and n in 2005-06 = 173

Source: African Development Bank

Strategic Partnerships and Multidonor Collaboration

3.26 Through the Fragile States Unit, regional departments, sector departments and field offices, the Bank Group has established strong country and global partnerships with other international organizations and aid agencies in fragile states. At the country level, the Bank Group is implementing joint country strategies in Liberia and the Central African Republic, and has worked closely with partners on the recently approved Sierra Leone joint strategies, and Zimbabwe's needs assessment report. The Fund has also partnered with the Bretton Woods Institutions and several other organizations, including United Nations agencies, in supporting governance reforms and implementing technical assistance and capacity-building operations in Burundi, the Central African Republic, Liberia, Sierra Leone, Togo and Zimbabwe. In addition, the Government of Zimbabwe, supported by the Southern African Development Community and donors, has requested that the Fund take a lead role in re-engaging the international community in supporting Zimbabwe's development.²²

²¹ Data is not available for all 17 fragile states

²² In its lead role, the Bank aims to support the Government in taking the actions that will facilitate and speed up re-engagement, including i) maintaining the momentum of sound macroeconomic and fiscal policies; ii) accelerating structural

- 3.27 At the global level, the Bank Group is working closely with the OECD's International Network of Conflict and Fragility, established in 2009, to develop policy guidelines to improve donors' response to conflict and fragility. As a member of the International Dialogue on Peacebuilding and Statebuilding and the Partnership for Democratic Governance, the Bank Group is also helping to build consensus on a set of objectives and principles that focus national and international efforts at the country level. The outcomes of these efforts will be presented to the Fourth High Level Forum in 2011 and will feed into relevant policy debates, including the review of the Millennium Development Goals scheduled for 2010. Furthermore, the Bank Group is a member of the Multilateral Development Banks Working Group on Fragility and Conflict, and has intensified its collaboration with the African Union and United Nations agencies and programs, including the United Nations Economic Commission for Africa, in undertaking economic and sector work on peace and state-building in Africa.
- 3.28 Moving forward, the Fragile States Unit intends to strengthen its role as a knowledge center on fragility and conflict by deepening its economic and sector work and collaborating more closely with international and regional institutions. In doing so, the unit will draw on the Bank Group's Knowledge Management and Development Strategy 2008-2012 and its ongoing knowledge activities, including the production and dissemination of flagship reports and high-quality analytical products designed to deepen fragile states' capacity to carry out better informed strategies and design a robust pipeline of bankable projects. The recently published "An Infrastructure Action Plan for Burundi" is one such publication.²³

4. Proposed Adjustments to the Strategy for Enhanced Engagement in Fragile States Under ADF-12

- 4.1 With the rolling out of the SEEFs and its operational framework, the Bank is now positioned to deliver substantive results with respect to its strategic goal of helping countries achieve macroeconomic stability, improve the delivery of basic social services and meet their development goals over the long term. Continued support under ADF-12 is required for these results to unfold. To further build on an approach that is off to strong start, Management proposes to continue the current strategy into ADF-12 without a significant change. Management does, however, propose some adjustments to the operational framework, as detailed below, with a view to addressing emerging challenges and improving operations further.
- 4.2 Specifically, Management proposes to (i) maintain the same strategic focus as that adopted in ADF-11; (ii) continue to use PBOs in fragile states in a selective manner, where the right conditions exist, and with appropriate fiduciary safeguards; (iii) establish FSF resource parameters for ADF-12; (iv) refine the eligibility criteria for continued (second cycle) assistance; and, (v) establish exit modalities to facilitate countries' smooth transition out of the FSF at the end of the two-cycle eligibility period.

Maintaining Strategic Focus

- 4.3 Management requests Deputies to reaffirm the ADF's core strategic objectives in fragile states, namely, rehabilitating and reconstructing infrastructure to improve the delivery of basic services, and improving governance by rebuilding institutional capacity and accountability. Operations in fragile states will follow the same principle and approaches as that of other ADF-12 operations in terms of mainstreaming the crosscutting issues of gender, environment and climate change. Notably, in acknowledgement of the critical importance of climate change widely discussed during the Copenhagen Summit, the Bank will, during ADF-12, accelerate the mainstreaming of climate change adaptation and mitigation measures into the Fund's priority areas of infrastructure rehabilitation, governance and capacity-building in fragile states.

reforms that secure a good climate for private sector development; and iii) adopting a plan for the early clearance of arrears with the International Monetary Fund and the World Bank.

²³ African Development Bank, 2009. *An Infrastructure Action Plan for Burundi: Accelerating Regional Integration*.

