Operational Guidelines for the Implementation of the Strategy for Addressing Fragility and Building Resilience in Africa and for the Transition Support Facility

This document was elaborated by a cross-complex multi-disciplinary task team coordinated by ORTS.

ORTS

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Acronyms and Abbreviations

AfDB  African Development Bank
ADF  African Development Fund
ADF-13  Thirteenth Replenishment of the African Development Fund
ADOA  Additionality and Development Outcome Assessment
ALSF  African Legal Support Facility
AU  African Union
CPIA  Country Policy and Institutional Assessment
CPPR  Country Portfolio Performance Review
CSO  Civil Society Organization
CRFA  Country Resilience and Fragility Assessment
CSP  Country Strategy Paper
DSF  Debt Sustainability Framework
ECON  Economics Complex
ESIA  Environmental and Social Impact Assessment
ESW  Economic and Sector Work
FRMB  Resource Mobilization and External Finance Department
GDP  Gross Domestic Product
HDI  Human Development Index
HIPC  Heavily Indebted Poor Countries
ICSP  Interim Country Strategy Paper
INCAF  International Network on Conflict and Fragility
IMF  International Monetary Fund
IOP  Indicative Operational Programme
IPR  Implementation Progress Report
JCAS  Joint Country Assistance Strategy
MDBs  Multilateral Development Banks
MDTF  Multi-Donor Trust Fund
MTR  Mid-Term Review
OECD  Organization for Economic Cooperation and Development
OPSCOM  Operations Committee
ORTS  Transition Support Department
ORV P  Vice Presidency, Country& Regional Programs and Policy
PCR  Project Completion Report
PBA  Performance-based allocation
PBO  Program-Based Operations
RD  Regional Department
REC  Regional Economic Community
RISP  Regional Integration Strategy Paper
RMC  Regional Member Country
RO  Regional Operation
SD  Sector Department
SEEFS  2008 AfDB Strategy for Enhanced Engagement in Fragile States
SMCC  Senior Management Coordinating Committee
TAS  Technical Advisory Services
TSF  Transition Support Facility
TYS  Ten Year Strategy 2013–2022
UA  Unit of Account
UN  United Nations
1 Introduction

1.1 In June 2014, the Boards of Directors of the Bank Group approved a Strategy for Addressing Fragility and Building Resilience in Africa, 2014-2019 (hereafter the “Strategy”)\(^1\). The Strategy updates and replaces the previous Strategy for Engagement in Fragile States (SEEFS), which was approved by the Boards in 2008.\(^2\) The Strategy is intended to give life to the priority given to addressing fragility in the Bank’s Ten-Year Strategy (TYS)\(^3\) and reflects the lessons learned from the implementation of the SEEFS, international experience, and the report of the High Level Panel on Fragile States.\(^4\)

1.2 The aim of the Strategy is to maximize the Bank Group’s contribution to building resilient, stable, and capable states. The Strategy is grounded in the principles of the New Deal for Engagement in Fragile States that was endorsed at the Fourth High Level Forum in Busan\(^5\), and its effective implementation requires close coordination with international fora, such as the International Dialogue on Peace-building and State-building, and strategic alliances with other development partners.

1.3 The Strategy focuses on changing the way the Bank engages in fragile situations rather than proposing new areas of operational engagement. The Bank’s lending and non-lending engagement in fragile situations will draw on the Bank’s strategies, such as the Governance Action Plan, the Private Sector Development Strategy, the Gender Strategy and the Human Capital Development Strategy, while prioritizing three areas of focus that are particularly important for addressing fragility and building resilience: (i) Strengthening state capacity and establishing effective institutions; (ii) Promoting resilient societies through inclusive and equitable access to employment, basic services and shared benefits from natural resource endowments; and (iii) Enhancing the Bank’s leadership role in policy dialogue, partnerships and advocacy around issues of fragility.

1.4 This paper sets forth operational guidelines to guide the effective implementation of the Strategy and utilization of resources from the Transition Support Facility (TSF), formerly the Fragile States Facility (FSF). These Guidelines replace the Operations Guidelines of the Fragile States Facility (2008)\(^6\) and the Guidelines of the Technical Assistance and Capacity Building Program of the Pillar III Operations (2010).\(^7\) The Guidelines are intended to support the significant changes in the way the Bank engages with the challenges of fragility that are called for by the Strategy (Table 1 overleaf). The intended users of these guidelines are staff of the Bank involved in operations in RMCs affected by fragility and other staff engaged on issues of fragility.

1.5 In view of the widely varying situations of fragility, it is fully expected and appropriate that these Guidelines will be supplemented and adapted over time as more experience is gained through implementation. Specifically, early experience in implementing the Strategy will be reviewed at the time of the Mid-Term Review of the ADF in 2015 and in line with other reporting commitments made in the Strategy (see Annex 4 of the Strategy).

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\(^5\) Busan Partnership for Effective Development Cooperation. Fourth High Level Forum on Aid Effectiveness


1.6 The paper is organized as follows: Section 2 presents the implementation framework for the Bank’s engagement in fragile situations, including its objectives, the definition of fragility used by the Bank, the framework for operations, instruments and resources, key processing steps, implementation arrangements and review processes for putting the Strategy into practice, including in particular the internal administrative arrangements. Section 3 sets out the specific guidelines for the TSF in supporting implementation of the Strategy with regard to eligibility, allocation, terms, mobilization, and use of these resources in fragile situations. Section 4 addresses risk management, and Section 5 covers monitoring and evaluation, results framework, and reporting. The guidelines conclude in section 6.

Table 1: Evolution of the Bank’s Strategy and Guidelines for Addressing Fragility

<table>
<thead>
<tr>
<th>Previous Strategy and Guidelines</th>
<th>New Strategy and Guidelines</th>
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<tbody>
<tr>
<td>Emphasis on allocation and utilization of resources from the Fragile States Facility (FSF) to assist a set of eligible countries classified as “fragile states” to implement the Bank’s enhanced support to these states.</td>
<td>Focus on operationalization of new Strategy, covering all available instruments, including but not limited to the Facility. Whereas eligibility to the Facility is limited to a set of countries, the Strategy applies to all RMCs and emphasizes the role of country/regional strategies to provide integration and focus of programs and partnerships.</td>
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<tr>
<td>Operationalization of FSF with three Pillars to provide resources to i) supplement PBA allocations ii) clear arrears iii) meet critical needs for service delivery and capacity building, knowledge through targeted assistance</td>
<td>FSF renamed to Transition Support Facility (TSF), and key criteria adjusted while retaining the three-Pillar structure: • Revised eligibility and allocation criteria for Pillars I and III; • Provision for re-allocations of resources within and between Pillars • Substantial adjustment of Pillar III to focus on programs of high impact, potential for scaling up and thematic issues • Use of TSF as active and preferred channel for resource mobilization by Bank to address fragility</td>
</tr>
<tr>
<td>Introduce continuum approach to adapt instruments to phases of conflict or crisis.</td>
<td>Building on the continuum approach, introduce the systematic use of fragility assessments and a fragility-lens to develop a deeper understanding of the fragility context, identify entry points for intervention and determine priorities, design, and appropriate instruments in Bank programs that are context-specific.</td>
</tr>
<tr>
<td>Coordinate assistance with partners and engage internationally to develop best practices and standards.</td>
<td>While the importance of coordination and partnerships remain vital, greater emphasis is placed on assuming leadership on certain issues and supporting implementation of the New Deal.</td>
</tr>
<tr>
<td>Fragile States Unit (OSFU) created to coordinate implementation of the strategy and manage the FSF.</td>
<td>OSFU upgraded to the Transition Support Department (ORTS) within ORVP to anchor the effective implementation of the Strategy and management of the Facility. ORTS provides advisory and knowledge support to other Bank departments, notably regional and sector departments, to ensure the effective application of the fragility-lens in Bank strategies, operations and policy dialogue. It strengthens partnerships internally and externally to facilitate learning, building capacity, adapting processes, etc. to enhance the Bank’s ability to engage in fragile situations.</td>
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2 Implementation Framework

**Objective**

2.1 The Strategy provides the overall framework for the Bank to assist RMCs to address fragile situations, but effective implementation is the key to success. The Bank’s broad objective is
to assist countries and regions to (i) avoid a worsening of fragility, (ii) transition to greater stability and resilience, (iii) lay the foundations for durable peace, and (iv) achieve the strategic twin objectives of inclusive and green growth within the umbrella of the Bank’s TYS. The objective of these Guidelines is to facilitate and guide the implementation of the Strategy by specifying in greater detail the roles and interactions of key instruments, processes and actors within the Bank.

**Understanding fragility – the Bank Group’s approach**

2.2 While there are various definitions of fragility in use in the international community, the Bank, as outlined in the Strategy, uses an approach that emphasizes that fragility is a transient condition that any country or region may face but is not an inherent or permanent characteristic. For this reason, the Strategy refers to ‘fragile situations’ rather than ‘fragile states’.

2.3 The Strategy defines fragility as “a condition of elevated risk of institutional breakdown, societal collapse, or violent conflict”. It is an imbalance between the strains and challenges faced by a society (internal or external or a combination thereof) and the society’s ability to manage them. All countries face issues of fragility which vary in their dimensions, dynamics, and severity over time, as do countries’ capacities to deal with them, i.e. their resilience. The drivers of fragility are diverse and complex, ranging from economic, social, political, and/or environmental, and most often involve the issue of lack of inclusion and weak institutions.

2.4 Several characteristics of fragility are especially relevant for the Bank’s operational response. Notably, fragile situations are

- highly diverse, in view of a wide variety of drivers of fragility and capabilities of states to deal with them;
- highly risky, necessitating a conscious approach to managing and mitigating risks not faced under more stable conditions;
- of regional and/or subnational nature, as drivers of fragility may go beyond borders or be concentrated in only parts of a country;
- complex, requiring time to address the root causes, especially as building resilience generally requires the establishment of effective institutions, a long-term process.

2.5 Reflecting these characteristics, the Bank’s operational response requires (i) deep analysis of the factors driving fragility in specific contexts; (ii) an approach to operational engagement that is differentiated and tailored to specific fragile situations and targeted to high impact; (iii) support that addresses the drivers of fragility; (iv) a regional approach to regional problems; (v) broader and deeper partnerships to leverage the expertise (and resources) of other institutions; (vi) operational and procedural flexibility and the ability to adapt to rapidly changing circumstances; (vii) and nuanced risk management that can weigh the tradeoffs among programmatic, contextual and institutional risks.

**Operational framework**

2.6 Acknowledging the various degrees of fragility in a country and region. As fragility is considered a risk to the development process, the degree to which fragility issues are central to the development prospects in countries and regions varies. With a view to operationalizing these varying degrees, the Bank will introduce a 3-level category system for all RMCs, and this process will be coordinated by ORTS. It will be prepared on an annual basis, tying in with
the Country Policy and Institutional Assessment (CPIA) cycle at the beginning of the calendar year, and updated during the year as required, with proposed revisions at OPSCOM and/or SMCC level on recommendation of ORTS and sent to the Board for information: Category 1 for countries/regions where fragility is the dominant development challenge; Category 2 for countries/regions with a considerable risk that will be put on a ‘watching list’; and Category 3 for countries/regions where issues of fragility are of limited concern.  

2.7 Framework for assessing fragility at country and regional level. There is no internationally agreed framework or set of indicators for assessing and measuring fragility. The current approach used by multilateral development banks (MDBs) relies on a CPIA score (of 3.2 or less) and the presence of a peacekeeping or peacebuilding mission to classify countries in Fragile Situation. While useful and widely shared, this approach has been found to have several limitations including that it is backward-looking, does not specifically or directly measure fragility, and does not capture externally-driven or regional dimensions of fragility.

2.8 As the Bank will continue to participate in broader international efforts to advance this agenda, such as under the New Deal or the post-2015 development agenda, it will continuously update and refine its own understanding of fragility. The process of developing robust criteria will take time and will take place within the Bank’s ambitions to develop and pilot a standardized assessment tool, the Country Resilience and Fragility Assessment (CRFA). In the meantime, the Bank has launched a complementary approach that goes beyond the CPIA-based classification system and focuses on deeper country or regional qualitative fragility assessments (see para 2.11 - 2.24).

2.9 The following criteria will be used initially to identify countries and regions according to the degree of fragility (see also Figure 1).

- **Category 1:** Countries on the harmonized list of fragile situations by MDBs, i.e. in which a political, peace-building, and/or peace-keeping mission has been present during the last three years, and/or a harmonized CPIA score of 3.2 or less; countries found to be in a fragile situation based on a targeted qualitative assessment; presence of armed conflict in the state’s territory (either internal or inter-state), even in the absence of internal peacekeeping forces; presence of violent political/social uprisings that have the potential to undermine the stability of the state and/or pose significant security risk to people’s lives and livelihoods; in line with the Strategy, the four regions of emphasis (Great Lakes and Central Africa Region, Horn of Africa, Mano River Union and Sahel) are also in this category.

- **Category 2:** Countries exposed to a risk of spill-over from neighboring conflict; increasing trend and/or sudden onset of governance problems or political/social cleavages moving toward armed conflict or generalized instability, presence or high risk of sustained social/political unrest such as increasing public protests, public violence and political hardening; declining trend in policy and institutional performance measures/indicators (e.g. CPIA, Mo Ibrahim Governance Index) and/or presence of important non-political drivers of fragility (e.g. food insecurity, disease, natural disasters, climatic and environmental pressures, low HDI). Other geographical regions are also in this category.

- **Category 3:** Countries where risks of violence or societal breakdown are considered to be relatively low and/or where capacity of social and political institutions to manage challenges within a legitimate/inclusive framework is relatively high.

