

CHAPTER 5

Bank Group support to conflict-affected countries

This chapter reviews the support provided by the African Development Bank to conflict-affected countries. Such support is transmitted through facilities designed for countries designated as fragile states. Twenty regional member states, home to 226.8 million people, nearly a quarter of Africa's population, belong to this category. While circumstances vary widely from country to country, fragile states tend to be characterized by exceptionally weak institutional capacity, poor governance, political instability, and, frequently, ongoing or past violent conflict (see Box 5.1 for a discussion of definitions). Fragile states are also the least likely to achieve the Millennium Development Goals (MDGs). Indeed, they contribute significantly to the MDG deficit, accounting in 2005 for nearly 30 percent of all child deaths and for 29 percent of 12 year olds who had not completed primary school (World Bank 2007).

The Fragile States Group includes countries facing serious deterioration in governance, countries in active conflict or crisis or in transition, and gradual improvers. Major differences exist in political and public security environments, institutional capacity and performance, government accountability, and commitment to progress along a credible reform path. These differences have major implications for the scope and nature of engagement by development partners. Experience to date

shows that a uniform approach to widely differing circumstances has often failed to produce the desired results, calling for forms of selective engagement.

Fragile states have huge unmet socio-economic needs, which include consolidating peace, improving security country-wide, building institutional capacity, supporting reforms, rehabilitating and reconstructing basic infrastructure, and reintegrating ex-combatants and vulnerable war victims. War-ravaged economies also need to be revived and the provision of essential public services restored. Over the long-term, the needs and development challenges of countries that have successfully transitioned through the post-conflict phase are similar to those of other low-income countries — addressing poverty, building state capacity and accountability, promoting sustainable socio-economic development, and supporting the creation of gainful and productive employment and income-earning opportunities for the citizenry, particularly the youth.

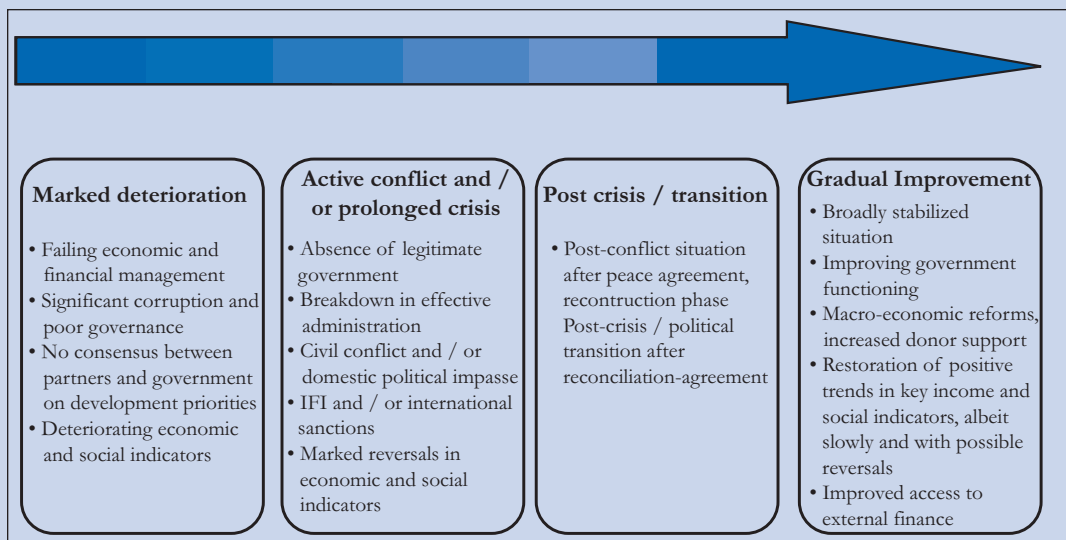
Figure 5.1 illustrates a simplified continuum along which circumstances of fragility usually fall — ranging from marked deterioration in performance, to active conflict, to post-crisis and transition, and finally to gradual improvement. Movement along this continuum is, in reality, neither automatic nor unidirectional, as countries may stagnate or move back and forth between various fragile situations.

Box 5.1: Difficulties in defining state fragility

State fragility is difficult to define partly because the term itself is fluid and partly because it represents a continuum, with the possibility of a state moving in and out, depending on its ability to respond to internal and external shocks. This notwithstanding, development partners have tried to categorize fragile countries using different performance indicators. Some characterize fragile states as countries with poor policies, weak institutions and weak governance structures. Others use poor socio-economic performance indicators as evidence of potential inability to achieve the Millennium Development Goals (MDGs) as a criterion for determining state fragility. Still, others use the concept of state inability to provide basic services, including security, as an indicator of state fragility. Whatever they are called (low-income countries under stress, poor performers, and so forth), the main attribute of a fragile state is its inability to deliver basic services either because of weak capacity, weak institutions and poor policies, political instability, or a combination of all these factors.