Financing Instruments

- 4.4 In choosing instruments of intervention, Management will continue to use PBOs in fragile states in a selective manner. In line with the provisions of the SEEEFS and the FSF Operational Guidelines, Management will continue to assess the need for use of PBOs in fragile states on a case-by-case basis and in coordination with other donors, ensuring that they are accompanied by closely enforced fiduciary safeguards and supported by institutional capacity-building operations. The Bank Group's Operations Committee will ensure the selective application of the PBO instrument, screen quality at entry, and review proposed operations to make sure that they are strategically aligned and comply with the Bank's policy and operational guidelines.
- 4.5 To better guide the Fund's use and implementation of PBOs in fragile states, Management will strengthen the criteria for selection of PBO instruments and improve the Bank Group's Fiduciary Risk Management Framework²⁴. Where warranted, special fiduciary safeguards will be used in fragile states under the enhanced Fiduciary Risk Management Framework. This will draw on international good practice as well as lessons learned from analysis of Bank experience and the evidence emerging from the Bank Group's current work on a Common Approach for the Provision of Budget Support to Fragile States²⁵. Inter alia, the main criteria for assessing eligibility for PBOs will be:
- strong leadership and demonstrated commitment to reform at country level;
 - satisfactory up front assessment of the fiduciary environment²⁶;
 - a demonstrated track record of effectiveness including, for example, rebuilding economic and financial government capacity in post-conflict countries or assisting countries facing extraordinary circumstances in restoring core public expenditure functions.

Establishing Resource Parameters for Supplementary Support, Arrears Clearance and Targeted Support

- 4.6 Management's proposal in this section deals with the criteria and principles that will be applied to establish FSF resource levels in ADF-12. This section does not discuss detailed resource requirements and pillar-by-pillar analysis of FSF allocations. These issues will be discussed in the "Issues Paper on ADF Resource Allocation Framework".
- 4.7 Pillar I supplementary financing: Allocating resources using a times-two multiplier of ADF-10 PBAs has allowed the Fund to provide meaningful assistance while continuing to link resources to preceding cycle performance. Management proposes to maintain Pillar I supplementary allocations as a times-two multiplier of the average of the two highest annual PBAs of the preceding cycle (ADF-11), in order to link resources to performance and redistribute a higher share of the fixed envelope to strong performers. Annex IV (Table IV-1) provides an illustrative calculation of top-up allocations using PBA levels from ADF-10 and ADF-11.
- 4.8 Zimbabwe is one of the countries that may qualify for FSF support during ADF-12. If it does qualify, Management recommends computing a hypothetical entitlement as if Zimbabwe had been classified as ADF-only under ADF-11 (i.e., was not subject to the capped pool shared by countries under the blend regime).
- 4.9 Finally, given the increase in allocations for most FSF Pillar I countries, Management proposes to increase caps and floors in proportion to the increase in Pillar I resources from ADF-11 to ADF-12. Currently, the ceiling is UA 60 million (the Democratic Republic of Congo) and the floor is UA 10 million (Guinea Bissau and Comoros).

²⁴ See ADF-12 Discussion Paper, *Review of Policy-Based Operations Under ADF-11*. February 2010. Cape Town, South Africa.

²⁵ In collaboration with the World Bank and the European Union (to be completed February 2010)

²⁶ Where fiduciary systems are assessed as satisfactory through shared analysis including Public Expenditure and Financial Accountability assessments, Public Expenditure Management and Financial Accountability Reviews, and Public Expenditure Reviews.

- 4.10 **Pillar II arrears clearance financing:** Adequate planning of the two arrears clearance operations undertaken in ADF-11 was instrumental to ensuring that sufficient financial resources had been set aside when development partners decided to re-engage jointly. A similar collective effort will be needed for the three ADF eligible countries that may qualify for arrears clearance assistance – Zimbabwe, Sudan and Somalia. Annex V provides background information and analysis on these countries, and Table 4 sets out the working assumptions. If Zimbabwe qualified, it would consume the bulk of the resources likely to be available through the FSF given the size of its arrears. Management therefore suggests that resources to clear Zimbabwe’s arrears should be ring fenced and separate from the FSF in ADF-12, and that specific contributions should be sought for this purpose.
- 4.11 Furthermore, Management proposes to maintain the existing arrangement making every effort to allocate a part or all of the ADB income generated from arrears clearances to the Fund. In particular, Management will make a proposal to the Board of Governors of the ADB to approve, on an annual basis, the allocation of realized income generated from the clearance of arrears of Fragile States through the FSF, with due consideration to the financial integrity of the Bank. This will apply also for income generated from clearance of Zimbabwe’s arrears.

Table 4: Working Assumptions for Arrears Clearance Operations During ADF-12

Country	Amount in UA millions	Country Contribution	Probability of Arrears Clearing During ADF-12
Somalia	60	1%	Low
Sudan	192	33%	Medium
Zimbabwe	364	1%	High

Note: UA=Units of account

Source: African Development Bank

- 4.12 **Pillar III targeted support:** Similar to what took place in ADF-11, a limited pool of resources will be allocated to this window based on analysis of eligible countries’ demand for technical assistance and taking into consideration the amount of resources that will be required for Pillars I and II.

