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by

**FRAGILE STATE UNIT - OSFU
VICE-PRESIDENCY OPERATIONS II - SECTOR OPERATIONS**

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List of Acronyms

ADF	African Development Fund
CAR	Central African Republic
CASA	Conflict Affected States in Africa
DRC	Democratic republic of Congo
FSF-CBP	Fragile States Capacity Building Program
INCAF	International Network on Conflict and Fragility
IMF	International Monetary Fund
KPI	Key Performance Indicators
OECD	Organisation for Economic Cooperation and Development
ORPC	Operations Resources and Policy Department
OSFU	Fragile States Unit
PBA	Performance Based Allocation
UN	United Nations
UNDP	United Nations Development Program

1) INTRODUCTION

1.1 The Fragile States Unit (OSFU) supports the political and socio-economic turnaround of Regional Member Countries (RMC) located along the continuum of fragility. The Unit's objectives are; (a) establishing policy dialogue and ensuring improved governance structures for prevention of future crises; (b) building the knowledge base for indentifying strategic areas of intervention and development; (c) providing financial and technical assistance to support turn-around through increased capacity of local institutions; (d) promoting donor partnerships and mobilising focused support for post- conflict and post crisis states; and (e) promoting regional peace and integration. The Unit is working closely with Operations Complexes, Regional Teams and Sector Departments to ensure that best policies, practices and implementation procedures are mainstreamed in all country programming and appraisal documents for the fragile regional member countries.

1.2 OSFU manages the Fragile States Facility (FSF) which was created in July 2008 (BD/WP/2008/60) to make operational the Bank's Strategy for Enhanced Engagement in Fragile States, approved by the Board of Directors in March 2008 (BD/WP/2008/10). The FSF is a financing vehicle with three grant windows: i) the Supplemental Support Window; ii) the Arrears Clearance Window; and iii) the Targeted Support Window. Each window has a distinct allocation that is carefully segregated and allocated to beneficiary countries in line with the Bank Group Strategy for the Enhanced Engagement in Fragile States and the Report on ADF XI.

1.3 The year 2009 was characterized by OSFU beginning to implement activities under the various pillars in 15 of the 17 countries eligible to benefit from the FSF resources. The Unit had to rapidly increase its capacity to respond to the overwhelming requests received from the eligible RMCs, which ranged from the areas of budget support, public financial management, infrastructure and technical assistance. OSFU therefore focused increasingly on strategic staffing, portfolio management, supervision and increased engagement with the Country Teams. The importance of the Bank's Strategy on Enhanced Engagement in Fragile States was also noted by an increase in the resource envelope for the FSF, from UA 587.9 million to UA 647.80 million, following approval by the Boards of Directors to allocate an additional UA 60 million from the 2008 ADB Net Income to support the FSF.

1.4 In spite of the challenges presented initially by the lack of staff, the Unit achieved all of its key performance indicators. OSFU also improved its support to peace and reconstruction and institutional capacity building, in collaboration with other departments and complexes, and other international development institutions.

2) THE 2009 WORK PROGRAMME ACHIEVEMENTS

2.1 Overview

2.1.1 By end December 2009, UA 461.63 million **of the total Facility resources** had been committed and earmarked to support operations. UA 193.72 million or 76.3% of the total resources for Supplementary support (**Pillar I**) had been committed or earmarked; UA 255.58 million or **82.9% of the total pillar II**

resources had been committed and disbursed and UA 12.33 million or 49.3% of the total ADF original resources allocation of UA 25 million under targeted support (**Pillar III**) had also been committed.

2.2 Portfolio Development

2.2.1 FSF grant-funded activities

2.2.1.1 During the year 2009, 17 activities in eight of the nine eligible countries received resources from Pillar I (Supplemental Support Pillar) of the FSF. Consistent with the ADF-XI operational orientation, FSF resources under Pillar I supported i) the implementation of poverty reduction support programs and the development of credible governance reforms and country finance management systems; ii) the rehabilitation and reconstruction of basic infrastructure, including energy and water supply and sanitation; and iii) the revival of the productive sectors of war-ravaged countries.

2.2.1.2 OSFU also implemented the operations under Pillar II (Arrears Clearance Pillar) for Togo and Côte d'Ivoire, as agreed with the Deputies and the Boards of Directors during the ADF-11 replenishment negotiations. Further resources were also used to settle some outstanding balances in Liberia's arrears clearance program.

2.2.1.3 Under Pillar III (Targeted Support), sixteen¹ of the seventeen fragile states requested resources from the FSF. The operations broadly aimed at strengthening the beneficiaries' human and institutional capacity in public administration, economic and finance management, support service delivery, particularly water supply and sanitation and the productive sectors, including the management of natural resources and the development of statistics.