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8 While the information used to categorize countries may also inform qualitative eligibility assessments under the Transition Support Facility, the specific eligibility criteria for accessing the Facility are dealt with in section 3 of these Guidelines.
2.10 **A context-specific business model to engage in fragile situations.** The above-discussed classification will serve as the first reference point for coordinating the Bank’s support and internal responsibilities to ensure that it adequately addresses fragility and builds resilience across the continent. For this purpose, a three-step approach will be pursued for all countries and regions (see figure 2 below): (i) the first step is to deepen our understanding of the issues through a fragility assessment. This is mandatory for all countries and regions; (ii) The second step involves ensuring that the findings of these assessments are translated into the Bank’s programming documents (CSPs, RISPs, etc.) and design of operations by applying a fragility lens; and (iii) The third step refers to the specificities of the Bank’s engagement in the country and the implementation of its operations. It is recognized that this is an iterative process of “learning by doing” which will involve all relevant Bank departments and requires systematic monitoring and capturing of lessons learned at all stages.


**Step 1: Assessing fragility**

2.11 The starting point for the operationalization of the Strategy is the development of an understanding of the specifics of the issues of fragility in each country or region, including the identification of the key entry points for the Bank to effectively engage. Country and regional fragility assessments are therefore a mandatory input for all programming documents and should identify context-specific entry points for the Bank’s engagement that respond to the specificity of each fragile situation. The format, depth and scope of these assessments will vary according to the degree and nature of fragility of the concerned country or region.

2.12 Three specific products are envisaged in line with the classification of the country and region. There is no one-size-fits-all solution and the assessments have to be tailored to the country and regional context. Given the novelty of this exercise both for Bank staff and RMCs, notably middle-income countries, effective communication and dialogue with concerned parties as regards the purpose of these assessments is an important part of this process. The following is indicative for the different types of products to guide the approach: (i) for category 3, a baseline assessment is conducted that focuses on a broad overview in order to determine the risk profile of the concerned country or region and identify indicators for potentially emerging drivers of fragility that need to be monitored. This assessment will take the form of a fragility or transition risk note; (ii) for category 2, in addition to producing a fragility/transition risk note with indicators, an issues-based fragility/transition assessment is conducted.

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9 This may include adapting language and process to the sensitivities of the context
10 Given the complexity of the issues and data limitations in fragile situations, indicators are not only quantitative but also qualitative.
prepared that is tailored to assess specific drivers of fragility, such as in the case of a sub-national conflict. This assessment will therefore be a targeted fragility/transition assessment; and (iii) for category 1, in addition to producing a fragility/risk note with indicators, a full-fledged fragility assessment will be carried out that will focus both on the general situation of the country/region and analyze particular issues of relevance in-depth.

2.13 **These assessments may be complemented by sectoral assessments** that focus on the political economy in the sectors in which the Bank intervenes, i.e. the Pillars of its programming documents. In addition, **watching briefs** will be prepared to monitor the development of critical issues and/or periods, such as transition phases, post-conflict periods, looming crisis, etc. **ESWs** provide another opportunity to further the Bank’s understanding on particular dimensions of fragility that are relevant to its engagement.

2.14 **Carrying out fragility/transition assessments.** The modalities of conducting the assessments (in-house, out-sourcing, etc.) will depend on the type of assessment, the context, and the availability of information; however, emphasis will be placed on collaborative approaches and coordinating the exercise with other development partners where opportunities exist. Where countries have adopted the New Deal framework, the Bank will support the preparation of country-led fragility assessments. These assessments will also serve as an input to the Bank’s own fragility assessment and programming documents and additional studies conducted as needed. Given the context-specificity of fragile situations, the shape of these assessments can be expected to vary and evolve over time as experience is gained. The process of preparing these documents is also an important part of building the Bank’s internal capacity “on the job”.

2.15 Fragility assessments are living documents and will be updated regularly, annually and/or as circumstances require it, with detailed updates available at the Mid-Term Review of CSPs, RISPs. The country team and field offices will play an active part in the preparation, review and update of the document drawing on their interactions with and missions to the concerned country and region. They will be consulted from the stage of the preparation of the concept note/ TORs of the assessment until the finalization of the document. The Economic Complex (ECON) will have a critical review function for all fragility assessments, as it oversees the Bank’s process of knowledge management both within and with its partners.

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**Box 1: Full-fledged fragility assessments**

Full-fledged fragility assessments should reflect as deep an analysis as possible of the key sources, drivers, and dynamics of fragility in a country or region, be they economic, social, political, or environmental. Equally, they should identify key operational risks and opportunities, including entry points for programs to address, mitigate, or adapt sources of fragility as well program areas that can have the greatest impact in building resilience. Stakeholder analysis is an important part of such assessments and identifying the risk sources and drivers as well as the potential alliances that can form the basis of strengthening resilience. Particular attention needs to be given to pockets of fragility within countries, as these will inform the choice and location of operations. Vulnerable groups or segments of society need to be considered in this context. The regional dimensions of fragility also need to be assessed, as the sources, impact and approach to addressing fragility will often lie outside of the country’s borders.

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11 For instance, in cases of a sudden or rapidly deteriorating emergency or crisis a rapid update on the fragility assessment can provide the necessary background and guidance to the provision of crisis PBOs that are intended to be fast and flexible.
2.16 **Full-fledged fragility assessments will be prepared under the leadership of ORTS** and in close consultation with regional departments (RDs) **for category 1**. This arrangement will also be used to build capacity on issues of fragility within RDs that are expected to increasingly take ownership and leadership of these assessments over the coming years, while ORTS will retain the lead role as a center of expertise and quality control. In cases where RDs have the necessary capacity to conduct such assessments themselves, ORTS will work jointly with them, while retaining control over quality assurance before the assessment is shared with the country team. **RDs will be responsible for updating** the fragility assessments on an annual basis in consultation with ORTS.

2.17 **Targeted fragility/transition assessments will be prepared under the leadership and/or oversight of ORTS and in close consultation with RDs for category 2.** These issue-based assessments will be tailored to the context and assess the major risks that could cause a significant deterioration of the social, political or economic fabric of the country. They will assess the drivers and symptoms of fragility, as they manifest themselves at sub-national or thematic level. While there is no standard format for such targeted fragility assessments, these documents will be **updated on an annual basis by RDs** in consultation with ORTS.

2.18 **A “fragility or transition risk note” will be prepared under the leadership of RDs and in close consultation with ORTS for category 3.** As no country is immune to fragility, the note will provide a *baseline fragility assessment* that focuses on a broad overview in order to determine the risk profile of the concerned country or region and identify potential emerging drivers of fragility that need to be monitored and inform the Bank’s engagement. The **RDs will be responsible for updating** and informing ORTS of changing risk conditions that could affect the classification of the country.

2.19 **Sectoral assessments will be prepared under the leadership of ORTS and in close consultation with sector departments (SDs) and RDs.** Based on the fragility assessment, the Bank may consider further deepening its understanding of the particular sectors in which it engages through sectoral assessments. While this is expected to become a standard feature for category 1, it may also be relevant for the other categories. For this purpose, a separate document will be prepared, focusing on issues of fragility related to the intervention pillars of the CSP, RISPs, etc. Such assessments are relevant to strengthening the design of Bank-operations, for instance in program-based operations that aim at encouraging reforms to improve economic and financial governance, as well as in the context of an infrastructure or private sector operation to deepen knowledge of sector-specific challenges and actors and related risks in these complex contexts.

2.20 This exercise will be coordinated by ORTS in close consultation the respective SDs active in the country that will contribute their sectoral expertise. These documents are also to serve as a baseline for monitoring and reporting changes at country level. RDs, SDs, Regional Resource Centres and Field Offices will play an important role in communicating timely significant changes to management and ORTS. Depending on the significance, changes will be communicated adhoc or feed into the Bank’s portfolio review exercises, such as implementation progress reports or country portfolio performance reports, and the design of new operations in the sector.

2.21 **Watching briefs will be prepared by RDs in consultation with ORTS.** They will be used to systematically monitor specific issues that have the potential to seriously alter the context of engagement for the Bank. These briefs can take the form of separate documents or be
integrated in the quarterly updates prepared by RDs. ORTS will be consulted in this process and contribute to and/or review of these updates.

2.22 **Economic and Sector Work (ESW)** is one of the Bank’s key tools for knowledge generation. The findings are used to inform the design of Bank-funded operations and guide its dialogue with Governments, development partners and non-state actors. It can be used to deepen the understanding on specific issues on fragility and provide a platform for policy dialogue with concerned governments. In collaboration with ECON, ORTS will therefore aim to enhance its leadership role on issues of fragility, encouraging collaboration amongst RDs, SDs, and FOs in their preparation.

**Table 2: Assessing and monitoring fragility**

<table>
<thead>
<tr>
<th>Main products</th>
<th>Indicative roles*</th>
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<tbody>
<tr>
<td></td>
<td>ORTS</td>
</tr>
<tr>
<td>Full-fledged fragility assessment</td>
<td>Lead</td>
</tr>
<tr>
<td>Annual update of full-fledged fragility assessment</td>
<td>Advise</td>
</tr>
<tr>
<td>Targeted fragility/transition assessment</td>
<td>Lead</td>
</tr>
<tr>
<td>Annual update of targeted fragility/transition assessment</td>
<td>Advise</td>
</tr>
<tr>
<td>Fragility/transition risk note</td>
<td>Advise</td>
</tr>
<tr>
<td>Annual update of fragility/transition risk note</td>
<td>Advise</td>
</tr>
<tr>
<td>Sectoral assessment</td>
<td>Lead</td>
</tr>
<tr>
<td>Update of sectoral assessment</td>
<td>Lead</td>
</tr>
<tr>
<td>Watching brief</td>
<td>Advise</td>
</tr>
<tr>
<td>Quarterly update of issues in country brief</td>
<td>Advise</td>
</tr>
<tr>
<td>Economic and Sector Work</td>
<td>Advise</td>
</tr>
</tbody>
</table>

* These roles may change depending on the context.

2.23 **End use and distribution list**: The primary end-users of fragility assessments are Bank’s operational and oversight departments, especially regional and sector departments, field offices, management and the Boards of Directors. In line with the Bank’s Information Access and Disclosure Policy that aims at maximizing disclosure of information within the Bank’s possession, these Guidelines promote the principles of good governance, particularly transparency, accountability and sharing of information in its implementation. However, to the extent that assessments and monitoring of issues of fragility contain sensitive and deliberative information that focus solely on informing the Bank’s internal decision-making processes, these documents will be classified as “restricted” and will not be disclosed.12

2.24 In addition to feeding into Bank’s programming and operational document, the main findings emanating from such assessments may be shared with the Board in the form of a presentation on case-by-case basis. In situations where fragility assessments are done jointly with the concerned country or in partnership with other partner institutions, the final reports could be disseminated widely following a validation or dissemination workshop at the country level, and subject to consent by the participating partners and/or countries.

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12 ADB/BD/WP/2011/66/Rev.3 - ADF/BD/WP/2011/35/Rev.3 entitled “Disclosure and Access to Information Policy”, see section 3.3.1 A (iii)
Step 2: Applying a fragility-lens in Bank’s country/regional strategies and operations

2.25 The use of a fragility-lens translates the findings of a fragility assessment into the design of strategies and operations. As with the fragility assessments above, a differentiated approach based on the three categories will be pursued. ORTS will provide oversight and guidance to regional and sector departments to ensure that the findings from the dedicated assessments are adequately captured in the Bank’s strategic and operational engagement, drawing on existing Bank processes. Effective application of the fragility-lens requires the consideration of these issues from the very beginning of the preparation process for a strategy or operation, namely at the stage of preparing the concept note. This aims at understanding the interaction between the Bank’s engagement and the fragile context to ensure that it conforms with the principle of “do no harm” – and beyond – contributes to building resilience.

2.26 The fragility-lens focuses on the interaction between the fragile context (regional, national, sub-national as well as the thematic sectors that are of particular interest to the Bank), key actors and partners/stakeholders, risks and dynamics, and implications for the positioning of the Bank, the areas of intervention being considered and the organizational context. As issues of fragility vary from country to country and region to region, the Bank’s response to these issues will be context-specific and differ in nature and scope. However, as indicated in the Strategy, it is expected that the Bank’s interventions will put emphasis on three areas of focus in fragile situations (see box 2) and pay attention to a number of key issues (see box 3).

Country and regional programming

2.27 The programming framework for the Bank’s engagement is provided by strategy papers as reflected in Country Strategy Papers (CSP), Interim Country Strategy Papers (ICSPs), Joint Country Assistance Strategy (JCAS), Country Briefs, Regional Integration Strategy Papers (RISPs) or other programming documents. It is mandatory for all country and regional programming documents to be informed by an assessment on the issues of fragility. In line with the principles of the New Deal, the Bank will also support the preparation of Compacts for members of the New Deal and align its country strategies accordingly, to contribute to achieving the Peace and Statebuilding Goals.

Box 2: Areas of focus for country and regional programming in fragile situations

While the particularities of country and regional situations will drive the priorities of each strategy, it is expected that they will fall along three areas of focus: 1) building effective institutions that strengthen the state’s capacity to manage the challenges of fragility; 2) promoting resilient societies through inclusive and equitable access to employment, basic services and shared benefits from natural resource endowments; and 3) enhancing the Bank’s leadership role in policy dialogue, partnerships and advocacy around issues of fragility.

Box 3: Key features of the Bank’s approach

• The Bank will stay engaged across the spectrum of fragile situations.
• Particular attention will be given to integrating a gender perspective in all programs.
• The role of non-state actors, notably civil society and the private sector, will be strengthened.
• The Bank will broaden and deepen partnerships and alliances at country, regional, and international levels.
• It will plan for scale, through sequenced operations that build in lessons and aim at high impact.