Refining the Eligibility Criteria for Second-Cycle FSF Assistance

- 4.13 Countries’ eligibility for continued assistance will be determined in a two-step filtering process. The first step will reaffirm the country’s eligibility for FSF supplemental support; the second step will rigorously analyze end-cycle progress against performance benchmarks agreed at entry.
- 4.14 With regard to the first step, early assessments of the performance of the nine supplemental support countries suggest that all are potentially eligible for a second cycle of FSF support in ADF-12, albeit with the phasing-out adjustments discussed below. None of the nine countries has deviated from the basis of FSF support agreed at the point of entry in 2008.
- 4.15 The framework for the second step, the ADF-11 end-cycle performance assessment of each of the nine Pillar I beneficiary countries, is currently being planned and will be undertaken during the first half of 2010. Some of the key elements to be covered in each country’s performance assessment are provided in Annex II (Table II-2) and address
- progress in implementing peace agreements;
 - progress in implementing Fund-supported programs;
 - the implementation of macroeconomic and structural reforms; and
 - the implementation of programs undertaken jointly by the Bank Group and other partners, such as Heavily Indebted Poor Country Initiative debt relief.

Establishing Parameters for Phasing Out FSF Assistance

- 4.16 As discussed in Section 2, one of the FSF's distinctive features is to provide more assistance at the earliest possible opportunity so as to make a significant contribution to fragile states' recovery process. The mid-term review of the fifteenth replenishment period of the International Development Association (IDA)²⁷ suggests that a lengthened phasing-out strategy works well for the operations of the IDA, which benefit from a smaller resource multiplier effect at the outset than that proposed by the FSF. Furthermore, the enhanced support provided by the ADF and the IDA to fragile states are complementary, as both institutions use the same definition to designate countries as "fragile states". They also closely coordinate their interventions in countries where they share common operational or strategic objectives. Six out of nine FSF supplemental support eligible countries are benefiting from the IDA's special allocation.²⁸
- 4.17 Although the discussion about providing supplemental support to current beneficiaries in ADF-12 and about the potential impact of this support on the duration of assistance is linked to resource demand, the analysis of allocations, overall replenishment levels, and the relative share of the FSF envelope, it will remain important that a critical mass of resources be available for new entrants. In reconciling the competing considerations of providing more resources (out of a fixed pool) to the same group of countries over a lengthened phase out and freeing resources for new entrants, Management has taken three important factors into account:
- the level of FSF resources available in relation to expected demand from current beneficiaries and potential new entrants;
 - the need to ensure equity and fairness in allocating a limited amount of resources to the greatest number of eligible countries; and,
 - the need to adhere to the SEEFS' underlying principle of supporting countries in moving out of fragility, as evidenced by quantitative measures of performance and need.
- 4.18 With regards to considerations related to level of resources and equity, Management believes that the increased assistance from the 2x top-up entitlement over two ADF cycles reduces the need for a longer period of FSF assistance. It also ensures fairness and prudence in allocating limited resources to all eligible countries. Management therefore proposes to maintain FSF assistance over two cycles as initially envisaged. Partner institutions with built-in mechanisms for longer engagement and stronger country presence could maintain the momentum beyond this period. The IDA, for instance, doubles its resources to post-conflict countries (equivalent to a 1x top-up) during their first 4 years of eligibility. This entitlement is gradually phased down over the following 6 years²⁹ for a total period of eligibility of 10 years.
- 4.19 With regards to consideration of ensuring alignment of phasing out with performance and need, Management proposes to evaluate countries based on the three simple parameters and thresholds summarized in Table 5.

²⁷ International Development Association. 2009. *IDA's Exceptional Allocation: A Review of the Implementation Experience With Lengthened Phase Out* (IDA15 Mid-Term Review).

²⁸ The three FSF countries currently not receiving a special allocation from the IDA are Comoros, Guinea Bissau and Sierra Leone.

²⁹ 6 years since IDA-15, 3 years before.

Table 5: Parameters and Thresholds for Phasing Countries Out of Fragile States Facility Pillar I

Parameter	Objective	Threshold
Average World Bank/African Development Bank Country Policy and Institutional Assessment score	To measure performance against the agreed fragility benchmark	Greater than 3.2
Gross National Income Per Capita on a Purchasing Power Parity basis	To measure internal capacity to generate resources for economic development	Greater than US\$ 500
Length of Re-engagement (including pre-Fragile States Facility engagement, i.e., engagement under the Post-Conflict Country Facility)	To distinguish between countries based on the length of support provided by the international community and to favor those recently re-engaging	Greater than 6 years

Source: African Development Bank

- 4.20 Detailed proposals for phasing countries out will be finalized as part of the performance review assessment that will be conducted during the first half of 2010. An initial assessment is provided in Annex III and will be updated. Management proposes the following reductions in the gross³⁰ 3-year entitlement:
- a 50 percent reduction if all three parameters (CPIA score, gross national income per capita and length of re-engagement) are above their respective thresholds;
 - a 33 percent reduction if two of the three parameters are above their respective thresholds; and
 - a 25 percent reduction if one of the three parameters is above its threshold.
- 4.21 Management proposes to introduce phasing out during the second cycle of assistance, based on a country-by-country evaluation that applies the parameters outlined above. To ensure that FSF resource flows are predictable, the “Issues Paper on ADF Resource Allocation Framework” will consider phasing out in determining the resources available for each country as its eligibility is confirmed.
- 4.22 Should the need to extend assistance to a third cycle arise, or should an exceptionally prolonged phasing-out period be justified by unforeseen circumstances, Management will present Deputies with a proposal at the ADF-12 Mid-Term Review for their consideration in subsequent consultations.