The Bank Group uses the Multilateral Working Group's definition to assess state fragility. Under this definition, a country qualifies as fragile if it satisfies any of the following conditions: (i) it has a composite AfDB and World Bank Country Policy and Institutional Assessment (CPIA) score of 3.2 or less; (ii) it has low income and does not have a CPIA score (iii) UN or regional peacebuilding, peacekeeping or mediation operations have taken place in the country in the last three years, with the exclusion of border monitoring operations.

Figure 5.1: The fragile state continuum



Bank support to fragile and conflict-affected countries

The Bank's program of assistance to fragile countries is based on its mandate of supporting socio-economic development and fighting poverty in its Regional Member Countries (RMCs). A peaceful and stable environment is a necessary precondition for the effective implementation of the Bank's mandate — war and conflicts are inimical to the long-term goals of social and economic development. By virtue of this mandate, the Bank has the role and responsibility of effectively collaborating with partner countries and effectively coordinating the efforts of the donor community, non-regional, and regional organizations in addressing the socio-economic development challenges and issues in fragile countries.

Prior to 2000, the Bank provided a standardized lending program for all RMCs, including fragile and conflict-affected countries. The program was delivered using standard operational aid-delivery instruments, policies and procedures, and was broadly aimed at supporting macroeconomic reforms, improving service delivery, building institutional capacity, strengthening income-earning opportunities in key productive sectors, and providing arrears and debt relief to eligible countries.

In recognition of the difficulties faced by post-conflict countries, in 2001, the Bank prepared its Post-Conflict Assistance Policy Guidelines, which specifically focused on addressing the special needs of these countries. The support articulated in the guidelines has several broad components, including reviving war-ravaged economies;

re-establishing good governance frameworks; rehabilitating and reconstructing basic social services; and re-establishing an enabling policy environment for supporting private sector activities.

Point of entry

The Bank's point of entry into a country's post-conflict reconstruction and development effort begins after the cessation of hostilities and the establishment of a transitional government authority supported by stakeholders within the country and the international community. The Bank's assistance program is delivered in close partnership with other donors and begins with the preparation of a comprehensive needs assessment for the country, in partnership with other donors and with the full participation of the country. Included in the needs assessment is a results measurement framework, which lays out a selective group of priority actions and outcomes and their financial implications, and offers a tool that national and international stakeholders use to align efforts to maximize the opportunities for a successful transition and minimize risks of reversal into conflict. The post-conflict needs assessment is accompanied by a transitional result matrix, a results monitoring framework.

Support after consolidation of peace

The support provided after the consolidation of the peace process depends on whether the country emerging from conflict (a) has arrears with the Bank and with other international financial institutions or (b) has met the required financial

obligations to the Bank and established an appropriate environment for effective delivery of development assistance. Tables 5.1 and 5.2 provide statistics on Bank support to countries in the fragile state category.

Countries with arrears

Many post-conflict countries are heavily indebted and emerge from conflict with huge arrears to their external creditors, including to the Bank and other international financial institutions. In the past, support to countries with arrears has generally been modest because the Bank's policy on recovery of loan arrears precludes countries from receiving further assistance, except support for capacity building operations financed by 20 percent of a country's PBA-determined grant allocation. This amount was increased to 50 percent of a country's PBA-determined allocation in 2008.

Addressing the twin challenge of arrears clearance and debt relief

Arrears clearance has therefore been one of the priority support programs implemented early in the post-conflict phase to allow post-conflict countries to re-establish normal relationships with their creditors. A related priority is addressing the external and domestic debt burdens of post-conflict countries. To address the challenge of accumulated arrears and debt relief, the Bank established in 2004 the Post-Conflict Countries Facility (PCCF), which helps eligible countries clear their arrears. The Bank's support for arrears clearance is closely coordinated with that of the World

Bank and the IMF, and constitutes the first step in accessing debt relief under the Highly Indebted Poor Countries (HIPC) initiative. Thus far, assistance has been provided through the PCCF to Burundi and the Republic of Congo in 2004, Central Africa Republic in 2006, and Liberia and Comoros in 2007.