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13 To the extent that the provisions made in these guidelines imply a modification and/or update of existing quality review mechanisms, these will be adjusted over time.
14 Ideally, the findings from fragility assessments should be available before the preparation of the strategy starts to ensure it can inform the process from the drafting of the concept note. However, when this is not possible, an assessment of the issues of fragility can take place as part of the preparation of the strategy.
2.28 An important element of the Strategy is the emphasis given to the regional dimensions of fragility. Not only do conflicts in fragile situations have “spill-over effects” on neighboring countries, but the drivers of fragility themselves may not respect boundaries nor would the most effective approaches to addressing those drivers. In this regard, four regions will receive particular attention: Great Lakes and Central Africa Region, Horn of Africa, Mano River Union, and the Sahel.

2.29 Based on the findings from the assessments, the programming documents will respond to the specificity of each fragile situation and tailor the Bank’s engagement to address fragility and build resilience. While the RDs are responsible for preparing the documents, the role of ORTS will depend on the degree of fragility of the country.

- **In category 1**, ORTS will be a mandatory member of the team preparing the programming document, participate in all related missions and contribute to writing the report. In addition, ORTS will be a mandatory peer reviewer for all key products to ensure that issues of fragility are adequately considered (concept note, appraisal report, etc.). In addition, ORTS will participate during the Readiness Review stages to clear the document to proceed to the next stage.

- **In category 2**, ORTS will advise during all stages of the preparation of the programming document, selectively participate in missions and contribute to writing the report. It will be a mandatory peer reviewer for all key products and participate in selected missions. In addition, ORTS will participate during the Readiness Review stages to clear the document to proceed to the next stage.

- **In category 3**, ORTS will be consulted and involved in the process, as requested by the RD.

**Operations design**

2.30 All Bank-funded operations in fragile situations, i.e. sovereign and non-sovereign, public and private, national and regional, will consider the fragility context and implications for operations design, as country and regional strategies are increasingly informed by fragility assessments. In line with the Strategy’s emphasis on using all Bank instruments and resources to address fragility, the Bank will apply a fragility-lens to all of its operations in categories 1 and 2. In line with its regional approach, it will pay particular attention to special regional initiatives.

2.31 Building on existing processes for Bank-funded operations, the various Sector Departments will be responsible for applying a fragility-lens to the design of operations. ORTS will provide support from the initial stage of the preparation of the concept note, reviewing how issues of fragility are addressed and ensuring that operations are responsive to situations of fragility and are of the requisite quality.

2.32 As the systematic introduction of a fragility assessment and the use of a fragility-lens in operations are an innovation in the Bank’s operational approach, ORTS will play a proactive role of guidance and support and tailored training to the various Sector Departments (SDs).
concerning their role in implementing the focus areas of the Strategy, using the Bank’s financing instruments. In addition to Annex 4 that introduces some aspects to be considered in the application of the fragility-lens to operations, specific guidelines/checklists for task managers in SDs will be developed by ORTS.

2.33 **The Bank will be introducing on a pilot basis an approach whereby dual objectives and (proxy) indicators will be integrated into the project cycle and monitoring framework.** As this is a new area, ORTS will initially work closely with SDs to implement such a fragility-sensitive framework for project design, implementation and monitoring. The additional objectives could include, for example, how rapidly basic services are improved, how public expenditures have been adjusted to improve equitable delivery of services to disfavored groups or areas, job creation, particularly for the youth, or the extent to which public perceptions see improvement in the effectiveness or legitimacy of services at various levels.

2.34 This approach will be phased-in gradually with the view to mainstreaming it in all operations over time, building on lessons learned, and enabling SDs to take ownership and leadership in this process. In addition, the design of operations will be driven by a focus on maximizing impact and making provisions for subsequent scaling up. All of this will require an increased focus on strengthening the M&E systems within Bank-funded operations.

2.35 **With a view to facilitating the introduction of this new approach, ORTS will issue supplementary guidance notes from time to time on good practice in applying the fragility-lens as knowledge and experience indicate.** For operations that have dedicated review mechanisms, such as the Additionality and Development Outcome Assessment (ADOA) for private sector operations and regional operations, or the Environmental and Social Impact Assessments (ESIA) for infrastructure investments, ORTS will provide support and training to the review teams to gradually build their capacity to integrate an analysis of issues of fragility into their review.

2.36 Similar to the process for the preparation of country/regional programing documents, the role of ORTS will depend on the degree of fragility of the country.

- **In category 1**, ORTS will be a mandatory peer reviewer for all key products to ensure that issues of fragility and the relevant analysis and/or indicators are adequately considered (concept note, appraisal report, etc.). ORTS may participate in selected missions to support the appraisal team, as required. In addition, ORTS will participate during the Readiness Review stages and will clear the document to proceed to the next stage. This process also applies to flagship regional initiatives that fall within the category 1 regions.

- **In category 2**, the Sector Departments will agree on the level of involvement of ORTS at the concept note stage. Therefore, ORTS will be a mandatory peer reviewer at this stage and in case it is determined that there are significant issues of fragility to be addressed as part of the operation, ORTS will also be a mandatory peer reviewer for all other stages and
participate during the Readiness Review stages similar to category 1.

- **In category 3**, ORTS will be consulted and involved in the process, as requested by the RD and/or SD.

**Step 3: Fragility-sensitive implementation and engagement**

2.37 As issues of fragility at country and regional level are increasingly analyzed and inform the Bank’s strategic and operational activities, the attention shifts towards monitoring and adapting the Bank’s engagement in these volatile and dynamic environments. The principles of the New Deal summarized under the acronyms FOCUS and TRUST (see Annex 1) provide the general direction for the Bank’s engagement in fragile situations, i.e. supporting countries to lead their own ways out of fragility and build mutual trust and strengthen partnerships.

2.38 **Monitoring of fragility issues.** As indicated above, RDs will be responsible for monitoring development in fragile contexts and updating the country/regional assessments on a regular basis. Emphasis will be placed on the implications of any update to the Bank’s engagement in the country, for this purpose it is also expected that an assessment on issues of fragility will become a standard feature of Back-to-Office Reports from category 1 countries. Where RDs and ORTS agree that monitoring exercise reveals a significant deterioration or change in the country/regional context that warrants a review of the Bank’s positioning and programming, Management will submit to the Board an update or addendum to the existing country/regional programming instrument recommending key actions.

2.39 **Adapting the Bank’s country and regional programming.** The Mid-Term Review (MTR) of CSPs and RISPs will be conducted along the lines of the preparation of these documents. For category 1, ORTS participation in the MTR mission is mandatory. In addition, ORTS will be a mandatory peer reviewer that will clear the document to proceed. For category 2, ORTS will be a mandatory peer reviewer and participate in missions, as required. For category 3, ORTS will be consulted and involved in the process, as requested by the RD. The preparation of **Completion Reports** will provide an opportunity to learn from the Bank’s engagement and ORTS is in a strategic position to facilitate the cross-fertilization of lessons learned.

2.40 **Monitoring and adapting Bank-funded operations.** During the annual country portfolio performance review (CPPR) carried out by RDs and FOs, emphasis will be placed on the interaction of the Bank’s portfolio vis-à-vis issues of fragility in category 1 and 2. ORTS will be a mandatory peer reviewer for both categories and guide RDs and FOs with a view to integrating a fragility perspective. Based on its continuous involvement in CPPRs, ORTS will aim at generating generic findings and lessons learned and formulating recommendations to strengthen the Bank’s operational engagement in fragile situations.

2.41 As the design of Bank-funded operations will increasingly be informed by fragility assessments and integrate fragility-sensitive objectives and indicators (see para 2.30), SDs will assess and report the progress and interaction of the operation with the issues of fragility during supervision missions. The **Implementation Progress Report** (IPR) will therefore become an important tool to assess the Bank’s operational effectiveness in a context of fragility. In cases where ORTS has participated in the appraisal of the operation, it will continue in its role as peer reviewer. The **Mid-Term Reviews** will be a critical step to revise the approach and assess potential for scaling-up of individual operations in-depth, drawing on the updated fragility assessments. ORTS will be a mandatory peer reviewer for category 1 and

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15 The issues and risks section of IPRs are expected to increasingly be used to capture these (qualitative) dimensions.
will clear the document to proceed. The Project Completion Reports will be used to assess both the results, generate lessons learned and further the Bank’s understanding on engaging in fragile situations. For category 1, ORTS will be a mandatory peer reviewer and will clear the document to proceed. In cases where ORTS has participated in the appraisal of the operation, it will continue in its role as peer reviewer.

Resources and financing instruments

2.42 Making use of all instruments and resources available to the Bank. The strategic approach including the role of the Bank and partners as well as the programming and financing instruments available for support should be differentiated according context along the fragility spectrum, as indicated in Annex 2. While the TSF continues to play important role in providing additional resources and operational flexibly to a sub-set of countries in fragile situations (as detailed in Section 3), project and program loans, grants, lines of credit, sovereign equity participations, guarantee instruments, technical assistance, capacity building and project preparation grants, are the primary financing instruments available to low-income regional member countries from the Bank Group’s statutory (ADF, ADB and NTF) and non-statutory (bilateral and thematic trust funds, special funds, dedicated facilities, such as the TSF etc.) financing windows. In addition, Program-Based Operations (PBOs) remain an important instrument for channeling ADF and TSF resources to governance operations that help countries implement reform programs, build capacity, strengthen institutions and deepen expenditure on poverty reduction priorities, including at the regional level (see also paragraph 0).

2.43 Mobilizing internal resources. While some resources and instruments are programmed for at the preparation stage of country and regional programming documents, such as ADF and TSF allocations, there are various other sources that can be mobilized and leveraged during the life cycle of a strategy. Identifying the appropriate mix and making use of available financing and co-financing instruments that are best suited to the needs and capacities of RMCs is therefore an integral part of the Bank’s engagement in fragile situations. Annex 6 provides an overview to facilitate the understanding and encourage the utilization of these resources in fragile situations.

2.44 Mobilizing external resources. The Bank will use its convening power to reach out to both traditional and non-traditional partners, including other African countries, philanthropic actors and the private sector to mobilize resources to scale up its engagement in fragile situations. For this purpose, the Bank’s resource mobilization department (FRMB) will establish a network of focal points in partner organizations, promoting the flexible nature of the TSF that positions it as the Bank’s primary instrument for attracting, coordinating and aligning funds to support programs that address frugality and build resilience. The Facility allows for quickly mobilizing funds from traditional, non-traditional and private sector donors for its various Pillars, without the complexities of establishing new trust funds (see section 3 for more details on TSF). This facilitates the quick allocation of additional funds for investment financing in turnaround situations. This can be done through co-financing specific operations or allowing for “soft earmarking” for countries and sectors. Use of the Facility to channel additional funds in these situations also contributes to reducing the transaction costs of engagement of the international community for governments, which can often carry a high burden in fragile situations.

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16 “Soft earmarking” is where a donor can express a preference, which the fund administrator is not legally compelled to honor, and where all funds are commingled.
situations that tend to suffer from institutional and human capital constraints.

2.45 **Pipeline of operations in fragile situations.** With a view to facilitate planning, resource allocation and mobilization, ORTS will draw on the Bank’s Indicative Operational Programme (IOP) prepared by ORVP, especially for Category 1 and 2 countries and regional initiatives aiming to respond to issues of fragility. As the Bank’s programming documents will increasingly provide guidance on scaling up operations, the IOP and related project briefs will become an important tool to strengthen the Bank’s partnerships, market the TSF and increase resource flows to fragile situations.

2.46 **Increasing private investments in fragile situations.** The Bank has various instruments at its disposal to facilitate private investment in fragile situations, including the recently introduced Private Sector Credit Enhancement Facility and Partial Risk and Partial Credit Guarantee instruments for low-income countries. The ambition as captured under the Strategy to increase private sector engagement requires the Bank to deploy the full range of its instruments, as scaling-up private investment in fragile situations is inherently difficult, because many of the needed preconditions are typically not present. This calls for well-targeted and well-coordinated interventions to support improvements in the conditions for doing business, plus use of the full range of AfDB non-sovereign and sovereign financing instruments to support private investment and management contracting. Blending sovereign and non-sovereign instruments is particularly encouraged, exploiting, *inter alia*, the flexibility of the TSF (see para 3.10). Table 3 below provides an overview to facilitate and encourage Bank staff to explore the opportunities to use these instruments.