5. Conclusion

- 5.1 The first 18 months of implementation of the SEEFs reveal that the Fund has started to bolster its engagement in fragile states and provide the broader and integrated support that Deputies envisaged during the ADF-11 consultations. The Fund has committed nearly UA 1.1 billion to the continent’s most vulnerable countries: of this amount, about 50 percent is being provided through the FSF. The ADF’s strategic focus on a few selected areas (governance capacity building, infrastructure rehabilitation and technical assistance) is enabling it to assist these countries in a more targeted manner, prioritizing subsectors and project components that are most relevant to each country. The ADF has also imparted its support more expeditiously and in coordination with other significant players. The use of PBOs has been particularly instrumental in supporting governance capacity building and helping countries to weather the impact of the financial and economic crisis. In short, the Fund is making a real and meaningful difference in these countries.

³⁰ before applying caps and floors

- 5.2 One of the key lessons that have emerged at this stage of the SEEFS' implementation is that fragile states diverge widely not only in terms of their needs but also in terms of the pace of their recovery and their progress. In this regard, performance is linked to strong government commitment and to concerted efforts on the part of the international community, as demonstrated in Liberia and Sierra Leone. Another key lesson is the need to strengthen the Bank Group's results measurement approach in fragile states and to build on current institutional and business process measures to further enhance its delivery capacity and effectiveness. In this regard, the strong portfolio management supported by the Bank's enhanced field presence will be key to identifying bottlenecks and taking timely and effective action.
- 5.3 Looking ahead into ADF-12, Management proposes to continue to deepen its engagement in fragile states while fine-tuning its approach in light of lessons learned so far. The ADF's operational support to fragile states will remain firmly rooted in its mandate and comparative advantage in the governance capacity building and infrastructure sectors. The Fund will continue to collaborate closely with partner countries and other donors to ensure complementary and strategically coordinated interventions.
- 5.4 Deputies are invited to take note of this paper and to consider Management's proposal to
- maintain the ADF's core strategic focus in fragile states on infrastructure rehabilitation, governance support, as well as institutional and human capacity-building initiatives;
 - maintain the selective use PBOs to intervene in fragile states, with further strengthening of the criteria for assessing countries' eligibility for PBOs and enhancing the Bank Group's Fiduciary Risk Management Framework;
 - ensure sufficient FSF resource for beneficiary countries during ADF-12 by (i) maintaining a times-two multiplier of the average of the highest two annual PBAs in ADF-11 for supplemental support, and (ii) ring-fencing outside the FSF, resources required to clear Zimbabwe's arrears; and,
 - refine the eligibility criteria for continued assistance and introduce exit modalities to facilitate countries' smooth transition out of the FSF during or at the end of ADF-12.