2.2.2 Non-Lending Activities

2.2.2.1 OSFU commissioned four (4) Economic and Sector Work (ESW) which aim to support the design and implementation of additional and innovative programs and projects in fragile states. The studies are: i) Operational strategies to improve service delivery in fragile countries; ii) Youth unemployment and conflicts in Africa; iii) Strategies for mobilizing African Diaspora to support the recovery and development process in fragile countries; and (iv) The drivers of conflicts and fragility in Africa.

2.3 Portfolio Management

2.3.1 Overview of the Portfolio

2.3.1.1 OSFU's portfolio of activities supported by the FSF (committed and earmarked) as of 31 December 2009 consists of 31 activities worth UA 461.63 million. Aside from Pillar II resources that were earmarked for only two countries, Togo and Cote d'Ivoire, a comparison of the breakdown of resources between Pillars I and III, indicates that Pillar I (Supplemental support) resources were the most used. This difference in the

¹ The sixteen countries are Burundi, Central Africa Republic, Chad, Comoros, Congo, Cote d'Ivoire, Democratic Republic of Congo, Djibouti, Guinea, Guinea Bissau, Liberia, Sierra Leone, Somalia, Sudan, Togo and Zimbabwe.

amounts committed reflects the nature (average amount and instrument) of each FSF-funded operation under Pillar I, whereas under Pillar III countries have limited capacity in preparing concrete requests as required. It is also a result of the lack of adequate staffing in the Unit until the third quarter of the year that could have followed up more closely on Pillar III requests. Notwithstanding, the Unit was able to meet its Key Performance Indicators (KPI) for 2009 under all the Pillars (Annex I²). It is envisaged that Pillar III performance will improve markedly in 2010.

Table 1: Use of FSF Resource as at End December 2009 (in UA Million)

	Supplemental Funding (Pillar 1)	Arrears Clearance (Pillar 2)	Targeted Support (Pillar 3)	Totals
Total FSF Resources	253.94	308.46	85.39	647.79
Approved	144.86	255.58	12.33	412.77
<i>Disbursed Resources</i>	<i>81.78</i>	<i>255.58</i>	<i>3.79³</i>	<i>341.15</i>
Pipeline/ Earmarked	48.86	0		48.86
Total approved and earmarked	193.72	255.58	12.33	461.63
Resource Balance	60.21	52.88	73.06	186.17

2.3.2 Supervision

2.3.2.1 During the year 2009, the Unit carried out all its portfolio management related missions (operations preparation and supervision, and country dialogue). In 2010, efforts will be made to improve portfolio management by increasing the number of supervision missions, particularly under Pillar III and continuing to participate in joint missions to fragile states, with sector and regional departments.

2.4 Working with the Field Offices

2.4.1 With the new decentralisation guidelines, OSFU improved its collaboration with field offices located in fragile states. Currently, only four fragile states (Chad, DRC, Sierra Leone and Sudan) have field offices. Beside those with field offices, some fragile states are also covered by Bank's offices in neighbouring countries (Rwanda for Burundi, Sierra Leone for Liberia, Kenya for Somalia, Cameroon for CAR, DRC for Congo Republic, Madagascar for Comoros).

2.4.2 The increased collaboration is extremely important to the monitoring and delivery of results in fragile states that often are capacity constrained. In most of the countries, where FSF resources were used to provide supplemental support to the countries' PBA (Pillar I), assist with arrears clearance (Pillar II) or provide targeted support (Pillar III), joint missions were undertaken with the field office staff or other departments. These were mainly identification, preparation, appraisal and supervision missions.

² The KPI for Pillar III is based on the original UA25 million ADF allocation and the UA60 million from the Banks' net income was not included.

³ The low disbursement is due to the fact that the majority of PL staff joined the Unit in the third quarter of 2009

2.5 Challenges

2.5.1 The decentralization of the Bank's operations continues to evolve. The greatest challenge that exists for the Unit is the limited presence of field offices in many of the fragile states that are supported by the FSF. This makes supervision and donor coordination for peace building and state building, particularly challenging.

2.6 Partnership and Aid-coordination related activities

2.6.1 Strategic Partnerships

2.6.1.1 A majority of FSF operations are closely coordinated with other donors' operations, including the World Bank, the International Monetary Fund (IMF), the United Nations Development Program (UNDP) and other bilateral aid agencies. Furthermore, OSFU continued to promote dialogue between donors and partner countries on issues of fragility and conflict. The Unit participated in the Steering Committee meeting of the International Dialogue on Peace building and State building, which was held in Dili, Timor Leste in October 2009.

2.6.1.2 The objectives of the International Dialogue is to provide a platform to share country-level peace building and state building experiences and also to agree on good practices of delivering development assistance to fragile states. The Dialogue was formally launched in December 2008, following the commitments reached by donors and partner countries in the Accra High Level Forum. Thus far, 40 donor governments, partner countries and international organizations have joined the International Dialogue on peace building and state building that is currently co-chaired by the Democratic Republic of the Congo (DRC) and the United Kingdom (DFID).