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Table 3: Bank instruments to facilitate private investments in fragile situations

<table>
<thead>
<tr>
<th>Instruments</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Private Sector Operations</strong>&lt;sup&gt;19&lt;/sup&gt;</td>
<td>In its private sector operations, the Bank focuses on three main areas: infrastructure; industries and services including support to agriculture and agribusiness, small and medium enterprises linkages as well as housing; and finance. The latter encompasses corporate loans and equity participations in financial institutions, as well as Lines of Credit for on-lending to small and medium-sized enterprises, which form the backbone of many African economies. The Bank also invests in microfinance institutions, thereby extending its outreach to the very small and informal enterprises that traditionally encounter difficulties in accessing credit.</td>
</tr>
<tr>
<td><strong>Trade Finance Program</strong>&lt;sup&gt;20&lt;/sup&gt;</td>
<td>The TFP offers a wholesale approach to trade finance through the provision of risk mitigation facilities and liquidity support. The bulk of the operations are targeted at low-income countries, local African banks, Small and Medium Enterprises in critical sector in the agriculture/agribusiness, light manufacturing and intermediate/capital goods industries in regional member countries.</td>
</tr>
<tr>
<td><strong>Enclave financing</strong>&lt;sup&gt;21&lt;/sup&gt;</td>
<td>AfDB enclave financing for projects in fragile situations that generate sufficient foreign exchange to cover debt service and returns to investors. Project risk and commercial financing terms depend on project cash flows rather than economic conditions in the country, although the risks related to expropriation and conflict still remain. The Bank can provide advisory services to RMCs in setting up the policy framework for the establishment of Special Economic Zones and can have a catalytic effect in mobilizing finance. Further, its relationship with the government and regional organizations can be mobilized when a breach of contractual arrangements seems imminent.</td>
</tr>
<tr>
<td><strong>Private Sector Credit Enhancement Facility</strong>&lt;sup&gt;22&lt;/sup&gt;</td>
<td>The PSF was established to offer credit enhancements to a portfolio of AfDB transactions selected to support transformational private investments in ADF-only low-income countries. It is intended to stretch the AfDB’s risk capital to support more projects in ADF countries including fragile states, beyond what it could otherwise finance on its own.</td>
</tr>
<tr>
<td><strong>Guarantees</strong></td>
<td><strong>Partial Risk Guarantees</strong>&lt;sup&gt;23&lt;/sup&gt; The PRG is a political risk mitigation instrument that covers private lenders and investors against the risk of the government or government-owned entity failing to meet its contractual obligations to a project. Since 2011, the instrument covers low-income countries as well. <strong>Partial Credit Guarantees</strong>&lt;sup&gt;24&lt;/sup&gt; PCGs were introduced on a pilot basis to address the challenges faced by well-performing ADF countries with low or moderate risk of debt distress and have adequate debt management capacity in their quest to mobilize domestic and external commercial financing.</td>
</tr>
</tbody>
</table>

2.47 **Program-based operations (PBOs):** The Bank can provide quick and flexible support in moments of crisis, supporting core public functions and state-building processes on a case-by-case basis. The Bank’s 2012 PBO policy<sup>25</sup> and 2013 Guidelines<sup>26</sup> provide guidance on the

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<sup>18</sup> This refers to the main instruments available to the Bank to facilitate private sector operations. In addition, public sector instruments and resources can be used (see Annex 6).
<sup>19</sup> ADB/BD/IF/2013/171 entitled “Trade Finance Program-Guidelines”
<sup>20</sup> ADB/BD/IF/2013/171 entitled “Trade Finance Program-Guidelines”
<sup>21</sup> ADB/BD/WP/2013/120/Rev.1 entitled “Strategic Framework and Operational Guidelines for the African Development Fund Partial Credit Guarantee Instrument”
<sup>22</sup> ADB/BD/IF/2014/40 entitled “Operational Guidelines on the Programming, Design and Management of Program-Based Operations (PBOs) – Revised Version”
<sup>24</sup> ADB/BD/IF/2014/35 entitled “Operational Guidelines on the Programming, Design and Management of Program-Based Operations - revised
use of PBOs in fragile situations and emphasize the need to accompany the utilization of the instrument with Technical Assistance to create capacity and address specific risks (especially fiduciary risks) and bottlenecks for the delivery of results. The assessment of the various eligibility criteria, relevant for General Budget Support and Sector Budget Support, will pay particular attention to issues of fragility, notably the political context and related state-building processes that the PBO aims at supporting.

2.48 **Effective partnerships and alliances** will be key to leveraging and coordinating the use of the Bank’s resources, engaging in policy dialogue, contributing to the knowledge agenda and advancing the Bank’s commitments under the New Deal, notably with regard to supporting political dialogue and leadership, moving towards joint risk management mechanisms, increasing the use of country systems, and strengthening the capacities of local institutions (see Annex 1). It is particularly important in fragile situations to exploit complementarities in expertise and mandates among partners, given that fragility issues extend well beyond the traditional areas covered by development partners. Effective partnerships of the recipient country and Bank with third parties such as other development partners, CSOs and the local and foreign private sector will be needed to mobilize additional financial, human and organizational resources to enable scaling-up the Bank’s impact.

2.49 Partnerships operate at several levels and with different objectives as highlighted in Table 4 below.

**Table 4: Strengthening partnerships**

<table>
<thead>
<tr>
<th>Scope</th>
<th>Objective</th>
<th>Activities</th>
<th>Partners</th>
</tr>
</thead>
</table>
| Global      | Assume leadership in the international discussion on fragility in Africa | • Participate in international fora on fragility, such as INCAF and the International Dialogue  
• Contribute to the knowledge and research agenda  
• Use convening power to provide a platform for discussion | OECD, g7+, AU, UNECA, UN, WB, IMF, |
| Regional    | Strengthen regional responses in 4 focus areas*                           | • Support High Level Advisory Panels  
• Promote African peer-to-peer initiatives  
• Facilitate regional delivery mechanisms for operational engagement | AU, RECs, IGAD, ICGLR, MRU, UN, WB, bilaterals |
| Country     | Stay engaged and complement the Bank’s expertise and mandate              | • Support New Deal processes  
• Promote pooled funding mechanisms  
• Develop joint country analysis and share knowledge based on results | UN, WB, bilaterals, non-state actors |
| Operations  | Scale-up the Bank’s impact                                               | • Co-financing as a means to scale up existing (small)  
high-impact operations  
• Strengthen engagement with private sector and civil society | UN, WB, bilaterals, non-state actors |

Notes: * Great Lakes and Central Africa Region, Horn of Africa, Mano River Union, Sahel

2.50 **Multi-donor Trust Funds (MDTFs)** have emerged as an important instrument of assistance, particularly in fragile situations. By pooling resources within a single umbrella, MDTFs offer a number of potential advantages, including: a common platform for policy dialogue, program management, and interaction with non-sovereigns and other partners; reduced transaction costs; lower burdens on country capacity; improved coherence of programs supported by partners and alignment with country policies and priorities; improved risk management (including through risk spreading and collective mitigation); program and financial flexibility, transparency, and more efficient and effective financial management. MDTFs also provide a
visible focal point that may facilitate resource mobilization and international political support.\textsuperscript{27}

2.51 At the same time, enough experience has been gained with MDTFs in fragile situations to identify a number of key challenges, lessons, and success factors that should be taken into account in considering their use.\textsuperscript{28} Bearing these considerations in mind, Bank staff are strongly encouraged to consider the use and role of MDTFs in preparing country and regional strategies and operations (see Annex 5 for more information and guidance). TSF resources may be used to participate in MDTFs provided that they are in support of programs aimed at addressing the key drivers of fragility as identified in fragility assessments. At the same time, the TSF itself may be considered a form of MDTF as it may mobilize resources from other traditional and non-traditional donors to support programs in fragile situations.

\textit{Staying engaged across the spectrum of fragile situations}

2.52 While the Bank seldom disengages completely with a country, it will be staying more actively engaged across the spectrum of fragile situations while adapting its engagement according to the specific circumstances. In phases of active conflict and/or prolonged crisis, the Bank should commit to be “at the table” and contribute to find solutions and provide support in periods of recovery and reforms. Effective partnerships are at the core of staying engaged until the situation stabilizes. In transitional periods with \textit{de-facto} governments, the Bank will seek best-fit solutions to ensure that it can contribute both to finding a solution while caring for the needs of the population and implementing economic safeguard programs in order to prevent negative longer-term economic impacts. For this to happen, the Bank will continue to explore adapting its operational business model to work with non-state actors, notably the private sector and civil society. Equally, in fragile situations where pockets of stability exist and risks can be managed, the Bank will tailor its engagement to ensure it reaches affected populations.

2.53 \textbf{Strengthen response during re-engagement and country turnarounds.} To allow for a faster response in situations of operational re-engagement after suspensions caused by the presence of \textit{de-facto} governments or other circumstances, the revision of the CSP format will provide further guidance to facilitate a swift resumption of operational activities. This will also provide further guidance on the use of Country Dialogue Notes (CDNs) and Country Briefs in countries where the Bank is not operationally fully engaged.

2.54 \textbf{Continuous monitoring, evaluating and learning will be key to the Bank’s effectiveness.} The Strategy emphasizes the fact that there is no predefined “toolbox” for addressing fragility. The Bank will therefore put in place the necessary tools for monitoring, evaluating and drawing lessons from its engagement, ensuring an effective process of “learning by doing” for its analytical work, operations, policy dialogue, advocacy and its institutional set-up as regards processes, procedures and instruments.


3 The Transition Support Facility (TSF)

3.1 The Transition Support Facility (TSF, formerly Fragile States Facility) was established in 2008 as an operationally autonomous special purpose entity within the Bank Group and is administered independently of the other legal entities comprising the Group.29 This section summarizes the main features of the Facility, the changes that were introduced since its establishment and their application under ADF-13 (see Annex 7 for details on the resource allocation).

3.2 The objective of the TSF is to provide additional funding and operational flexibility through which the Bank can assist eligible RMCs facing issues of fragility to address those issues and build resilience. The use of resources of the TSF is determined within the framework of the Strategy for Addressing Fragility and Building Resilience (2014-2019) in support of the operational priorities articulated in the Bank’s Ten Year Strategy. As a special purpose entity within the Bank Group, the TSF complements the other instruments and sources of support the Bank has. As a legally distinct entity, it has the potential for additional flexibility in the modalities of its support, and is the preferred vehicle for targeted resource mobilization in fragile situations. The legal opinion relating to the establishment and implementation of the Facility that was issued in 2008 is attached in Annex 12.

3.3 An Operational and Financing Framework Adapted to Fragile Situations. The TSF employs a distinct but complementary operational framework through which the Bank Group can more effectively deploy broader, integrated support in fragile situations. It is designed to allow the Bank Group to operate more expeditiously and in a manner that is more flexible and more closely coordinated with other development partners than are other Bank Group operations.

3.4 Inter alia, the provisions governing the TSF

- Exempt all operations funded under Pillars II and III of the TSF and from the Bank Group Policy on Loan Arrears Recovery (“Sanctions Policy”) and provide flexibility with regard to Pillar I (see para 6.1.1.4 of the legal note in Annex 12 for details);
- provide eligible countries with sustained support tailored to reflect each country’s needs and degree of fragility;
- provide more resources at critical junctures of eligible countries’ re-engagement and recovery process by means of flexible business policies and procedures that help reconstruct capacity and accountability in public sector institutions;
- apply flexible procurement rules, subject to appropriate safeguards, that allow for timely and internationally coordinated interventions in line with the Bank’s upcoming procurement policy;
- set forth approval procedures and specify lines of authority for operations financed by the TSF’s Targeted Support Pillar; 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 and facilitate efficient resource mobilization for programs that address fragility.

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29 The Boards of Directors established the FSF, by Resolution B/BD/2008/05-F/BD/2008/03, adopted on 28 March 2008.
3.5 The TSF is structured into three financing windows, as shown in the following figure 3: The Supplemental Support Window (Pillar I), the Arrears Clearance Window (Pillar II) and the Targeted Support Window (Pillar III).

Figure 3: Three-Pillar Structure of the Transition Support Facility

1. **Supplemental support**
   - **Objective:** Supplements PBA allocations to eligible countries for country and regional programs aimed at supporting their transitions towards greater resilience.

2. **Arrears Clearance**
   - **Objective:** Provides grant resources to assist in the clearance of arrears of eligible countries, thus enabling them to gain access to broader debt relief and to normalize relations with the Bank Group and the international community.

3. **Targeted Support**
   - **Objective:** Provides grant resources to support capacity building and technical support activities that cannot otherwise be provided through the Bank Group’s existing instruments and programs.

**Eligibility:** ADF-only countries identified by ORTS/FRMB based on quantitative & qualitative assessments.

**Resources:** The resource envelop is determined during each ADF cycle and through mobilization of additional resources. Re-allocation of resources between Pillars is possible, subject to review and approval by the Board of Directors and/or ADF Deputies.

**Financing terms:** Pillar I is a mix of grants & loans in line with PBA. Pillars II & III are grants.

3.6 **Eligibility to the TSF.** Under each ADF replenishment cycle, the Bank (ORTS/FRMB) establishes a list of ADF-only countries potentially eligible for assistance from the TSF that will be updated at least annually based on a number of criteria. To qualify for general eligibility for TSF support, countries have to be

- on the AfDB/World Bank harmonized list of Fragile Situations, which is drawn on the basis of a CPIA score of 3.2 or less, or the presence of peacekeeping or peacebuilding mission in the last 3 years, and/or

- added to the list by the AfDB following a qualitative assessment that demonstrate that there is a substantial degree of fragility despite a high CPIA (for example through analysis of internal or external fragility factors not captured by the CPIA), or marginal improvements over the CPIA cut-off threshold of 3.2, or a substantial declining trend of the CPIA over the previous three years.

3.7 **The timing and frequency of qualitative assessments** will be influenced by, among others, (i) country priorities and fragility assessment commitments under the New Deal framework (where applicable); (ii) emerging events or issues, especially those related to improvements in policy space or deterioration of security, political stability, governance and economic performance (both at national or regional levels); (iii) full blown crisis, conflict or natural
disaster; and (iv) declining CPIA performance trends, especially for countries that are deemed to be at the borderline of the cut-off point (3.2) for inclusion in the harmonized MDB list.

3.8 While the timing of such assessments will be determined case-by-case based on the specific context or trigger, timeliness and a proactive stance are of the essence in such circumstances. Candidates for eligibility that are not on the initial harmonized list would be expected to already be classified under category 1 of the ORTS system for fragile situations (see para 2.9). In this way, they would already be subject to close monitoring and full-fledged fragility assessments.

Supplemental Support (Pillar I)

3.9 Pillar I provides resources that supplement those available to eligible countries through the performance-based allocation (PBA) system. The need to supplement PBA allocations arises from the fact that the measurements of performance on which it is based, including the CPIA, is backward-looking and does not respond to the needs for additional resources, including for arising from reconstruction and rehabilitation and social rebuilding, that typically accompany the period following conflict or crisis. Furthermore, by design the PBA favors countries with strong CPIA and portfolio performance record, the very elements countries emerging from crisis lack.