Annex I: Policy-Based Operations in Fragile States

Guidelines for Development Budget Support Lending in Fragile States	
<p><i>The Bank Group's Development Budget Support Loan (DBSL) Guidelines set a relatively high standard for eligibility of a regional member country for DBSLs, which is not commonly satisfied by fragile states or post-conflict countries but are nonetheless important given the inherent benefits of predictability of resource flows, reduced transactions costs, and country ownership. To help achieve the Fund's goal of enhanced engagement in Fragile States, the Fragile States Facility has been designed to allow for use of DBSL in fragile states, provided on an exceptional basis and closely monitored. The DBSL operation also should be accompanied by appropriate safeguards aimed at minimizing the fiduciary risks.</i></p>	
Prerequisites and Waiver	<p>The prerequisites for DBSL operations, provided in the DBSL Guidelines may be waived in the case of fragile states, except for the following:</p> <ul style="list-style-type: none"> • The country must be post-conflict with a credible peace agreement • There must be a National Development Plan • There must be consensus between the government and donors on development priorities • A credible institutional capacity-building program
Fiduciary Safeguards	<p>Safeguards, which need to be put in place for DBSLs in fragile states include the following:</p> <ul style="list-style-type: none"> • Justification of the DBSL operation must be provided in the programming document (CP or CSP) as well as the appraisal report for the DBSL operation, and should include the safeguards to mitigate the risks of fragility. • Audit of the DBSL operation will not be conducted by a government audit agency, but by a firm of auditors, with audits conducted at least every six (6) months. • Where the institutional capacity is assessed to be weak, the Bank Group through the FSF should have recruited professional(s) that are placed in the relevant government agencies to strengthen the institutional capacity to support the DBSL operation. • Adequate alternate arrangements in place of or to support country systems. • The Fund will always ensure the involvement of other donors, though it may take the lead in the coordination of donor activity, and disbursements of resources. • Reform/performance indicators will be closely monitored by the Bank Group.
Added Value of Policy-Based Operations in Fragile States and Contexts of Crisis	
	<p>The Fund has two characteristics that not all other budget support donors share. These characteristics afford it added value because they allow it to deliver predictable, politically neutral resources in environments such as fragile states where not all bilateral donors can do likewise.</p> <ul style="list-style-type: none"> • First, the Fund has a demonstrated track record of providing its regional member countries with resources more predictably than other bilateral sources. • Second, as Africa's regional development institution, the Bank Group enjoys unrivalled legitimacy. Typically, its engagement with regional member countries is open and frank. The Bank Group is seen as a genuine and important partner and acts as Africa's leading voice on matters of economic and financial governance. It also plays a significant role as interlocutor between governments and donors and it is exploiting this expertise in countries such as Burkina Faso, Malawi and Tanzania, whose budget support groups the Bank chairs.
Conformity to current international practice	
	<p>The Fund's practices for assessing and managing fiduciary risks are consistent with those of other donors: an ex ante assessment of the fiduciary risk of providing budget support to partner countries and the monitoring of improvements over time. In addition, where fiduciary risks are considered high, the Fund uses policy-based operations instruments that are more easily monitored and therefore less prone to fiduciary risk (i.e. the use of import support or sector budget support instead of budget support). Consistent with other donors, the Bank assesses progress in terms of improvements in public finance management rather than in terms of arbitrary thresholds for budget support eligibility. Auditing relies on national systems. The Bank is presently preparing guidance on the audit of budget support operations that is informed by recent communication from the European Commission that independent ex post audits conducted in parallel are expensive and do not significantly mitigate fiduciary risk.</p>
	<p>The Fund is currently working with the World Bank and the European Union on a common approach to budget support in fragile states that will allow risk analyses and risk management to be shared by those multilateral agencies best placed to provide the longer-term predictable financing so urgently needed in post-conflict countries.</p>

Annex II: Eligibility Criteria for Support from the Fragile States Facility

Table II-1: Eligibility Criteria for Supplemental Support, Arrears Clearance and Targeted Support

Pillar I – Supplemental Support: Stage 1 eligibility criteria	
<i>Commitment to Consolidate Peace and Security</i>	To demonstrate commitment to consolidating peace and security after crisis or conflict, the country should have <ul style="list-style-type: none"> • a signed comprehensive and internationally recognized peace agreement or a post-crisis or reconciliation agreement, and no ongoing hostilities of any significance; and • a functioning governmental authority or transitional government broadly acceptable to stakeholders and the international community.
<i>Unmet Social and Economic Needs</i>	Post-crisis and transitional states are considered to face a uniquely challenging combination of circumstances demonstrated by <ul style="list-style-type: none"> • continuing severe economic difficulties caused by conflict, as evidenced by a contraction of real gross domestic product per capita by 10 percent or more since 1990; and • extremely low levels of human development as indicated by the country's rank in the bottom quintile of the United Nations Human Development Index.
Pillar I – Supplemental Support: Stage 2 eligibility criteria	
<i>Improved Macroeconomic Conditions and Sound Debt Policies</i>	Assessment of a country's program to improve its macroeconomic performance and debt management policy 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
<i>Sound Financial Management Practices</i>	Assessment of a country's commitment to pursue sound public financial management practices based on the country's progress in reforming its public expenditure management system, addressing corruption seriously and reviving or strengthening its revenue mobilization institutions
<i>Transparency of Public Accounts</i>	Monitoring of the transparency of public accounts by assessing the regularity of reports or publications on government revenues and expenditures, external debt obligations and new borrowings
Pillar II – Arrears Clearance: Additional criteria following eligibility for Pillar I	
<i>Preferred Creditor Status</i>	The country must have respected the Bank Group's preferred creditor status by servicing new maturities on all outstanding Bank Group loans or by servicing its debt at the same level or better than that paid to other international financial institutions; and
<i>Heavily Indebted Poor Country Initiative Eligibility</i>	The country must be eligible for Heavily Indebted Poor Country Initiative debt relief, but not yet be at the decision point of the program.
Pillar III – Targeted Support: Eligibility criteria	
	Countries must meet the 2007 Multilateral Development Bank Working Group criteria for fragile states, namely, that the country has an average overall Country Policy and Institutional Assessment score of 3.2 or below or that it has experienced United Nations or regional peace-building, peace-keeping or mediation operations over the past 3 years. The objective of a common Multilateral Development Bank definition is to ensure that the Fund's focus on the same set of fragile states. In 2008/09, the ADB and the World Bank identified 17 fragile states as being eligible for Pillar III FSF support.