Support for arrears clearance has proven extremely useful in the normalization of relationships with the Bank and with other donors. Arrears clearance has paved the way for the quick resumption of operational activities and for the countries concerned to become eligible for debt relief under HIPC and, more recently, from the Multilateral Debt Relief Initiative (MDRI). Burundi, the first beneficiary of the PCCF, for instance, received support for arrears clearance from the Bank, the World Bank, and the IMF in 2004. This allowed the country to gain access to its HIPC program in September 2005, worth US\$826 million in December 2004 net present value (NPV) terms. HIPC debt relief funds for Burundi continue to support the resettlement of internally displaced persons, infrastructure development, and improvement of access to quality health and education services. Other post-conflict countries that have already benefited from HIPC debt relief from the Bank and other partners, following arrears clearance, include the Democratic Republic of Congo and the Republic of the Congo. HIPC debt relief for Liberia and Comoros is programmed for 2008.

Bank support for arrears-free countries

Support for countries without arrears is outlined in the Bank's Post-Conflict Assistance Policy Guidelines (2001). Over the short term, the Bank's assistance aims to support institutional reforms and capacity building, resettling of displaced populations, reintegration of vulnerable war victims, and revival of the economy. Such support is instrumental for a quick transition from war to peace and consolidation of the peace process. The Bank provides this support in partnership with other donors.

Over the medium to long term, the Bank focuses on the rehabilitation and reconstruction of physical, social, and economic infrastructures. The objective of the Bank and other partners in this phase is to rebuild and modernize these infrastructures to beyond pre-war standards. This includes supporting poverty alleviation programs in health and education, and rehabilitating the productive sectors of the economy, in particular, agriculture. Accordingly, the Bank participates in multi-sector programs to address a diverse and broad range of issues on rehabilitation and reconstruction needs across all sectors of the economy. In partnership with the Bretton Woods institutions and other bilateral partners, the Bank also supports the implementation of macroeconomic and structural reforms and provides institutional capacity and state building support, focused on improving governance, fighting corruption, and strengthening infrastructure, including restoration of energy and power supply (see Box 5.2).

Box 5.2: Sierra Leone: Bumbuna Hydroelectric Power Project

The objective of the Bumbuna Hydroelectric Project (BHP) is to increase the supply of reliable, cost-effective, and environmentally sustainable electricity for industrial, commercial, and domestic use in Sierra Leone. The BHP consists of a 50 MW hydroelectric power station and a 200 km transmission line to transfer power from the power station to Freetown. The Bank approved a loan and grant to finance the BHP on 18 December 1990. However, owing to instability in the country, works under the project were delayed, leading to cost overruns. Consequently, in 1995 and 2004 the Bank and other donors had to provide supplementary financing to sustain implementation of the project. In 2007, major project works were suspended owing to exhaustion of funds, following the inability of a donor to disburse resources. To resolve the impasse, the Bank intends to provide a supplementary loan and has already mobilized additional resources from the Government of Italy and the UK Department for International Development. When completed in the first half of 2009, the BHP will supply power at a unit cost of 15 US cents, replacing thermally generated power with unit costs of around 40 US cents. Furthermore, the BHP will provide electricity to 8000 consumers in three other towns.

The Bank also supports structural and macroeconomic reforms aimed at re-establishing enabling environments for sustained economic growth and poverty reduction, and for reviving private sector activities, particularly small-scale, income-earning opportunities through the provision of micro-finance.

Programming and financing instruments

The Bank's specific program of assistance to a country is based on the analysis and recommendations made in the country's interim or full Country Strategy Paper (CSP). The Bank's CSPs draw heavily on national programming documents such as interim or full Poverty Reduction Strategy Papers (PRSPs), and, where PRSPs do not exist, National Development Plans or Agendas (NDA), or Post-Conflict Needs Assessments (PCNA) for countries emerging from conflict.

The financing instruments used are project and program investment loans or grants, delivered through standard policy-based lending (PBL), Development Budget Support Lending (DBSL), Sector-Wide Approaches (SWAP), or other investment (projects) loans or grants. Depending on the nature of the financing instrument and the country's fiduciary risk, the Bank delivers its support through the country's budgetary system, the UN systems — particularly for emergency support operations — or project implementation units (PIUs) which are usually established in various sector ministries.

Resource allocation

Resources under the Bank's program of assistance are allocated according to the Performance-Based Resource Allocation (PBA) system. A Post-Conflict Enhancement Factor (PCEF), introduced in 2002, allowed eligible fragile states, mainly post-crisis countries, to benefit from additional resources over and above their PBA-determined allocation for up to six years

after being designated "post-conflict". This support was terminated in end-2007. As stated, supplemental funding is now available under the newly-established Fragile States Facility (FSF).