3.10 Pillar I resources can be used to support all types of programs and projects, including regional operations and government participation in private sector operations, and can make use of any of the Bank Group’s financing instruments available to ADF countries to support implementation of country priorities and Bank Group programming set out in the country programming document. Under the ADF-13 negotiations, it was agreed that the TSF-RO leverage ratio for countries eligible for TSF Pillar I is 1:2, provided that RO resources under prioritization are available to the given country.

3.11 Financing Terms. Support from TSF Pillar I for each eligible country is aligned with the financing terms and grant/loan mix applicable to its ADF PBA allocation. While the determination of the loan and grant portions will be in line with the Debt Sustainability Framework (DSF) traffic light classification of the country (i.e. whereby red light countries receive all allocations in grants, yellow light countries receive a 50/50 mix of loans and grants and green light countries are eligible for loans), the grant portion of Pillar I allocations will not be subject to the 20% discount or the deductions associated with the DSF Modified Volume Approach.

3.12 It is to be recalled that under ADF-1330, the ADF financing terms have been adjusted to allow differentiated and hardened ADF loan-financing terms to be applied to regular and advance ADF-only countries31, and to blend, gap and graduating countries. The new lending terms will be applied only to new ADF loans, and only to the loan portion of the allocations of the countries at moderate or low risk of debt distress according to the DSF. However, as an exception, loans from the TSF Pillar I will be financed on “regular” ADF terms32, regardless of the country’s debt sustainability classification.

3.13 Exceptional update of financing terms. It is to be recalled that with the view to enhancing predictability of resource flows and multi-year programming, the allocation of TSF Pillar I

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31 Under ADF-13, the non-gap ADF-only countries will be grouped into two sub-groups (“regular” and “advance” ADF-only countries) based on their GNI per capita.
32 Regular ADF terms have a maturity of 40 years with a grace period of 10 years, and an amortization rate of 2.0% over the first 10 years that increases to 4.0% over the remaining 20 years. The service charge is 0.75% and the commitment fee 0.50%.
resources is determined upfront for the three-year ADF period based on the existing DSF classification. However, in case of detrimental changes in the DSF for eligible countries during a given ADF cycle, or outdated DSF classification that has not been updated in line with changing country context that could contribute to the worsening of the country’s debt outlook, the financing terms of Pillar I will be updated for new operations to reflect the new situation. In this regard, the financing section of the Project Appraisal Report will specifically reflect the exceptional nature of this provision, provide the justification and seek the approval of the Board of Directors.

3.14 **The eligibility criteria for Pillar I for countries drawn from the general/harmonized list of Fragile Situations**, as agreed under and applicable to ADF-13, are set out in Table 5 below:

Table 5: Eligibility criteria for TSF Pillar I support under ADF-13

<table>
<thead>
<tr>
<th>Commitment to consolidate peace and security</th>
<th>Stage-1 Eligibility Criteria</th>
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<tr>
<td>To demonstrate commitment to consolidating peace and security after crisis or conflict, the country should have:</td>
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<td>• Signed comprehensive and internationally recognized peace agreement or a post-crisis or reconciliation agreement, and no ongoing hostilities of any significance or</td>
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<tr>
<td>• On the basis of a broader assessment of the degree to which the authorities have developed and followed through on post-conflict or crisis programs to address the roots of fragility and conflict, as the degree of international support they have garnered for these efforts</td>
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<tr>
<td>• A functioning governmental authority or transitional government broadly acceptable to stakeholders and the international community.</td>
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<tr>
<td>Evidence of government’s commitment in this regard may include, among others, progress towards and/or approval of new national constitution; and progress towards normalizations of relations with the international community (key regional bodies such as the AU and economic communities and/or international institutions).</td>
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<tr>
<th>Unmet social and economic needs</th>
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<tbody>
<tr>
<td>Post-crisis and transitional states are considered to face a uniquely challenging combination of circumstances demonstrated by:</td>
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<tr>
<td>• Continuing severe economic difficulties caused by conflict, as evidenced in contraction of real gross domestic product (GDP) per capita by 5% or more between 1990 and 2010.</td>
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<td>• Extremely low levels of human development as indicated by the country’s rank in the bottom quintile of the UNs’ Human Development Index (HDI).</td>
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<tr>
<td>The GDP and HDI criteria shall be complemented by a targeted assessment of the impact of recent crisis on economic and social conditions, as well as the spill-over effect of conflict at the sub-national and regional levels.</td>
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<tr>
<th>Improved macroeconomic conditions and sound debt policies</th>
<th>Stage-2 Eligibility Criteria</th>
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<tbody>
<tr>
<td>Assessment of a country’s program to improve its macroeconomic performance and debt management policy should be conducted in close collaboration with other partners and based on key performance benchmarks used to guide engagement and assess the country’s progress over the medium term.</td>
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Sound financial management practices

Assessment of a country’s commitment to pursue sound public financial management practices should be based on progress in reforming its public expenditure management system, addressing corruption seriously and reviving or strengthening its revenue mobilization institutions.

Transparent public accounts

Monitoring of the transparency of public accounts should assess the regularity of reports or publications on government revenues and expenditures, external debt obligations and new borrowings.

3.15 **Initial indicative allocations.** For the purpose of determining the size of TSF Pillar I envelop during the ADF replenishment discussions, initial indicative allocations to countries that could potentially meet the two-stage eligibility criteria are made (by FRMB and ORTS) at the outset of the ADF cycle based on an agreed formula during each ADF replenishment negotiations. For the ADF-13 period, Pillar I resources for eligible countries are calculated as the average of the best two ADF-12 allocations multiplied by 1) differentiated top-up factors based on how long they have been eligible and 2) discounts based on their CPIA ratings and per capita GNI (see Annex 7). Initial allocations of Pillar I resources are subject to a floor of UA 10 million and a cap of UA 60 million.

3.16 The Resource Mobilization Department (FRMB), in consultation with ORTS, is responsible for determining initial country allocations of Pillar I resources. Additional details and indicative three-year ADF 13 allocations of Pillar I resources for 15 countries are provided in Annex 7, to which Guinea was added based on a qualitative assessment and Board approval in August 2014.

<table>
<thead>
<tr>
<th>Box 6: Guiding Principles for TSF Resource Allocation Framework</th>
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<tr>
<td>The following principles guide the TSF Pillar I eligibility and resource allocation approach.</td>
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<tr>
<td><strong>Additionality:</strong> TSF resources should be additional to PBA resources, and not substitutes so as to enable eligible countries undertake the substantial investments required for recovery, delivery of basic services and overall state-building efforts.</td>
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<tr>
<td><strong>Predictability and flexibility of use:</strong> There should be upfront and full-cycle allocation to enable eligible countries plan and adjust the use of resources. This is also in line with the international aid effectiveness principle to align the provision of assistance with country ownership and country-led priorities and programmes.</td>
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<tr>
<td><strong>Link to performance:</strong> The Pillar resource allocation formula is linked to countries’ previous PBA, preserving the principle of performance in the TSF allocation system.</td>
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<tr>
<td><strong>Responsiveness:</strong> The resource allocation framework for eligible countries should be responsive to changing situations, needs and opportunities. This is a new element introduced in ADF-13 in line with the findings of the independent evaluation and Management’s commitment to improve the operational effectiveness of the Bank Group’s engagement in fragile situations. It is also in line with Board of Directors and Deputies’ guidance during the ADF-13 replenishment negotiations to review whether the Bank had enough flexibility to respond to opportunities to support countries demonstrating renewed commitment to reform and to reengage with countries in arrears.</td>
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3.17 **Pillar I unallocated reserve.** To enable the Bank to respond to changing situations (e.g. where new and unanticipated fragile situations develop, or where there are turnarounds meriting increased support), an unallocated reserve of Pillar I resources equivalent to 10% of the initial country allocations for ADF cycle is set aside. This reserve may also include unutilized resources from the previous cycle or funds released through cancelled balances of committed resources. Recommendations as to the disposition of the Pillar I reserve will be made to the Board as the need arises, and at the ADF-13 MTR as regards any balance of unutilized resources.

3.18 Following a Call-for-Proposals for eligible countries, ORTS will be responsible for preparing the recommendations to the Board for allocations of the unallocated reserve or re-allocations based on changed country and regional circumstances, in consultation with FRMB and other relevant departments. Allocations from the reserve will be based on the principle of 1) emerging sudden needs, and 2) the highest potential impact, including the need to provide resources to countries that may not have been in the initial list of eligible countries, to meet urgent funding gaps, and to fund projects or programs that may be scaled up for impact in subsequent periods. If new countries become eligible for Pillar I support during the relevant ADF cycle, financing for these countries may come from the unallocated reserve, voluntary contributions, or from any unused TSF resources subject to approval by the Boards of Directors and/or ADF Deputies.

3.19 **Approval of country eligibility and final allocation.** The initial indicative allocations agreed during the ADF replenishment negotiations have to be re-confirmed and approved by the Board of Directors based on country-by-country eligibility assessment and Management recommendation. The eligibility assessments for all countries are made in accordance with the criteria set out in paragraph 3.14 Table 5 above, as agreed under the ADF-13 Replenishment. This includes countries that have benefitted from TSF Pillar I and are found to be eligible for additional cycle/s and those that may become eligible in the course of the ADF cycle due to changed circumstances, as reflected in an updating of the harmonized MDB list or through a qualitative assessment. Country programming documents are the instruments through which eligibility assessments are presented for Board approval. Such programming documents include new CSPs, I-CSPs or Country Briefs, MTRs and/or addenda of the same.

3.20 **Exceptional support to countries in arrears**34. TSF-supported operations are allowed in the absence of debt regularization in transitional countries with chronic arrears showing a firm commitment to regularize their debts. Evidence of such commitment shall include a country:

- Reaching an agreement with the Bank regarding its arrears clearance program, which should be reflected in the country programming document in the form of clearly defined milestones and performance benchmarks;
- Making at least token arrears clearance payments to the Bank; and
- Having a coordinated arrears clearance program with other partners, particularly the Bretton Woods Institutions

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33 Under ADF-13, the total amount of the reserve pool is UA 59.61, comprising of UA 40.6 million allocated from ADF-13 replenishment and UA 19.01 million rolled over from the ADF-12 TSF Pillar I unused resources.

34 This section provision is unchanged from the 2008 Guidelines. However, a review of this approach will be presented at the Mid-term Review of ADF-13.
3.21 In such arrangements, which must be approved by the Board of Directors, an eligible country could be allowed to use all of its supplemental allocations to support operations plus a maximum of 50% of its PBA-determined allocation.

3.22 Resources allocated under the exceptional eligibility can be used for a wide range of activities including infrastructure rehabilitation and institutional support activities. The exceptional case for the provision of such support to a country prior to the completion of the process of debt regularization may raise the question of moral hazard, by which the Bank’s actions could potentially lessen the incentive for debtors to meet their obligations to the Bank Group. Measures to mitigate the moral hazard issues are highlighted in Box 7 below.

Box 7: Addressing Moral Hazard

The Bank’s privileged position as a trusted partner to its RMCs has been shown to be a particularly valuable platform for dialogue for countries in arrears with a view to normalizing their relations with international partners. The exceptional case for the provision of supplemental support and 50 percent PBA-determined grant to a country prior to the completion of the process for debt regularization, however, raises the question of moral hazard, by which the Bank’s actions could lessen the incentive for debtors to meet their obligations to the Bank Group. This risk is expected to be adequately mitigated, as follows.

First, access to such exceptional support from TSF Pillar I and PBA (as well as access to arrears clearance support) will be limited to countries that meet the two-stage eligibility criteria and performance benchmarks, including sound macroeconomic practices and debt management policies.

Second, the basis for continued access to this exceptional support will include performance elements as detailed in the country programming documents (Country Briefs). In particular, country ownership, leadership and active participation in the arrears clearance and debt regularization process would be viewed as part of the country’s commitment to economic governance. This has been demonstrated in the Bank Group’s experience in its engagement with countries such as Somalia, Sudan and Zimbabwe under ADF-11 – ADF-13.

The program being supported by the Bank Group in conjunction with the Bretton Woods Institutions and the international community will provide clear incentives for the country to pursue a policy path that includes clearance of arrears to the Bank Group. The linkage is hence through the program itself, which would provide an explicit path to debt regularization, and be part of the performance benchmarking.

3.23 **Leveraging TSF Pillar I to access the Regional Operations (RO) envelop by countries in arrears.** In line with policy guidance provided in the 2008 Strategic and Operational Framework for Regional Operations, sanctioned countries can access the RO envelop if the project is structured in such a way that the financial and implementation responsibilities for the project are not with the sanctioned countries, but are undertaken by another participating country or a regional organization. In line with the provision for exceptional access to Pillar I by countries of arrears and TSF Pillar I/RO leverage ratio of 1:2, the resources can be used to support a wide range of activities including infrastructure rehabilitation and institutional support activities.

3.24 **Duration of supplemental support.** Subject to the continued availability of funds, continued good performance and qualification under the eligibility criteria, countries may be eligible for Pillar I support for three ADF cycles. The possibility of longer periods of eligibility will be considered during the third cycle of the TSF and in consultation with the Board and ADF Deputies. Eligibility criteria for the duration of support will be continuously reviewed and amended as necessary during ADF replenishment consultations. Countries may benefit from

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35 ADF/BD/WP/2008/16 entitled “Strategic and Operational Framework for Regional Operation”, Section 4.13
a shorter duration of support in situations of rapid improvements in the parameters used to assess eligibility and duration of Pillar I support. As with countries that would be added, the RD or ORTS may initiate the process, and ORTS in consultation with FRMB would prepare the proposal for change in eligibility status.