Table II-2: Eligibility Criteria for Second Cycle Fragile States Facility Support

Consolidation of Peace and Security	
	Progress in peace-building
Implementation of the Fund's Program of Assistance	
Standard for All Countries	<ul style="list-style-type: none"> • (Re)-assessing eligibility for Fragile States Facility support • Portfolio performance since 2008 • Disbursement profile • Performance as captured by the Country Policy and Institutional Assessment • Period (in years) of enhanced Fund support
Implementation of Macroeconomic/Structural Reforms	
Country-Specific	<ul style="list-style-type: none"> • Progress in implementing International Monetary Fund programs • Progress in implementing structural reforms as recorded in the Fund's programming documents
Implementation of Joint Programs	
Country-Specific and/or Initiative-Specific	<ul style="list-style-type: none"> • Progress under the Heavily Indebted Poor Country Initiative • Progress under other joint programs

Annex III: Project Portfolio Performance Trend in Fragile States

Figure III-1: Comparison of Project Portfolio Performance in 13 Fragile States between 2005 and 2008

Performance Indicators	Percent	100
Achievement of Development Objectives		
2008	86.6	
2005	76.6	
Disbursement Ratio		
<i>All Fragile States</i>		
2008	17.6	
2005	11.6	
<i>9 Pillar I-eligible Fragile States</i>		
2008	14.1	
2005	6.0	
Operations Supervised Twice a Year		
2008	45.2	
2005	32.8	
Operations At Risk		
2008	52.2	
2005	57.4	
Problem Projects		
2008	13.4	
2005	29.8	
Ageing Operations		
2008	24.1	
2005	35.2	
Operations Eligible For Cancellation		
2008	18.1	
2005	15.9	

Notes: *Achievement of Development Objective (DO): a rating score based on the likelihood of projects meeting their development objectives, the expected benefits and the institutional strengthening capacity of the project rated. The rating score is an average of 4 indicators rated 0 to 3. Disbursement Ratio: Total disbursements since beginning of the year (excluding disbursements associated to operations signed in year) divided by undisbursed balance of projects at beginning of the year. Operations Supervised Twice a Year: Operations with effectiveness date earlier than 12 months in the past, and at least two documented field supervisions. Operations At Risk: the number or proportion of problem projects and potential problem projects. Problem Projects: Active projects with implementation or development objective problem (DO score less than 1.5. Ageing Operations: the number or proportion of investment projects under implementation for 8 or more years, plus policy based operations under implementation for 5 or more years. Operations Eligible For Cancellation: include any of the following (i) operations signed and undisbursed for 2 years; (ii) operations approved and unsigned for more than 180 days; (iii) operations with undisbursed balance below minimum disbursement threshold; and (iv) operations that have not disbursed for 2 years or more.*

Annex IV: Parameters for Establishing Fragile States Facility Resources During ADF-12

Pillar I Supplementary Financing

Table IV-1: Comparing ADF-10 and ADF-11 Top-Up Allocations to Determine the Basis for Top-Up Allocations in ADF-12

Country	Top-up using ADF-10 allocations		Top-up using ADF-11 allocations and same FSF pillar I resource size		Top-up using ADF-11 allocations and 2x multiplier	
	UA million	Relative share	UA million	Relative share	UA million	Relative share
Burundi	46.1	18%	40.0	16%	*60.0	13%
Central African Republic	11.9	5%	16.1	6%	40.2	9%
Comoros	*10.0	4%	*10.0	4%	11.6	3%
Congo, Dem. Rep.	*60.0	24%	*60.0	24%	*60.0	13%
Côte d'Ivoire	45.9	18%	39.4	16%	*60.0	13%
Guinea Bissau	*10.0	4%	10.3	4%	25.8	6%
Liberia	13.0	5%	27.3	11%	*60.0	13%
Sierra Leone	42.8	17%	26.4	10%	*60.0	13%
Togo	14.4	6%	24.4	10%	*60.0	13%
Zimbabwe					20.5	4%
Total	253.94	100%	253.94	100%	458.14	100%

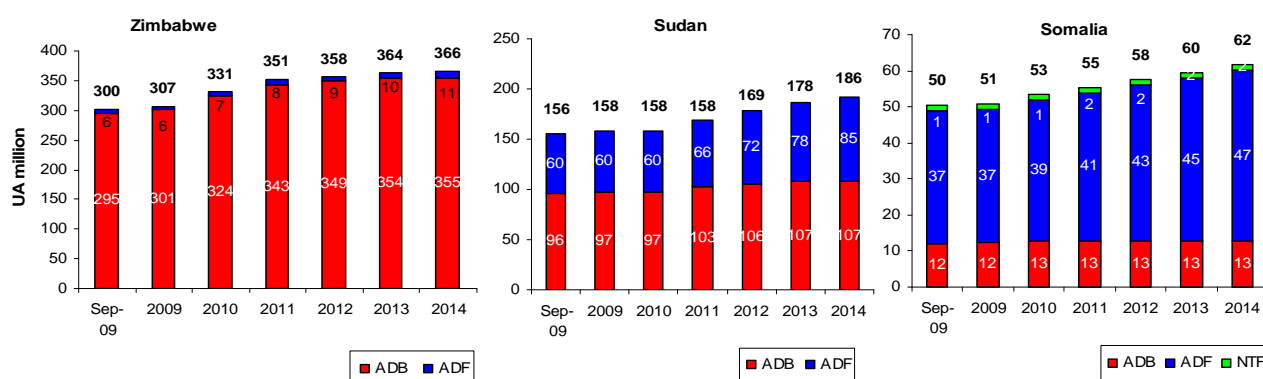
Note: * subject to a cap of UA 60m or floor of UA 10 million. UA=Units of Account