Bank portfolio to 2007

Global portfolio

Tables 5.1 and 5.2 show that Bank approvals in support of economic recovery have increased steadily from US\$154 million in 2001 to US\$392 million in 2007. In 2007, the cumulative portfolio for the twenty countries stood at US\$1.5 billion or about 9.3 percent of the Bank Group public sector portfolio of US\$ 16.2 billion. The steady growth in the portfolio of the twenty countries is explained by the continued consolidation of the peace process and the commitment by the Bank Group to enhance its assistance to fragile and conflict-affected countries. A key characteristic of the global portfolio in the twenty countries is that it is composed of relatively small-sized operations. The large number of small-sized operations is attributed to (a) the fact that operations target strengthening capacity and undertaking reforms which require small amounts of resources; (b) the small ADF resource allocations to most countries; and (c) competition for limited resources by different sectors without proper selectivity due to limited capacity implementation.

Distribution by Sector

The social sector and agriculture account for more than 50 percent of the total portfolio. The large share of these two sectors is explained by the need to rehabilitate and

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Table 5.1: Fragile states operations (US dollars)

Country	2001	2002	2003	2004	2005	2006	2007	Total
Burundi	—	—	—	31,651,200.00	18,840,000.00	25,591,000.00	11,492,400.00	87,574,600.00
CAR	—	—	—	—	—	5,181,000.00	10,205,000.00	15,386,000.00
Comoros	—	—	—	—	—	—	—	—
DRC	47,461,100.00	74,575,000.00	86,711,100.00	137,296,500.00	2,904,500.00	286,981,226.30	635,929,426.30	
Cote d'Ivoire	7,237,392.28	—	—	—	531,708.76	31,400,000.00	—	39,169,101.04
Guinea Bissau	18,588,800.00	—	11,241,200.00	—	2,119,500.00	9,106,000.00	—	41,055,500.00
Liberia	—	—	—	—	—	4,710,000.00	23,926,800.00	28,636,800.00
Sierra Leone	15,700,000.00	25,120,000.00	20,811,920.00	5,714,800.00	45,530,000.00	3,124,300.00	—	116,001,020.00
Togo	—	—	9,748,222.63	—	—	3,999,408.58	—	13,747,631.21
Sub-Total	34,288,800.00	79,818,492.28	116,376,342.63	124,077,100.00	203,786,000.00	55,147,917.34	364,005,426.30	977,500,078.55
Angola	15,119,100.00	21,195,000.00	7,269,571.00	—	27,536,867.42	—	—	71,120,538.42
Chad	34,117,670.00	24,444,900.00	3,642,400.00	3,768,000.00	58,342,416.75	20,955,408.58	—	145,270,795.33
Congo Republic	—	—	785,000.00	—	—	27,239,500.00	—	28,024,500.00
Djibouti	5,102,500.00	6,280,000.00	9,748,222.63	7,850,000.00	—	519,575.80	10,205,000.00	39,705,298.43
Eritrea	31,243,000.00	—	—	29,249,100.00	—	—	—	60,492,100.00
The Gambia	—	16,875,930.00	—	7,771,500.00	8,635,000.00	12,560,000.00	2,198,000.00	48,040,430.00
Guinea	34,147,500.00	38,386,908.20	—	—	35,701,800.00	5,495,000.00	—	113,731,208.20
Sao Tome & Principe	—	—	—	—	—	—	—	—
Somalia	—	—	—	—	—	—	—	—
Sudan	—	—	—	—	—	544,574.91	15,103,400.00	15,647,974.91
Zimbabwe	—	—	—	—	551,605.37	—	—	551,605.37
Sub total	119,729,770.00	107,182,738.20	21,445,193.63	48,638,600.00	130,767,689.54	67,314,059.29	27,506,400.00	522,584,450.66
Grand Total	154,018,570.00	187,001,230.48	137,821,536.26	172,715,700.00	334,553,689.54	122,461,976.63	391,511,826.30	1,500,084,529.21

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Table 5.2: Approvals by sector (US dollars): 2001–2007