3.25 **Exit mechanism.** The overriding objective of the enhanced operational and financial support from the TSF is to bolster the re-engagement and recovery process in eligible countries, thus enabling them over time to compete or qualify for larger PBA allocations. Due regard needs to be paid to international experience which has documented the increased risks of slippages due to premature exit from support.\(^{36}\)

3.26 The exit framework for support from Pillar I follows the broad principles guiding graduation from ADF: namely that they aim at a smooth, predictable, and sustainable transition and that they adopt a flexible approach that is tailored to specific country circumstances.\(^{37}\) For each country that would be considered for exit, eligibility assessments in each cycle should clearly indicate the exit mechanism and how the CSP is positioned to support the process that would define the modalities of Bank support, the length of the transition period, and the financing mix during this period. The length of the transition period should be determined on the basis of objective criteria and an analysis of the country’s situation. Exit would be triggered by an assessment of the extent to which the country has:

- Sufficiently recovered to a point where its Bank Group’s CPIA rating and Country Portfolio Assessment (CPIA) has reached 3.3 (or a critical threshold on an alternative index when developed)\(^{38}\) and sustained progress is shown in improved human development indicators;
- Attained an acceptable level of stability and recovery (and reduced risk of crisis, conflict or other major drivers of fragility), based on a detailed assessment of whether there are exogenous factors slowing down transition, due to instability in neighboring regions, a resurgence or continuation of conflict, or major economic shocks.

3.27 **Countries failing to meet eligibility criteria.** Supplemental resources allocated to countries that subsequently fail to meet the eligibility criteria for the TSF for a period of more than two years can be rolled into the next ADF cycle, reallocated to other countries that qualify for Pillar I of the TSF, or used to support operations in the arrears clearance or targeted support pillars. Decisions will be taken on a case-by-case basis and require approval by the Boards of Directors.

3.28 **Cancellation of operations funded under TSF Pillar I.** The policy guidelines for ADF projects eligible for cancellation will apply to operations financed by TSF Pillar I. However, resources not utilized due to cancellation of Pillar I TSF operations will revert to the TSF rather than the general ADF pool.

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\(^{36}\) See *World Development Report 2011*.


\(^{38}\) Such an index could be based on the five “Peace and State building Goals (PSGs)” to be developed for each fragile state: Legitimate politics, Security, Justice, Economic foundations, and Revenue and services. See International Dialogue on Peacebuilding and Statebuilding, *The Monrovia Roadmap on Peacebuilding and Statebuilding*, OECD, Paris 2011, and OECD, *Supporting Statebuilding in Situations of Conflict and Fragility. Policy Guidance*, OECD, 2011. Under the New Deal, fragile states and international partners undertook to develop a set of indicators for each goal. At the same time, the Bank is exploring the development of a Country Resilience and Fragility Index (CRFA) during the ADF 13 period. These initiatives are aiming at a more comprehensive and specific measure of fragility. However, pending their completion, the Bank will continue to use the CPIA to trigger eligibility and exit assessments.
**Arrears Clearance Window (Pillar II)**\(^{39}\)

3.29 The objective of the Arrears Clearance Window (Pillar II) is to provide funding for clearing Bank Group arrears, thus facilitating the normalization of the relationships of the eligible RMC with the Bank.

3.30 **Financing Terms.** Support from TSF Pillar II for each eligible country will be on a grant basis.

3.31 **Eligibility.** Eligibility for the arrears clearance window is open to countries with chronic arrears with the Bank. The countries concerned must meet the two-stage eligibility criteria of the Supplemental Support Window (Pillar I) and must also:

   i) Demonstrate respect for the Bank Group’s preferred creditor status by servicing new maturities on all outstanding Bank Group loans or at least to the same relative level of debt service paid to other International Finance Institutions (IFIs); and

   ii) Be eligible for debt relief support from the Heavily Indebted Poor Countries (HIPC) initiative, but not yet reached the decision point under the Initiative; Or be approved for exceptional support by the Boards of Directors under an internationally coordinated arrears clearance and debt relief program.

3.32 **Burden sharing arrangement.** A two-tier burden sharing arrangement will apply to the arrears clearance window of the TSF. The two-tier approach will ensure that a beneficiary country meets up to a maximum of a third of its arrears clearance obligations while the TSF Pillar II takes up a minimum of two thirds (2/3). Donors are free to make voluntary contributions to assist beneficiary countries to fund their assessed burden sharing obligations or to assist in servicing new maturities until the country qualifies for debt relief under the HIPC initiative.

3.33 **Assessment of country capacity to pay for arrears clearance.** Annex 8 provides a framework for objectively assessing a country’s ability to pay for its arrears clearance program. The Bank will undertake the assessment on a case-by-case basis, and in close partnership with other IFIs. The objective of the exercise is to determine appropriate burden sharing arrangements for arrears clearance between the country and the TSF, while also reaffirming the importance of individual country circumstances.

3.34 **Processing Requests for Arrears Clearance.** The Regional Departments (RDs) have overall responsibility for processing arrears clearance operations in countries falling under their purview. This activity will be coordinated with ORTS, GECL, GCRO, FFMA, FRMB, FFCO, and OSGE. The RD, in conjunction with ORTS must ensure that consultations are initiated with the beneficiary country, its creditors, including international financial institutions, regarding the cut-off dates, the agreed burden sharing arrangement, and the timing of the delivery of the Bank’s arrears clearance program.

3.35 The process of arrears clearance will include the preparation of a country-specific proposal by the relevant RD using the standardized format presented in Annex 9. The draft proposal shall describe the:

   - Status of the re-engagement process;
   - Status of the country with respect to the eligibility criteria for an arrears clearance program

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\(^{39}\) This section is proposed to be unchanged in substance from the 2008 Guidelines.
- Proposed arrears clearance program including the financing plan and preliminary timetable; and
- Prospects for new assistance to the country with the projected net transfer of resources to it.

3.36 **Access to resources of Pillar II** is open to all countries meeting the eligibility criteria on a first-come first-served basis, in view of the shortage of resources in the Pillar in relation to the potential need. Three potentially eligible countries were identified at the outset of ADF-13 (Somalia, Sudan⁴⁰ and Zimbabwe).

3.37 **Monitoring of progress and support to eligible countries.** ORTS will monitor the overall utilization of Pillar II and the situation of eligible and potentially eligible countries in coordination with RDs and GCRO, while FFCO will provide the latest data and projections. RDs have the overall responsibility for processing Pillar II requests and operations, and rely on field offices to continue dialogue and promote donor coordination in the field.

3.38 **Disposition of unused Pillar II resources.** The status of Pillar II resources will be reviewed during the ADF-13 Mid-Term Review to take account both of the likelihood of remaining funds to be used and the signal of retaining an allocation for any country still in arrears.

3.39 **Potential sources for mobilizing the resources for Pillar II in case of shortfall.** Should additional funding be needed for Pillar II to meet arrears clearance requirements of eligible countries, it may be possible to access the unallocated reserve of Pillar I, in consultation with ADF Participants and subject to approval by the Boards of Directors. Voluntary donor contributions to the TSF would also be a potential resource.

3.40 **Allocation of ADB net income to ADF in the event of an arrears clearance operation.** As agreed in the context of ADF replenishment discussions, Management will make a proposal to the Boards of Directors and Governors to approve, annually, the allocation of realized income generated from the clearance of arrears of eligible countries through the TSF, with due consideration to the financial integrity of the Bank. These resources may also be used to fill financing gaps for the clearance of eligible countries’ arrears to the ADF in accordance with the rules and processes guiding such operations.

3.41 **Bank Group’s role in facilitating countries’ qualification for arrears clearance and debt relief programs:** Building on its experience in engaging with RMCs in complex relationships with the international community due to their arrears situations, such as Sudan and Zimbabwe, the Bank will continue to extend support to these countries to accelerate the process of arrears clearance and reengagement with international financial institutions. It will use its convening power in these situations and play a leadership role to steer the country’s reengagement with the international development community. In such circumstances, the exceptional eligibility provision that has allowed sanctioned countries to access Pillar I and 50% of ADF-grant allocation has proved essential.

**Targeted Support (Pillar III)**

3.42 The Targeted Support Window (Pillar III) provides a limited pool of resources to support capacity building and technical support activities that cannot easily be done through traditional

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⁴⁰ Provided that the “zero option” agreed in September 2012 and re-affirmed in Oct 2014 holds. Under this option, Sudan retained the entire external debt, provided that the international community gives firm commitments for delivery of debt relief within 2 years to Sudan. Absent such a commitment, Sudan external debt would be apportioned with South Sudan based on a formula to be determined.
institutional support projects and programs. Priority is given to activities that have potential for high impact due to their innovative character, strategic positioning, or potential for scaling up and leveraging other resources or enhancing the Bank’s leadership, and are in line with the new Strategy for Addressing Fragility and Building Resilience in Africa (2014-2019).

3.43 While the scale of resources and operations is necessarily smaller than for Pillar I or PBA-financed operations, the flexibility in allocation, potential for multi-country thematic programs, the relatively lighter procedures for administration, and the ability to mobilize resources for scaling-up give Pillar III some particular comparative advantages relative to the Bank’s other instruments for engagement. It thus serves as an important element of implementation support for the Strategy. Pillar III resources also complement the support provided through the other TSF windows by building capacity and paving the way for projects that can be supported through Pillar I and for arrears clearance operations financed under Pillar II.

3.44 **Financing Terms.** Support from TSF Pillar III will be on a grant basis.

3.45 **Eligibility.** In line with the general provisions for the TSF, eligibility for Pillar III support is open to ADF-only countries in the annually-updated MDB harmonized list of “Fragile Situations”, as modified by the Bank on the basis of qualitative assessment as noted above. ORTS will make available the updated list on request.

3.46 **Resource mobilization and allocation for direct and indirect support:** During the ADF 13 cycle, UA 60 million was allocated to Pillar III. In contrast with prior Replenishments, Pillar III resources are intended for both direct and indirect support. Indirect support means that the resources are used by another entity to support their work in fragile situations at country and/or regional level. During ADF-13, it was decided that the African Legal Support Facility (ALSF) would be the beneficiary of such an indirect support at the amount of UA 16 million to support legal advisory and capacity-building initiatives in fragile situations on a programmatic basis. The remainder of UA 44 million is dedicated to directly support interventions carried out under Pillar III under a revised allocation model that strengthens the responsiveness and impact of the instrument. It adopts a regional and thematic focus, facilitates working with non-state actors, and strengthens its response capacity in situations of crisis (see para 3.49). Pillar III, as the other Pillars, remains open and encourages voluntary contributions from ADF members and other stakeholders, including emerging donors.

**Indirect support**

3.47 **African Legal Support Facility (ALSF).** A special allocation of Pillar III resources was made to the ALSF with the view to assisting eligible RMCs strengthen their legal expertise and negotiating capacity in key areas. These areas include matters pertaining to: i) debt management and litigation; ii) natural resources and extractive industries management and contracting; iii) investment agreements; and iv) related commercial and business transactions. The ALSF grants and advances funds to RMCs for legal advice and technical assistance from highly qualified legal counsel in these areas.

3.48 The ALSF, through a Bank department, will submit for Board approval a request detailing the project objectives, activities, beneficiary countries/regional institutions or programs and expected results. Pillar III support provided to the ALSF will be through a grant to the ALSF and will be administered by the ALSF under its own procedures. ALSF resources are allocated in response to specific demands and are not subject to country allocations. However, Pillar III resources granted to ALSF are restricted to supporting countries or regional institutions in
fragile situations. ALSF and the Bank shall regularly coordinate their work programs and activities in fragile situations. Within the Bank, ORTS will be responsible for ensuring such coordination, which will provide details on proposed activities, financing needs, implementation and reporting arrangements.

**Direct support**

3.49 The particular priority uses of the Pillar III resources will vary widely, reflecting the range of fragile situations along the fragility spectrum and the support being provided by partners. Priority uses of Pillar III resources will be selected in line with the Strategy and on the basis of their potential for high impact and the particular characteristics of Pillar III, which include speed and responsiveness to emerging situations, efficiency and low transaction costs, flexibility, the scope for resource mobilization, and potential for developing innovative programs that can be scaled up in fragile contexts. Reflecting these criteria, Pillar III support and resource allocation will be along four axes as described below.

i) **Early or continuous engagement in crisis, conflict and post-conflict situations and in countries under sanctions** where support through other channels is unavailable or highly limited. Development of critical technical support for key government functions, preparatory work necessary for arrears clearance operations that would be supported under Pillar II, and support of early peace- and statebuilding efforts will be particularly important in this context. This may include secondments and TA programs.

ii) **Technical support for regional initiatives** in the four priority regions areas of the Strategy (Great Lakes and Central Africa Region, Horn of Africa, Mano River Union and Sahel) and knowledge and policy development that can play a key role in addressing regional fragility and building resilience, to complement the support being provided by Regional Operations.

iii) **Multi-country thematic support** in areas identified in the Strategy as important drivers of fragility and building resilience, especially where they can fill gaps and can target critical activities not otherwise being covered through Bank Group’s existing instruments or resource envelopes (such as gender, PSD/entrepreneurship, natural resources management, justice/security sector), and/or have important potential for leading to larger scale interventions. This may include capacity needs assessments and strategy development.

iv) **Targeted Advisory Services (TAS)** to enable the Bank to mobilize highly specialized advisory and advocacy support, and meet unanticipated or rapidly-developing situations. Enhancing Bank’s leadership role in policy dialogue, advisory and advocacy around issue of fragility is one of the critical elements of the new Strategy. To deliver on this commitment, the Bank has to engage systematically and continuously the services of high-caliber individuals or firms that have political clout, excellent reputation and strong networks among African policy makers. Such high-level advisors have proved indispensable in our engagement with the AU High Level Panel on Sudan since 2011, and the Bank’s ability demonstrate thought leadership on issues of fragility – as was the case with the work of the High Level Panel on Fragile States in 2013. The TAS will be managed directly by ORTS to deepen understanding of fragility and develop policy advice in specific contexts. The allocation for TAS will not exceed UA 3 million.
3.50 **General oversight and management of Pillar III resources** will be under the responsibility of ORTS. Implementation and management of the projects under i)-iii) will be the responsibility of the relevant sector departments. Management of the technical advisory services under iv) will be the responsibility of ORTS.