2.6.1.3 OSFU is a founding member of the International Dialogue movement and continues to provide inputs to the work program of the International Dialogue and to facilitate and support African countries that are members of the International Dialogue. The FSF funded the country level consultations and the preparations of country papers in Burundi, DRC, CAR and Sudan. The findings of the country consultations will be presented at the first global meeting on state building and peace building which will be held in Dili, Timor Leste in April 2010. These outcomes of Internal Dialogue conference and its ensuing activities will be presented to the next High Level Forum in 2011 in Seoul, South Korea

2.6.1.4 In addition, OSFU is a member of the OECD International Network on Conflict and Fragility (INCAF). Since the Accra High Level Forum in September 2008, the work of INCAF has been broadened to include work-streams examining a range of aid and development effectiveness issues and concerns in fragile states from applicability and monitoring resource flows, and the development and implementation of best practices to the role of peace building, state building and security sector reforms in turning around the development prospects of fragile countries.

2.6.1.5 Furthermore, OSFU is working closely with partners, including the UN, the African Union, the World Bank, the OECD, in developing operational knowledge on state fragility and conflicts that will ultimately contribute to the improvement of development effectiveness in fragile states.

2.6.1.6 In September 2009, OSFU also participated in a meeting of the multi-donor CASA (Conflict Affected States in Africa) Initiative for private sector development. The FSF is providing support that aims to improve the business environment in four CASA pilot countries: Sierra Leone, Central African Republic, Liberia and the Democratic Republic of Congo.

2.6.1.7 In November 2009, OSFU together with the Economic Research Department (EDRE) facilitated a workshop of the East-West Institute (EWI), an international think-tank. Representatives of African defense, diplomacy, regional organizations and development institutions, as well members of the civil society organizations and parliamentarians met at the Bank to discuss ways of strengthening regional organizations in dealing with the prevention of violent conflicts on the continent. The seminar came as a preparatory gathering ahead of a Global Conference of Preventive Action schedule to take place in 2010.

2.6.1.8 Finally, the Bank, through OSFU in collaboration with the African Union (AU) and the Economic Commission for Africa (ECA) will be organizing a high level African Conference on Peace Building and State Building to be held in 2010. The objectives of the conference are to debate the challenges of peace building and state building from an African perspective, thus informing policy makers and development practitioners of the best procedures for supporting country-led initiatives in these domains. Two pre-conference consultations for parliamentarians and civil society organizations were organized in Kigali, Rwanda and in Juba, South Sudan respectively, in 2009 as part of the preparatory processes towards the holding of the High Level conference.

2.6.2 Other aid-coordination related activities

2.6.2.1 The Unit through its active participation in the International Dialogue, INCAF, CASA program, and collaboration with other organisations and development partners is working to ensure that development effectiveness is attained through coordinated mechanisms for provision of donor support to fragile states.

2.6.3 Other Activities

2.6.3.1 Internally, OSFU has prepared, jointly with the ORPC, a background paper on proposed adjustments to the approach for enhanced engagement in fragile states. The objective of the paper is to lay out some of the key issues that have emerged in the first two years of implementing the FSF and identify options on the basis of which adjustments to the framework could be made.

2.6.3.2 The Unit is also planning to undertake an assessment of the performance of each of the FSF-beneficiary country in the context of a) the development targets and benchmarks agreed with the country and the Bank; b) the changes in the Country Policy and Institutional Assessment scores since December 2007 and in the security situation for each of the beneficiaries of the FSF, and c) the progress made in the implementation of the programs supported by other institutions, particularly the IMF, the World Bank and UNDP. Based on the assessment, a country report will be prepared that will determine; i) the FSF-beneficiaries that are potentially eligible for graduation from the Bank's list of fragile regional member states; and ii) countries

that meet the criteria for the second cycle of support under ADF 12 cycle, 2011-13. The exercise will be expanded to include an assessment of potential new entrants into the FSF. The finding of the assessments will be presented for the review and consideration of the Board of Directors and could lead to a scale-up in FSF support to some countries in preparation for their graduation out of fragility.

2.6.3.3 In 2009, OSFU began preparing new Guidelines for the implementation of the FSF Pillar III Capacity Building Program. The Guidelines document will be discussed in the Operations Committee during the first quarter of 2010. These Guidelines are built on lessons learned since the commencement of the Targeted Support Window of the FSF that provides a limited pool of grant resources to address acute capacity gaps in all fragile states. The objective of the Guidelines is to outline rules and procedures to guide Bank staff with regard to activities of the FSF-CBP by setting forth its objectives and guiding principles, its implementation and the procedures for processing program and project proposals and monitoring arrangements.