Country	Agriculture	Social Sector	Transport	Public Utilities	Industry	Multi-Sector	Total
Burundi	14,130,000.00	15,401,700.00	—	30,332,400.00	—	27,710,500.00	87,574,600.00
CAR	—	—	—	—	—	—	—
Comoros	—	—	—	—	—	—	—
DRC	97,104,500.00	71,011,100.00	82,346,500.00	165,949,000.00	97,482,226.30	122,036,100.00	635,929,426.30
Cote d'Ivoire	1,812,866.44	31,400,000.00	—	—	—	5,956,234.60	39,169,101.04
Guinea Bissau	18,510,300.00	20,425,700.00	—	—	—	2,119,500.00	41,055,500.00
Liberia	—	23,926,800.00	—	—	—	4,710,000.00	28,636,800.00
Sierra Leone	34,540,000.00	70,650,000.00	5,096,220.00	1,334,500.00	—	4,380,300.00	116,001,020.00
Togo	545,408.58	—	—	—	9,748,222.63	3,454,000.00	13,747,631.21
Sub-Total	166,643,075.02	232,815,300.00	87,442,720.00	197,615,900.00	107,230,448.93	185,752,634.60	977,500,078.55
Angola	39,328,971.00	31,791,567.42	—	—	—	—	71,120,538.42
Chad	64,664,208.58	23,755,670.00	—	20,410,000.00	—	36,440,916.75	145,270,795.33
Congo Republic	—	—	—	—	—	—	—
Djibouti	2,874,575.80	15,260,400.00	9,748,222.63	10,205,000.00	—	1,617,100.00	39,705,298.43
Eritrea	31,243,000.00	29,249,100.00	—	—	—	—	60,492,100.00
The Gambia	16,406,500.00	28,260,000.00	—	1,175,930.00	—	2,198,000.00	48,040,430.00
Guinea	37,036,300.00	56,127,500.00	12,952,500.00	3,689,908.20	—	3,925,000.00	113,731,208.20
Sao Tome & Principe	—	—	—	—	—	—	—
Somalia	—	—	—	—	—	—	—
Sudan	544,574.91	—	—	—	—	15,103,400.00	15,647,974.91
Zimbabwe	551,605.37	—	—	—	—	—	551,605.37
Sub total	192,649,735.66	207,680,237.42	22,700,722.63	35,480,838.20	—	64,072,916.75	522,584,450.66
Grand Total	359,292,810.68	440,495,537.42	110,143,442.63	233,096,738.20	107,230,448.93	249,825,551.35	1,500,084,529.21

reconstruct basic social services, such as health and education facilities, and the priority needs to resettle displaced populations. Multi-sector operations, mainly for capacity building and public utilities, account for 16.7 percent and 15.5 percent, respectively, of the total portfolio. Support for rehabilitation and reconstruction of the transport sector is modest, representing only 7.3 percent of the 2007 portfolio.

The Bank's support program after 2008

Transition to the new Bank strategy

The Bank reviewed its support program for fragile and conflict-affected countries in 2007. The review was driven by the need to refocus and deepen the program by taking into account emerging operational practices and procedures, to increase efficiency. The move to improve the Bank Group's engagement was necessary and timely given the marked progress made in recent years in resolving many long-running and debilitating conflicts in Africa and in ending prolonged political crises.

The review of the Bank's program also coincided with the significant increase in international interest in developing more robust approaches to supporting fragile states, given their slow progress, and, in some cases, reversal, in achieving internationally agreed development objectives, including the Millennium Development Goals (MDGs). The key findings of the review were as follows: (i) Bank Group support in the early phases of post-conflict reconstruction and development is small relative to needs and legitimate demands; (ii) the application of the Bank

Group's current programming and financing instruments is limited in addressing the diverse development challenges and issues; (iii) standard operational systems and methods can result in substantial delays in delivering assistance; and (iv) field presence is vital in ensuring effective delivery of development assistance.

The findings of the review, as well as the experiences gained by partner institutions, and the operational implications of the OECD-DAC "Principles of Good International Engagement in Fragile States and Situations" (2006) (Box 5.3) informed the preparation of the African Development Bank's "Strategy for Enhanced Engagement in Fragile States" (February 2008). The strategy differentiates between the Bank's support to post-crisis/transitional countries and its support to other categories of fragile states or its standard development assistance to all its Regional Member Countries (RMCs). This differentiation is necessary given the unique development circumstances in different groups of fragile states.

The broad objective of the Bank's strategy in fragile states is to strengthen its operational response and enhance its resource mobilization in order to better address development challenges and needs in a diverse range of fragile states. Accordingly, its guiding principles are to (a) enable the Bank to remain engaged in all fragile states; (b) enhance Bank support to fragile states, most of which are going through difficult recovery phases; and (c) make resources available for a multi-year period to eligible fragile states with a high degree of certainty.

Box 5.3: Summary of the principles for good international engagement in fragile states