3.51 **Utilization of Pillar III resources.** To determine the allocation and commitment of Pillar III resources (other than for the ALSF or the TAS), a two-pronged approach will be applied: (i) a regular competitive Call-for-Proposals (CfP) that will follow the format used by FRMB for thematic and bilateral trust funds; and (ii) projects initiated by ORTS in consultation with RDs and SDs to respond to identified gaps and needs not addressed by proposals submitted during CfP. ORTS will launch the CfP in the first quarter of each year, making available around 1/3 of the resources. RDs and SDs will be eligible to submit proposals with priority for thematic areas that will be determined during the CfP (e.g. gender, natural resources, PSD/entrepreneurship, justice/security sector), regional programs, and country engagements. All TSF-eligible countries can potentially also benefit from Pillar III support. For countries under arrears, a fixed amount from Pillar III will be allocated upfront based on their existing access to resources under ADF-13.

3.52 **Selection criteria for Pillar III projects.** The interventions submitted to the CfP will be evaluated by an interdepartmental committee established by ORTS against several criteria, notably the extent to which they (i) demonstrate that the proposed activities can’t more efficiently be done with regular Bank instruments; (ii) clearly address drivers of fragility and build resilience; (iii) aim for high impact and low transaction costs; (iv) adopt a scaling-up approach and facilitate resource mobilization; (v) complement the Bank’s engagement at country and regional level as defined under the relevant strategy documents. ORTS and FRMB will maintain a list of all projects submitted under the CfP (pipeline of projects) and aim at mobilizing resources from other sources.

3.53 **While the minimum amount is 1 million UA**, the maximum amount will depend on the regional scope, i.e. number of benefiting countries, and readiness of implementation of the project, but should not exceed 5 million UA per approved project. This will be further detailed during each CfP. The implementation period also depends on the size and nature of the project, but should not exceed 36 months; however, approved projects are eligible for applying to new CfPs with a view to scaling-up the intervention. Exceptions from this rule can be made for early or continuous engagement in crisis, conflict and post-conflict situations that require context-specific and targeted support of limited scope with the approval of OpsCom.

3.54 **Programming and Operations Process.** The key elements of the programming and operations process for Pillar III (excluding the TAS) are outlined below:

- **General Principles.** While the Bank’s rules, processes and procedures on programming and operations would generally apply, these will be simplified as much as possible to facilitate faster implementation and responsiveness to changing circumstances and feedback during implementation.

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41 The amount available for each CfP will be determined in line with the current utilization rate.
42 UA 10.5 million out of the currently available Pillar III is earmarked for the three countries (Somalia, Sudan and Zimbabwe) for the 2014-2016 ADF-13 period. Out of these, Somalia will receive UA 4.5 million; Sudan UA 3.2 million; and Zimbabwe UA 2.8 million. The distribution of the resources among the three countries is based on consideration of a fair and transparent process that takes into account countries’ recovery needs and current access to ADF and TSF Pillar I resources. The per capita allocation under ADF-13 (PBA + TSF Pillar I) shows the following: Somalia 2.5 UA; Sudan 3.05 UA and Zimbabwe 4.23 UA. Zimbabwe also benefits from Zim-Fund resources.
43 Interventions funded under the Targeted Advisory Services (TAS) are exempted from this minimum amount, as they are expected to be smaller operations.
- **Project preparation, appraisal and approval.** Following the award under the call-for-proposals noted above, a more detailed project proposal will be prepared and the format requirements will be aligned with the scope of the intervention (see table 6 below).

- **Grant agreement.** GECL will prepare a standard Grant Agreement document to be signed by the appropriate Bank Officer in accordance with the Delegation of Authority Matrix and the Recipient (public, private, non-governmental). The deadline for signing the Agreement is 120 days from the date of approval, failing which the grant may be cancelled.

- **Grant effectiveness.** The financing agreement must be declared effective prior to the disbursement of funds. The Director ORTS or the Director of the responsible RD or SD may declare the agreement effective immediately upon signature or when “conditions precedent for effectiveness” if any are satisfied.

- **Monitoring and Evaluation and Supervision of Project Implementation.** The Projects will ensure that the executing agency has an appropriate monitoring and evaluations system designed to facilitate access to physical and financial information about the progress of activities, the economy and efficiency of the procurement process, the achievement of the project/program objectives and the possibility for scaling-up. The responsible RD/SD will monitor and supervise project implementation in line with general requirements for Bank-funded operations and ORTS staff will participate in these missions. Field offices will be key to provide implementation support. Adjustments may be made to the scope or design of projects to more effectively or efficiently achieve its objectives based on implementation experience, with the agreement of the recipient, the responsible RD/SD, and the Director, ORTS.

- **Project Completion Report.** Within six months of project completion, the responsible department will complete a PCR whose format will be tailored to the scope of the intervention that will clearly state and assess the outcomes in relation to the project objectives and performance indicators and indicate lessons learned and follow-ons that can be used to inform future activities.

- **Audit and financial management.** Management of Pillar III and supported operations shall conform to the Bank’s financing processes and procedures, and will be disclosed in the Bank Group’s financial statements in line with the prevailing international financial reporting standards. Beneficiaries of the Pillar III shall ensure that all accounting records justifying disbursements and expenditures are kept for eventual audit by the Auditor General’s Department of the Bank. The operations will be subject to audits at least every year during the implementation of the project.

- **Financing scaling-up of Pillar III projects.** Projects that have demonstrated significant intermediate results, as measure by the project’s performance indicators, and where the original results framework and objectives still hold, apart from differences in scale, and implementation arrangements would remain largely the same, are eligible to participate in subsequent CfPs under Pillar III. In case of approval of additional financing, no separate appraisal report is required.

3.55 **Appraisal and approval procedures for Pillar III operations.** The operations selected under the CFP will be appraised as stand-alone projects or as part of a larger project or program. The project preparation, appraisal and review process, and submission for approval
shall be managed by the responsible (originating) country, sector, or regional department in coordination with ORTS. The procedures are summarized as follows:

Table 6: Appraisal and approval procedures for Pillar III-funded operations

<table>
<thead>
<tr>
<th>Processing Stage</th>
<th>&gt; UA 5 million*</th>
<th>UA 5 &lt; UA 3 million</th>
<th>UA 3 &lt; UA 1 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country ownership</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appraisal procedure</td>
<td>Standard Bank appraisal document</td>
<td>Abridged Bank appraisal document, max. 10 pages,</td>
<td>A more detailed version of the original proposal, including results-monitoring framework</td>
</tr>
<tr>
<td>Review/approval</td>
<td>Country team/ORTS</td>
<td>Country team/ORTS</td>
<td>Country team/ORTS</td>
</tr>
<tr>
<td>Approval</td>
<td>Board of Directors (Lapse of Time Basis)</td>
<td>PRST</td>
<td>ORVP</td>
</tr>
<tr>
<td>Responsibility for implementation</td>
<td>Originating Department</td>
<td>Originating Department</td>
<td>Originating Department</td>
</tr>
</tbody>
</table>

*In case voluntary contributions for specific initiatives under Pillar III are received that would increase the overall amount beyond UA 5 million

3.56 Cancellation of projects. Given the relatively small size of Pillar III resources, specific purpose and unique administrative processes, resources not utilized due to cancellation in whole or in part of Pillar III projects will revert back to Pillar III allocable pool.

3.57 The Technical Advisory Services (TAS) program will be managed and directly implemented by ORTS. The choice for any proposed technical experts should be made in line with the Bank’s internal rules for acquisition of consulting services. ORTS, in consultation with FFCO, will establish and maintain internal accounting and tracking mechanism for the implementation of the TAS, in accordance with standard Bank processes for financial management and accounting. The resources under this program may not be used to fund Bank staff or activities normally funded from the Bank’s administrative budget. ORTS will develop internal guidance notes and processes to ensure that its fiduciary responsibilities in managing the TAS and related due diligence processes are fully compliant with Bank processes. Activities to be funded include high level advisory and advocacy support (consultations); high level events; critical studies to inform policy dialogue and advisory support or related activities. ORTS will report every 6 months to the VP-ORVP on utilization of the resources. The procedures are summarized below:


### Table 7: Appraisal and approval procedures for Technical Advisory Services under Pillar III

<table>
<thead>
<tr>
<th>Processing Stage</th>
<th>Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preparation of results-based consultancy TORs or concept notes in the case of events, with clear scope of work, deliverables and timeline.</td>
<td>ORTS, in consultation with relevant departments (e.g. RDs, ECON, SDs)</td>
</tr>
<tr>
<td>Approval</td>
<td>In line with the Bank’s Delegation of Authority Matrix for the internal acquisition of consulting services</td>
</tr>
<tr>
<td>Implementation and Reporting</td>
<td>ORTS, reports submitted to ORVP and/or Senior Management.</td>
</tr>
</tbody>
</table>

#### 3.58 Eligible recipients of Pillar III resources

Eligible recipients of Pillar III resources include RMCs, their central and local government institutions or agencies thereof as well as regional agencies or institutions in Africa, such as Regional Economic Communities, and UN agencies directly working on issues of fragility in countries and regions with a high degree of fragility. Eligibility is also extended to non-sovereign organizations at the country or regional level, civil society organizations, community-based organizations, research and training institutions, regional, sub-regional and sectoral organizations and private sector institutions. The Bank’s CSO Framework and PSD Strategy serve as reference points for the Bank’s engagement with non-state actors.

#### 3.59 The eligibility of national and international NGOs, civil society organizations and private sector institutions is dependent on the fulfilment of criteria related to credibility and track record in the areas of activities to be undertaken either in the country or in the sub-region. Such organizations shall: i) have a reputation for and demonstrate commitment to the key humanitarian intervention principles and in particular, neutrality, independence and impartiality from the parties in any ongoing violence or conflict as well as the principle of ‘Do No Harm’; ii) be Africa-based or provide evidence of partnership with African institutions; iii) provide evidence of currently valid legal registration under the laws of the RMCs in which they are operating, as well as evidence of a certificate to carry out business in the RMCs in which they intend to carry out the relevant activity, if different from the place of legal registration; iv) have appropriate organizational and management capacity, including a governing board; v) demonstrate the existence of a sound financial system - including clear accounting and budgeting standards, financial statements, a transparent budgeting process, audited accounts and other indicators that confirm their capacity to assume fiduciary responsibility for TSF resources; vi) provide evidence of competence, based on past performance, to carry out the proposed activities; vii) demonstrate credibility, knowledge of local values, networks and structures required to carry out the indicated activities; and viii) evidence that the organizations do not derive benefits purely attributable to the use of grant proceeds above the administrative costs associated with the execution of the proposal.

**Funding, resource mobilization and scaling-up**

#### 3.60 The identified sources of funding for the TSF are: the Bank, the Fund, beneficiary countries (in the case of the Arrears Clearance Window), and other donors. In this regard, it may be recalled that in the context of ADF-13 replenishment, State participants agreed to provide UA 662 million, of which UA 572 million for Pillar I, UA 30 million for Pillar II, and UA 60 million for Pillar III. In addition, the TSF will have available from prior Replenishments unused balances of Pillar I (UA 19.01 million) and Pillar II (UA 362.29 million).
3.61 The TSF will encourage receiving voluntary donor contributions from ADF State Participants, ADB shareholders and other development partners, including emerging state and non-state donors. Such contributions could be earmarked for a specific country and use (e.g., arrears clearance, supplemental funding or targeted support), a thematic area or areas, a dedicated program or initiative, planned or ongoing projects. It could also be used to support activities under any of the three Pillars of the TSF, including studies, advisory and advocacy activities. The process for receiving voluntary contributions will be managed by FRMB. The financial resources contributed to the TSF will be disclosed in the Financial Statements of the Bank Group, with the objective of ensuring transparency of the Facility. The TSF may also administer multi-donor programs or initiatives on behalf of donors.

3.62 A particular feature of the TSF is its ability to mobilize resources for scaling up of projects and programs initially funded through Pillar I or III. In the best cases, the conceptualization and design of Pillar III operations may anticipate the provision of additional resources by bilateral and other donors for follow-up operations that build on and incorporate the lessons and achievements of the initial Pillar III operation.

3.63 In the case of the Bank, it may allocate resources to the TSF from its net income, in accordance with Article 42 of the Agreement establishing the Bank. The process for determining allocations from the Bank’s net income starts early in the calendar year, with several review and endorsement steps/process at management and Board of Directors’ levels leading up to final approval by the Board of Governors during the Annual Meetings of the Bank. Furthermore, between Annual Meetings, the Bank may also authorize an allocation of resources from its Surplus Account. An allocation from the Surplus Account also requires the approval of the Board of Governors, which may be obtained by postal ballot. Another option which may be considered by the Bank is an allocation to the TSF to be included in the Bank’s contribution to the ADF-13 or future replenishments.

3.64 Specifically for the financing of Pillar II, additional funding sources include (i) the contribution of the beneficiary countries; and (ii) the contribution of donor countries provided towards the contribution of the beneficiary country to its arrears.

Administrative and financial management of the TSF

3.65 The TSF is managed and administered by ORTS, in partnership with FRMB. They are responsible for ensuring the proper administration, financial management and reporting of the activities of the TSF in line with commitments under each ADF replenishment.

3.66 Financial Management Issues: Resources of the TSF will continue to be segregated into the four sub-accounts of the former FSF. The segregation of TSF resources is essential since the Bank Group’s policies prohibit refinancing operations by any institution within the Bank Group.