Pillar II Arrears Clearance

Table IV-2: The Use and Balance of Fragile States Facility—Pillar II Resources

	ADF earmark	ADB earmark	Total
Post-Conflict Country Facility carry-over	102.94	62.70	165.64
Earnings	3.80	9.92	13.72
ADF-11 allocation	129.10	-	129.10
Total Resources	235.84	72.62	308.46
Côte d'Ivoire arrears clearance	232.60	8.36	240.96
Togo arrears clearance	-	14.57	14.57
Foreign Exchange corrections	0.05		0.05
Total Uses	232.65	22.93	255.58
Balance of Resources	3.19	49.69	52.88

Figure IV-3: Expected Amount of Arrears by Date



Annex V : Assessment of Eligibility for Continued and New Fragile States Facility Assistance in ADF-12

A full assessment of Fragile States Facility (FSF) beneficiary countries will be undertaken in 2010 to evaluate their performance during the first cycle of support and to identify countries that qualify for a second cycle of support in the ADF-12 period. The assessment will also identify potential new entrants into the FSF and beneficiaries that could exit the program prematurely due to a significant departure from the conditions of support agreed at the point of entry in 2008. In accordance with the indicative framework presented in Table II-2 of Annex II, the assessment will be based on countries' respect of their commitments and their achievements vis-à-vis the benchmarks agreed with the Fund when they qualified for FSF support.

Early evaluations indicate that all nine countries currently eligible for FSF support might also qualify for second-cycle FSF assistance (Table V-1). All have improved their macroeconomic performance and all manage their public sector resources with greater transparency and accountability, as indicated by improvements in their Country Policy and Institutional Assessment scores.

Table V-1: Countries Potentially Eligible for Fragile States Facility Support in ADF-12

ADF-11 Beneficiaries	Likely New Entrants*	Premature Exit
Burundi	Somalia	None foreseen
Central African Republic	Sudan	
Comoros	Zimbabwe	
Congo, Dem. Rep		
Côte d'Ivoire		
Guinea Bissau		
Liberia		
Sierra Leone		
Togo		

*Somalia, Sudan and Zimbabwe may qualify for arrears clearance support.

Zimbabwe

- A draft assessment report produced by Bank staff in November 2009 shows that Zimbabwe is likely to meet the two-stage eligibility criteria for FSF support during ADF-12, subject to the country's reclassification from blend country to ADF-only status. Stakeholders signed an internationally recognized Comprehensive Peace Agreement and in February 2009, the country established an inclusive transitional government widely accepted by the international community. This political progress has led to important economic and governance reforms and has created a window of opportunity for Zimbabwe's re-engagement with members of the international community, including the Bank Group.
- While Zimbabwe's economic outlook has improved significantly since the new government was formed (a 7 percent growth increase is projected for 2009), the country's real per capita gross domestic product contracted by nearly 36 percent between 1990 and 2006, the reference year for the Millennium Development Goals and Zimbabwe's FSF eligibility assessment. For the 1999 to 2008 period, Zimbabwe's real per capita gross domestic product contracted by more than 40 percent. In addition, although the United Nations' 2009 Human Development Index did not rank Zimbabwe, data show that the country faces important challenges in delivering basic services due to the severe deterioration of its basic infrastructure, the precipitous decline in its human and institutional capacities, and serious shortages of financing for public services. As a result, vast numbers of residents have been affected by food insecurity, malnutrition, and worsening access to basic public services, particularly health care, education and security. With a debt overhang of US\$ 6 billion and US\$ 3.2 billion in arrears on its external public debt, Zimbabwe also faces significant limits on the amount of support from development partners and access to international capital markets. Meanwhile, the Bank estimates the cost of rehabilitating basic infrastructure alone at US\$ 5.5 billion.
- At end-December 2009, Zimbabwe's arrears to the Bank Group were estimated at UA 307 million and are projected to reach UA 364 million by the end of the ADF-12 cycle in 2013, if not cleared

sooner. These arrears have been accumulating for a number of years and amounts owing caused the Bank Group to suspend operations in the country in 2002. The Fund only began to provide limited capacity-building assistance to Zimbabwe in 2009 by means of FSF Pillar III. The FSF has now released US\$6 million to start operations in Zimbabwe. Technical support is focused on capacity building in the areas of public finance management and economic management, and urgently needed computer equipment and training have been provided.