1. Take context as the starting point: sound political analysis is needed, above and beyond quantitative indicators of governance, institutional strength, or conflict.
2. Move from reaction to prevention, sharing and responding to risk analysis, addressing the root causes of state fragility and strengthening the capacity of regional organizations.
3. Focus on state-building as the long-term vision, strengthening the capacity of state structures to perform core functions; their legitimacy and accountability; and ability to provide an enabling environment for strong economic performance.
4. Align with local priorities where governments demonstrate political will to foster their countries' development; where donor/government consensus is lacking, seek wider consultations and partial or shadow alignment.
5. Recognize the political-security-development nexus, moving to support national reformers in developing unified planning frameworks for political, security, humanitarian, economic and development activities at the country level.
6. Promote coherence among donor agencies responsible for security, for political and economic affairs, as well as for development aid and humanitarian assistance.
7. Agree on practical coordination mechanisms between international actors, including upstream analysis; joint assessments; shared strategies; coordination of political engagement; joint offices, multi-donor trust funds; and common reporting frameworks.
8. Do no harm, avoiding activities that undermine national institution-building, such as by-passing budget processes or setting high salaries for local staff.
9. Mix and sequence instruments, including use of both state recurrent financing and non-government delivery to fit different contexts.
10. Act fast and with flexibility at short notice when opportunities occur.
11. . . .but stay engaged long enough to give success a chance: capacity development in core institutions will take at least 10 years.
12. Avoid pockets of exclusion, addressing "aid orphans" and coordinating to prevent excessive donor-driven aid volatility.

Operational focus

The strategy scales up Bank support by topping up its PBA-determined operational allocation with additional allocations from the FSF (for eligible countries). The resources are expected to be invested in the rehabilitation or reconstruction of basic infrastructure. They should also strengthen governance by building capacity and accountability in national institutions, support regional operations, with a view to

minimizing spill-over effects, and address cross-cutting issues, particularly gender and the environment. The Bank will also support targeted secondment of seasoned professionals to strengthen human capacity by filling human resource gaps in carefully selected domains in the public sector. This support will vary across fragile states, although priority will be given to macro-economic management, the preparation and implementation of fiscal budgets, revenue

Box 5.4: The Fragile States Facility

The performance-based allocation (PBA) system is the Bank's instrument for allocating resources to low-income countries. A country's allocation increases with its Country Performance Assessment (CPA), which is a weighted average of the Country Policy and Institutional Assessment (CPIA), the Country Portfolio Performance Rating (CPPR) and the governance rating. The country's allocation increases with a country's population but decreases with its per capita income. The system has the major drawback of placing higher premiums on performance than on needs. The CPIA is biased against poor-performing fragile states with chronically weak policies, institutions and governance. The CPPR also penalizes fragile states because of weak public sector capacity to implement projects.

These drawbacks have led to the setting up of the Fragile State Facility (FSF), as an operationally autonomous special-purpose entity. The Objective of the FSF is to provide a broader and integrated framework through which the Bank can more effectively assist eligible fragile states, especially those emerging from conflict or crisis, to consolidate peace, stabilize their economies and lay the foundation for sustainable poverty-reduction and long-term economic growth.

The FSF has three grant support windows for financing the recovery process of eligible fragile and conflict-affected countries:

- a) **The Supplemental Support Window** to enhance support, over-and above the PBA-determined country allocation to eligible post-crisis/transitional fragile states. This support will replace the Post-Conflict Enhancement Factor (PCEF) support provided over the past by the Bank. This window is open to post-conflict transitional countries that meet a two-stage criteria aimed at assessing progress made in (a) consolidating peace (b) implementation of sound programs aimed at improving macroeconomic stability, and improving transparency and accountability of debt and financial management practices;
- b) **The Arrears Clearance Window** will be a once-off support for the clearance of arrears of eligible countries and will have the same objectives as the PCCF. However, the practicalities of arrears clearance differ from those of the PCCF in two ways. First, a beneficiary's contribution to its arrears clearance program will be determined through a quantitative and qualitative assessment of the country's ability to pay, while a two-tier burden sharing arrangement (beneficiary country and the FSF) will apply, unlike the PCCF that had a three-way burden sharing arrangement. Countries accessing this window should meet these two stage criteria and also be eligible for HIPC debt relief.
- c) **The Targeted Support Window** that will provide supplemental funding for technical assistance and knowledge management that cannot otherwise be provided through the Bank Group's existing instruments and programs to fragile states. The support includes the financing of i) a secondment program of capacity building to needy countries; ii) service delivery through non-sovereign entities, including the contracting of private sector firms to undertake critical public sector functions, such as public accounting, auditing and procurement or the use of UN agencies and NGOs in the implementation of Bank Group operations in countries with exceptionally weak capacity. This window is open to the full range of fragile states as assessed using the MDB Working Group definition.

mobilization departments, the judiciary, anti-corruption commissions, central banking, or economic and policy formulation departments/ministries. Unlike in the past,

the strategy allows the Bank to participate in Multi-Donor Trust Funds in support of common operations in fragile states. The MDTFs have emerged as key instruments in

providing assistance to fragile states where speed, flexibility, and closer donor coordination are essential for the delivery of effective development assistance. The Bank will also enhance economic and sector work and build knowledge on various dimensions of fragility and post-conflict reconstruction and development. The key recommendations of the strategy include the creation of an operationally autonomous special purpose financing vehicle within the Bank, the Fragile States Facility (FSF) (Box 5.4).