3) HUMAN RESOURCES

3.1 OSFU currently has 12 staff. This includes the Head of Unit, 8 PL staff, 1 Technical Assistance (TA) staff, and 2 GS staff. Most of the PL staff joined the unit in the second half of the year.

3.2 Regarding vacancies status, OSFU had, as at End December 2009, one position for Secretary which will be filled in early 2010. The summary status of OSFU staffing is provided as annex III.

4) PLANNED ACTIVITIES FOR 2010

4.1 In 2010, OSFU will consolidate the gains achieved in 2009. In the fourth quarter of 2009, the Unit organized a retreat which served as a stepping stone to a better planning and streamlining of the of the 2010 work activities towards the Facility's objectives and the Unit's mandate, based on lessons learned in the course of operations over the year. Some of the planned activities will include (i) completion of the Guidelines for the FSF-CBP and its presentation to the Board, (ii) intensify supervision missions, especially for Pillar III activities, (iii) accelerate the disbursements of Pillar III resources, (iv) meet the KPI targets for 2010 (v) finalise and complete the planned ESW, (vi) develop a resource mobilization strategy and (vii) organise the African Peace and Statebuilding Conference with the UNECA and AU being planned for Kigali.

5) CONCLUSION

5.1. The Unit and the FSF remain on track in achieving the objectives for which they were established at the beginning of the ADF cycle in 2008. OSFU has continued to orient the Bank to better serve the fragile states in Africa. It has also built strong partnerships with regional and non-regional organizations working in fragile countries in Africa and is supporting the building of relevant knowledge on fragility and conflict. OSFU has also continued to effectively support dialogue between donors and partner countries on issues of fragility and conflicts.

5.2. Operationally, the FSF has also achieved remarkable progress, despite the start-up challenges. A detailed assessment of the results obtained in FSF-eligible countries will be undertaken in 2010.

Annex I – OSFU 2009 Key Performance Indicators Achievements

#	Indicator	Definition	Unit	OSVP Target 2009	OSFU Achieved as of December 2009	Comments
1	Pillar I	New KPI at Bank level. Cumulative % of utilization of the Fragile States Fund (FSF) - Supplemental Support Window	%	33	76.3	Total amount of approved projects is UA 144.86m, versus an original allocation of UA 253.94m
2	Pillar II	New KPI at Bank level. Cumulative % of utilization of the Fragile States Fund (FSF) - Arrears Clearance Window	%	33	82.9	Total amount of approved projects is UA 255.58m, versus an original allocation of UA 308.46m
3	Pillar III	New KPI at Bank level. Cumulative % of utilization of the Fragile States Fund (FSF) - Targeted Support Window	%	33	49.3	Total approved amount is UA 12.33m, versus an original allocation of UA 25.39m

Annex II A – FSF 2009 Approved Operations

Country	Description of Project	Total Amount	
		By Project	Disbursed
Burundi	Economic Reforms Support Program – PARE II	12.00	12.00
Comoros	Economic and Financial Reform Support Program (PAREF)	2.00	1.00
Côte d'Ivoire	Economic Reforms Support Program	45.87	45.87
Guinea-Bissau	Supplemental Support for Health II	6.00	0.24
Liberia	Agriculture Sector Rehabilitation Project	0.50	0.00
Liberia	Poverty Reduction Support Loan	9.00	9.00
Liberia	Public Financial Management Reform Support	3.39	3.39
CAR	Community Development & Vulnerable Group Support Program	8.00	0.00
CAR	PARIR	3.85	0.00
Sierra Leone	Economic Governance Reform Program I	10.00	5.50
Togo	Governance Support Project	10.00	10.00
Sierra Leone	Port Loko-Lungi Road	26.26	0.00
Total		136.87	87.00

Annex II B – FSF 2009 Pipeline Operations

Country	Description of Project	Total Amount by Project
Burundi	Projet Routier Gitega-Ngozi (FSF allocation reduced by UA 10 M for PARE III)	24.00
Burundi	Economic Reforms Support Program (PARE III)	10.00
Comoros	AEPA (Water) Project d'AEP of Moroni	8.00
DRC	Electricity II	60.00
Guinea-Bissau	Programme Urgence Appui aux Reformes	4.00
Sierra Leone	Water Supply and Sanitation Project	6.50
Togo	PARCI 2	4.36
Totals		116.86

Annex III – OSFU Staffing status as at End December 2009

Position	Unit	Grade										Total PL	Total GS	Total	
		EL	PL1	PL2	PL3	PL4	PL5	PL6	PL7	PL8	GS				
Authorised															
	Total		1	2		4	1	1				3	9	3	12
At Post															
	Total		1	2		4	1	1				2	8	2	11
Vacancy															
	Total		0	0		0	0	0				1	0	1	1

Source: Strategic Resource Assessment Software (SRAS)