- With the support of the Southern Africa Development Community, the Government of Zimbabwe has asked the Bank Group to take a lead role in facilitate its re-engagement with the international community. Accordingly, the Bank Group is currently developing strategies for re-engagement and the full normalization of relations in coordination with the International Monetary Fund, the World Bank and other development partners. To this end, a draft re-engagement strategy is being finalized for Board approval in 2010.

Somalia

- The Republic of Somalia is one of the poorest and most conflict-affected countries in the world. The Bank Group and other donors suspended their support to Somalia in 1991 following prolonged episodes of country-wide insecurity and lawlessness that rendered the Government unable to honor its international obligations. As of end-December 2009, Somalia's arrears to the Bank Group amounted to UA 51 million.
- The establishment of the FSF in 2008 enabled the Bank Group to join other donors in undertaking dialogue with Somalia's Transitional Federal Government. Dialogue has now advanced to a point where the Bank Group is in the process of preparing a Country Brief for consideration by the Board of Directors that will spell out the Fund's program of assistance to Somalia in ADF-12. If approved, the Fund's support will focus on two elements: (i) technical assistance in critical priority sectors, including economic management and development planning, aimed at progressively strengthening Transitional Federal Government institutions in line with established priorities; and (ii) the delivery of community-driven services by non-sovereigns. Given the still fragile nature of the new administration, the Country Brief is expected to focus on interventions that cannot be readily reversed in the event of instability, particularly investments aimed at capacity and institutional building that can be supported through Pillar III of the FSF.

Sudan

- Sudan's troubled history culminated in the signing of the Comprehensive Peace Agreement by the Government of Sudan and the Sudan Peoples' Liberation Movement in 2005. A new national constitution was approved in July 2005 and the Government of National Unity was formed in September 2005. The Government of National Unity and the Government of South Sudan then formed a confederation system for governance under the "one country, two systems" framework. The situation in Darfur remains precarious, however, and pressure is mounting for a political solution to the conflict.
- Sudan has experienced sanctions since 1995 due to non-payment of its arrears. As of end-December 2009, Sudan's arrears on loans repayments owed to the Bank Group totaled UA 158 million. The international community has intensified its efforts to re-engage with Sudan in light of positive developments in the peace process, the country's efforts to normalize relations with development partners, and its development potential. As a result, the Bank Group has started to examine options to re-engage with Sudan before and after Sudan's arrears are cleared. In this context, the objectives of the Fund's strategy in ADF-12 are to stabilize and clear Sudan's arrears to the Bank Group, to help the country resolve its external debt problem, and to prepare for the resumption of normal operations aimed at promoting economic growth and reducing poverty once arrears have been addressed.
- The Bank Group will dialogue closely with the Bretton Woods Institutions on the policy agenda to improve Sudan's management of its debt and strengthen its debt service capacity. The Bank Group will also participate actively in concerted donor efforts to help the country clear accumulated arrears and to meet the preconditions for Heavily Indebted Poor Countries Initiative eligibility. The Bank Group will intensify its efforts to strengthen the country's macroeconomic policies, support the development and implementation of country programming documents, engage in institutional capacity development and continue to undertake economic and sector work that will help identify potential operational areas for future lending.

Annex VI: Key Elements of Phase Out Assessment

Table VI-1: Parameters for Phasing Out

Parameter	Objective	Threshold
Average World Bank and African Development Bank Country Policy and Institutional Assessment scores	Measure performance levels against the agreed fragility benchmark	Greater than 3.2
Gross National Income Per Capita on a Purchasing Power Parity Basis	Measure internal capacity to generate resources for economic development	Greater than US\$ 730 (US\$ 2/day)
Length of Re-engagement	To distinguish between countries according to the length of support provided by the international community in order to favor those recently re-engaging	Greater than 6 years

Table VI-2: Preliminary Assessment of the Impacts of Phasing Out on Potentially Eligible Countries During ADF-12

Country	Average CPIA Score > 3.20	Per Capita Gross National Income > US\$ 500	Length of Re-engagement in 2011 > 6 years	Magnitude of Deduction
Burundi	3.15	380	7 years (2004)	25 %
Central African Republic	2.73	730	5 years (2006)	25 %
Comoros	2.42	1,170	4 years (2007)	25 %
Congo, Dem. Rep.	2.88	290	7 years (2004)	25 %
Côte d'Ivoire	2.72	1,580	2 years (2009)	25 %
Guinea Bissau	2.80	530	6 years (2004)	25 %
Liberia	3.60	300	4 years (2007)	25 %
Sierra Leone	3.32	750	7 years (2004)	50 %
Togo	2.90	820	3 years (2008)	25 %
Zimbabwe	1.50	n.a.	n.a.	0 %