The Bank considers the three-window Fragile State Facility as a superior and well-integrated financing vehicle that will allow the Bank to achieve its development objectives in fragile and conflict-affected countries. The key benefits of the FSF, over and above the disjointed support that the Bank was providing to fragile states, includes greater ease of administration, more effective oversight and coordination, and more seamless sourcing of services and support.

As spill-over effects from fragile states are substantial in Africa, the Bank takes a regional approach in providing support for post-conflict and transition countries. There is no better environment for addressing spill-over effects and investing in cross border- infrastructure than in the context of regional integration. For example, regional or sub-regional programmes can create valuable synergies and bring neighboring states together to address concrete development issues, despite a history of conflict (see Box 5.5). A common forum, such as a regional or sub-regional grouping, would be a good platform for such an exercise. The

Box 5.5: Mano River Union and Côte d'Ivoire Sub-Regional HIV/AIDS Project for refugees, internally displaced populations and host communities

The sub-regional Mano River Union and Côte d'Ivoire HIV/AIDS project is the outcome of dialogue between the African Development Bank, UNAIDS, beneficiary countries, and development partners to control the spread of HIV/AIDS among refugees, internally displaced populations and their host communities in the Mano River Union Basin Countries and Cote d'Ivoire to meet Objective 6 of the Millennium Development Goals (MDGs), which seeks to stop and begin to reverse the spread of HIV/AIDS among refugees, internally displaced populations, and their host communities and to provide psychosocial support to those living with HIV/AIDS. The four beneficiary countries are Sierra Leone, Liberia, Guinea and Côte d'Ivoire.

After two-and-a-half years of implementation, project activities have been impressive, despite the many challenges of a post-conflict environment. Five voluntary counseling and testing centers have been fully renovated, equipped, and made functional. More than 3,200 individuals, 1,200 pregnant women, have received voluntary counseling and testing services. The project also ensures that the identified 418 people living with HIV/AIDS are supported with income-generating activities and the 238 orphans and vulnerable children reintegrated into schools and livelihood activities. It has further strengthened collaboration between implementing partners, government health agencies, local NGOs, communities and people living with HIV/AIDS and has also strengthened the UN country team for coordinated multi-sector responses to HIV/AIDS.

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Bank will therefore work closely with other partners, including regional organizations, in supporting regional operations.

Improving delivery

The strategy recommends the adoption of a series of rapid-response procedures to speed up the Bank's response in fragile states. The adopted procedures take into account the very weak institutional capacity for operational activities in fragile states, while concomitantly safeguarding the fiduciary standards of the Bank.

The effectiveness of the rapid response procedures will be complemented by the on-going organizational changes and institutional reforms in the Bank, which are aimed at enhancing Bank delivery in fragile states. These include:

- Creating a dedicated Fragile States Unit with the Bank Group's Operations Complex to assist with Bank-wide coordination of Bank work in fragile states;
- Increasing and strengthening the Bank's field presence in fragile states. Until recently, the Bank had no field presence in any fragile states. Under the Bank's decentralization strategy, field offices were opened in Chad, the Democratic Republic of the Congo, Sierra Leone, and Sudan;
- Streamlining business processes, particularly project development and review processes, to reduce internal processing delays and improve focus, quality at entry, and performance monitorability;
- Introducing more flexible waivers on a case-by-case basis, allowing for up to

100 percent Bank financing of operations in fragile states;

- Strengthening the focus on results and allowing for more flexible treatment of different country contexts and circumstances in country programming documents; and
- Restructuring the Bank's Procurement and Financial Management Unit and revising internal procedures to substantially improve oversight and quality control, and to streamline the procurement process and minimize delays.

These and other Bank-wide steps already underway are expected to improve substantially the Bank's capacity to deliver and effectively monitor an intensified operational program in fragile states.

Enhanced coordination

The Common Principles and Themes of International Engagement in Fragile States have stressed donor coordination, partnership and policy coherence and harmonization as vital to the achievement of high-quality results in fragile states. The Bank will therefore implement its strategy in close collaboration and coordination with other regional and non-regional partners, including the BWIs, the United Nations Agencies (including the UN Peace Building Commission), the African Union, the *Economic Commission for Africa* the New Partnership for Africa's Development (NEPAD), the bilateral agencies of the OECD-Fragile States Group, and Conflict Prevention and Development Cooperation and other relevant regional and sub-regional

organizations. The overriding objective of this enhanced collaboration is to ensure that the Bank Group's support at country level is well coordinated and tightly integrated with that of other partners.

The Bank continues to make substantial progress in enhancing donor coordination at the international level. For instance, the Bank is a member of the Multilateral Development Banks' Working Group on Fragile States. Other members include the World Bank, the Asian Development Bank, the Inter-American Development Bank, the European Bank for Reconstruction and Development, and the International Monetary Fund. The WG serves as a forum for identifying common operating principles for engagement in fragile states, enhancing partnerships, and coordinating the division of labour within multilateral development banks and among other partners.

The Bank is also a member the Fragile States Group within the OECD-DAC. This group includes the World Bank, the IMF, the Asian Development Bank, and the UNDP. Its broad objective is to advance the development agenda of fragile and conflict-affected countries and continue to be instrumental in reinforcing the implementation of the principles of good international engagement. Furthermore, the Bank will co-chair the Round Table 7 (RT-7) of the Accra Third High Level Forum on Aid Effectiveness (HLF-3) in September 2008. The objective of RT-7 is to provide for the in-depth consultation process and support decision making and policy endorsement by ministers on issues central to fragile and conflict-affected countries.

Link with the Governance Strategy

The Bank's strategy for fragile states will be complemented by its medium-term *Governance Strategic Directions and Action Plan* for 2008–2012. The strategy builds on the *Bank Policy on Good Governance* (2000) and the lessons captured in the *Bank Review of Governance Activities* (2006). It takes into account recent developments in aid policies and practices and guidance by the Bank's member countries on the future directions of the Bank's work in governance, most notably through the Eleventh Replenishment of the African Development Fund (ADF-XI). It also reflects the recommendations of the Independent High Level Panel report, *Investing in Africa's Future: The ADB in the 21st Century*. Finally, it is informed by the strategies of other donors and global debates on development results, aid effectiveness and donor harmonization. The Bank's central objective in the area of governance is to help African countries build capable and responsive states by strengthening transparency and accountability in the management of public resources. By enhancing its emphasis on and support for good governance, the Bank will help alleviate one of the critical development challenges in fragile and conflict-affected countries, namely, weak institutional environment as a legacy of conflict.

The Bank's *Strategy for Enhanced Engagement in Fragile States* is in line with its medium-term *Governance Strategic Directions and Action Plan for 2008–2012*, approved by the Boards of Directors in May 2008. One of the two thematic pillars of the strategy for enhanced engagement is good

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economic and financial governance. Where macro-economic imbalances have been successfully tackled, the Bank's enhanced engagement will focus on building institutions and strengthening capacity in financial governance. Good financial governance is particularly important for resource-rich fragile states where often the conflict that led to fragility was largely attributable to the mismanagement of revenues derived from natural resources. Consequently, in resource-rich fragile states, special attention shall be paid to the efficient management of natural resources, particularly in the extractive industries. Accordingly, the Bank shall continue to encourage concerned fragile states to adhere to the Extractive Industries Transparency Initiative (EITI) and its companion program EITI++¹ through advocacy and by providing pertinent advisory services and resources to facilitate the process. The prudent management of extractive industries is particularly timely given the prolonged commodity boom and provides a unique opportunity for resource-rich fragile states to tackle poverty. By enhancing its support for good governance in both resource-rich and other fragile and conflict-affected countries, the Bank is emphasizing its commitment to alleviating the development challenges of all its regional member countries.

¹ EITI is an attempt to increase transparency and accountability in the management of natural resources. It requires extractive companies to publish information about payments they make to the government. The government, for its part, is required to publish information about revenues it receives from the exploitation of natural resources.

Conclusion: moving forward

Despite the increased support from the Bank and other international partners, there are still numerous gaps requiring urgent assistance and scaling up of financial resources in fragile and conflict-affected regional member countries. The gaps vary across countries and are usually clearly brought out through relevant national planning documents, such as Joint Needs Assessment Reports, Transitional Support Frameworks for post-conflict countries, or Interim or full Poverty Reduction Strategy Papers for other categories of countries. Funding gaps are evident in the following areas: (i) absence of funds for recurrent costs and capacity to run key government ministries in the earliest phases in post-conflict countries; (ii) lack of assistance to build or rebuild state institutions; (iii) absence of harmonization of support to stabilize the macroeconomic environment, improve governance, and fight corruption; (iv) inappropriate assistance in restoring and building the delivery of basic public services; (v) late and slow procedures related to the security system through DDR-programs and security sector reform; and (vi) late and slow procedures in reconstruction of supportive infrastructure (roads, water and sanitation, and energy). Rather than duplicate the efforts of others, the Proposal for Enhancing Bank Group Assistance Strategy to Fragile States in Africa needs to focus on addressing the gaps that fall within the Bank's mandate and areas of competence. The Bank Group also needs to enhance its collaboration with other partners in order to address development assistance outside its core areas of competence.