3.67 The management of the TSF will comply with the Bank’s financial processes and procedures as follows:

i) FTRY/FFCO will manage and conservatively invest resources temporarily held in all the Pillars of the FSF in accordance with the Investment Guidelines for Thematic Funds, thus ensuring reasonable returns compatible with the TSF proposed low risk profile. GCRO, under the oversight of the Assets and Liabilities Management Committee (ALCO), will regularly monitor compliance with the investment guidelines and the FSF investment
performance. FFCO will periodically report on available resources from each Pillar of the TSF;

ii) FFCO will ensure adequate segregation of TSF resources and oversee proper management of funds in the three Pillars of the TSF;

iii) FFCO will disburse resources based on duly completed disbursement requests, provided these are approved by the relevant Departments in line with the disbursement profile agreed with the beneficiary, and subject to the rules and procedures defined in the Bank Group’s Disbursement Handbook; and

iv) Beneficiaries of the TSF shall ensure that all accounting records justifying disbursements and expenditures are kept for independent auditors and eventual audit by the Auditor General’s Department of the Bank. As for PBOs, the provisions of the PBO policy will apply.\(^{44}\)

v) ORTS, in consultation with FRMB, will initiate the request to transfer TSF resources from ADF liquidity to TSF segregated accounts following the entry into effectiveness of the ADF cycle. The request will be updated as needed to ensure timely availability of resources for country use.

vi) **Use of income earned from TSF resources:** Income earned from invested TSF resources, which are managed in separate accounts for each TSF Pillar, will be retained in the allocable pool of resources for authorized uses under the respective TSF Pillar. In the event of urgent or reasonably justifiable need, income earned from any of the three Pillars could be used to finance projects and/or advisory support activities subject to approval by management or the Boards of Directors in line with the approval authority thresholds corresponding to those proposed under para 3.55, Table 5.

vii) Provisions on allocation and utilization of resources will be updated as necessary under each ADF replenishment and ADF Mid-Term Review. Under extenuating circumstances Management may present, for consideration and approval by the Board of Directors and/or Board of Governors, a request for exceptions or amendments of certain provisions in the course of the ADF cycle.

### 4 Risk Management

**Assessing and managing risk**

4.1 All operations of the TSF shall be effectively handled within the framework of the Bank’s existing risk management framework,\(^{45}\) policies, guidelines and practices. Resources received for all the Pillars of the TSF will be managed in accordance with the Investment Management Guidelines for Fragile States Facility prepared and approved by the Bank Group’s Asset and Liability Management Committee (ALCO). The objectives of the Investment Management

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\(^{44}\) Consistent with the PBO Policy, the Bank will not audit PBO resources directly; it will rely on national auditing and reporting systems. In this regard, the Bank will use the upfront assessment of country systems, including the national audit, to inform the decision to use PBOs. The upfront assessment will be conducted as part of the Bank’s fiduciary risk assessment of PBO eligibility outlined in the CSP. Since PBOs rely on the national audit systems, measures to bolster the independence, efficiency and effectiveness of these systems can be important safeguards to mitigate fiduciary risk. Staff should however note that in the case of IS, the Financing Agreement should envisage the option for the Bank to request an audit of the expenditure on imports against a negative/positive list. Where necessary, the Bank could use the services of an external auditor, with the consent of the SAI, to verify the flow of funds into the treasury account. (p.16)

Guidelines are to ensure that the capital value of TSF’s liquidity is adequately protected and that the TSF has sufficient resources to meet its obligations.

4.2 Operations in fragile situations present special challenges of risk management across a wide range of domains: security, program, capacity, fiduciary, governance, environment, social, operations, and reputation. Complete avoidance of these risks is not possible once the Bank makes the decision to engage. The task therefore is to identify and assess the risks as much as possible, and then devise risk management strategies and treatments in each context that will optimize the benefits from engagement with measures and programs to mitigate, transfer, or strengthen the capacity to absorb/accept the identified risks across these domains. Reflecting this broader conceptualization of risk, as indicated in the Strategy, risk management for the Bank’s engagement in fragile situations will go well beyond the fiduciary risk management requirements set out above for the TSF.

4.3 The creation of the Group Risk Management Office in 2013 under the leadership of the Group Chief Risk Officer (GCRO) is the latest step of the Bank’s efforts towards the establishment of an enterprise-wide risk framework. In this framework, the “first line of defense” comprises the risk-taking business units, which are expected to fully understand the risks being taken as well as the institutional risk appetite. The “second line of defense” includes the safeguards and risk management functions, such as GCRO, which help to articulate the institution’s risk appetite and provide an independent assessment of risks being assumed. The “third line of defense” consists of control functions such as internal audit, investigations and external audit, which provide ex-post assessments of compliance, examine the adequacy of controls to mitigate risks, and deal with cases of non-compliance. The Bank recognizes that risk management is not the exclusive domain of the GCRO, instead it is “everyone’s responsibility” and an enterprise-wide concern affecting each and everyone within the organization. Coordinating and making use in time of information generated by various departments within the Bank is therefore an important aspect, for instance political risk assessments are of importance to various departments within the Bank.

4.4 ORTS will contribute to this broader process by facilitating the coordination and sharing of (sensitive) information coming from various Bank departments with a view to informing the Bank’s management in fragile situations. Initially, a standing reference group will be established that will meet physically and/or virtually to share information on risk assessments in specific countries and regions with a view to better anticipate and respond to crisis situations. It will comprise various stakeholders, notably GCRD/GORU, SECU, BCP, ORPF, RDs and EDRE.

5 Implementation, Monitoring and Evaluation, and Results Reporting

5.1 Effective implementation of the Bank’s Strategy hinges, inter alia, on the Bank’s capacity to assess and monitor issues of fragility at country and regional level, translate the findings of the analysis into strategic choices and operational designs, and adapt its institutional set-up to ensure adequate flexibility and responsiveness during implementation and making adjustments, as necessary. Annex 10 provides a summary of the proposed institutional arrangement for coordinated and coherence implementation.

5.2 The role of ORTS will be to provide intellectual leadership, expertise, operational support and quality assurance for the Bank’s engagement in fragile situations. It will oversee the implementation and operationalization of the Strategy and the management of the Transition
Support Facility. The department will prepare guidance notes to facilitate the application of the fragility-lens in the Bank’s operations and facilitate trainings to build the capacity of Bank staff on issues of fragility. It will promote the development of new tools to assess and monitor fragility, such as the Country Resilience and Fragility Assessment (CRFA), and strengthen strategic partnerships on issues of fragility.

5.3 **Building the capacity of Bank staff**, particularly in RDs, SDs and FOs is critical for the success of the Strategy. In collaboration with CHRM, ORTS has started work on a targeted multi-year training program to develop and increase the capacity of Bank staff in understanding and analyzing fragility and applying a fragility lens in the design and implementation of country or regional strategies, operations and programs, policy dialogues, and advisory and advocacy support. Given the constraints on administrative budget, ORTS is working with FRMB to mobilize additional resources from bilateral trust funds to support this important activity.

5.4 **The Bank’s performance and results** in its engagement in fragile situations will be monitored and reported regularly against the results-framework of the Strategy. As the application of the fragility-lens will be mainstreamed in the Bank’s design and reporting mechanisms, such as quality-at-entry, implementation progress, mid-term review and project completion, more information will become available to assess the Bank’s performance and results. In collaboration with ORTS, ORQR will analyze this information and produce Development Effectiveness Reviews every two years to report on the achievements, challenges and lessons learned with regard to the Bank’s engagement in fragile situations. The preparation of the Bank’s Annual Reports will be used to collect data with regards to the progress under the results-framework of the Strategy that will inform the Mid-Term Review of the Strategy in 2017.

5.5 ORTS will make regular and dedicated reports to the Board on progress in implementing the Strategy and the utilization of resources from the TSF, including an Annual Progress Report. These reports will also reflect on the Bank’s capacity, institutional set-up and culture change to effectively mainstream issues of fragility throughout its engagement, supporting a continuous and systematic learning process that is informed both by the Bank’s internal experience and evolving international good practice. In addition, ORTS will organize two informal Board seminars per year to report on the progress in implementing the strategy, the challenges and lessons learned and the outlook.

6 **Conclusions and Recommendation**

6.1 These Guidelines represent the second phase of a two-pronged process to provide the Bank with a comprehensive strategy and operational guidance for the Bank’s engagement in fragile situations. They are designed to facilitate the smooth implementation of the Bank Group Strategy on Addressing Fragility and Building Resilience in Africa (2014-2019) (ADB/BD/WP/2014/46 - ADF/BD/WP/2014/30) and the management of the TSF.

6.2 These guidelines are a “living document” that will periodically be improved and modified, as and when necessary, in response to evolving needs of RMCs and lessons learnt from the Bank’s operations and international best practice. This document does not propose changes to Pillar I and II of the Transition Support Facility and instead aims to summarize the policy changes agreed under subsequent replenishments since its establishment in 2008. As agreed under ADF-13, changes have been introduced for Pillar III concerning the eligibility, allocation process and implementation procedures to strengthen its effectiveness.
## Annex 1: The New Deal for Engagement in Fragile States

<table>
<thead>
<tr>
<th>Peace and Statebuilding Goals (PSG)</th>
<th>Support country-led transitions</th>
<th>Commitments for results</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PSG1-Legitimate politics:</strong> Foster inclusive political settlements and conflict resolution.</td>
<td>1) Fragility assessment which is country-led</td>
<td>1) Transparency in the use of domestic resources</td>
</tr>
<tr>
<td><strong>PSG2-Security:</strong> Establish and strengthen people’s security.</td>
<td>2) One vision and one plan to address the PSGs</td>
<td>2) Risk that is jointly assessed and managed for greater investment</td>
</tr>
<tr>
<td><strong>PSG3-Justice:</strong> Address injustices and increase peoples’ access to justice.</td>
<td>3) Compact to implement the one vision one plan and guide partnership</td>
<td>3) Use of country systems, building and delivering through them</td>
</tr>
<tr>
<td><strong>PSG4-Economic Foundations:</strong> Generate employment and improve livelihoods.</td>
<td>4) Use the PSGs to monitor progress</td>
<td>4) Strengthen local capacities to build peaceful states</td>
</tr>
<tr>
<td><strong>PSG5-Revenues &amp; Services:</strong> Manage revenue and build capacity for accountable and fair service delivery.</td>
<td>5) Support political dialogue and leadership for effective peace and statebuilding.</td>
<td>5) Timely and predictable aid through tailored mechanisms.</td>
</tr>
</tbody>
</table>
## Annex 2: Context-Differentiated Operational Framework for Addressing Fragility

<table>
<thead>
<tr>
<th>Increasing risk of conflict or collapse of state functions</th>
<th>Active conflict and / or prolonged crisis</th>
<th>Signs of turn-around to rebuild and reform</th>
<th>Decreasing risk and pathway to state resilience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deteriorating or persistent socio-economic inequalities that result in exclusion and marginalization of groups</td>
<td>Acute instability, violent conflict and/or political impasse</td>
<td>Post-conflict situation after peace agreement, reconstruction phase; Settlement of conflicts that has broad acceptance</td>
<td>Broadly stabilized situation</td>
</tr>
<tr>
<td>Increasing levels of violence in individual regions or in urban areas</td>
<td>Absence of legitimate government</td>
<td>Normalization of relations with key regional/ international bodies</td>
<td>Increase in government revenue, but challenge of corruption</td>
</tr>
<tr>
<td>Significant corruption and poor governance</td>
<td>Breakdown of effective administration</td>
<td>Progress in disarmament, but security issues remain</td>
<td>Signs of private sector-led job creation</td>
</tr>
<tr>
<td>Failing economic and financial management</td>
<td>IFI and/or international sanctions</td>
<td>Weak institutions that deliver services sporadically</td>
<td>Increased access to basic (urban) infrastructure and confidence in justice and security</td>
</tr>
<tr>
<td>No consensus between partners and government on development priorities</td>
<td></td>
<td></td>
<td>Improved access to external finance</td>
</tr>
</tbody>
</table>

### Strategic Approach – The role of the Bank and partners

| Focus on detecting and preventing risk – policy dialogue | Stay “at the table” through policy dialogue | Support opportunities for turnaround moments following political settlements, consider PBOs | Scale-up high-impact operations |
| Bolster voice and accountability | Use Bank’s convening role to create a platform for dialogue, advocacy and partnerships (RMC, regional institutions, partners etc.) | Promote equitable access to basic infrastructure | Facilitate private sector investments |
| Promotion of income and employment for marginalized groups (youth, women) | Provide advisory and technical support in areas of Bank’s expertise | Start long-term institutional development for public and private sector | Promote sustainable development of natural resources |
| Strengthen service delivery | Support pockets of stability, working with and through state and non-state actors and development partners, as appropriate | Support partners in advancing justice and security sector reform | Strengthen state capacity and governance |
| Review the role of the Bank’s (non-)lending engagement | Build knowledge base through assessments | Bridge critical capacity gaps and reverse brain-drain | Support private sector-led job creation |
| | | | Advance regional economic integration |
| | | | Strengthen skills development and invest in technology |

### Programming and Financing Instruments

| CSPs | Country Briefs | CSP, Country Brief, or re-engagement memorandum | CSP |
| PBA-based ADF allocations | De Facto Government Engagement guidelines | PBA-based ADF allocations | PBA-based ADF allocations |
| TSF – Pillar III | ADF support where appropriate | TSF – Pillar I & III | TSF – Pillar I & III |
| Other Bank windows – trust funds, special funds | TSF – Pillar III | TSF – Use of budget support and MDTFs | Other Bank windows – Trust Funds, special funds, ADB private sector window |
| MDTFs | MDTFs | Other Bank windows – trust funds, special funds | Other Bank windows – Trust Funds, special funds |
| Watching briefs to monitor situation | Other Bank windows – trust funds, special funds | | |
Annex 3: Approach to scaling up AfDB’s impact in fragile situations

Scaling-up the Bank’s impact means increasing the results from all AfDB’s activities in a particular country and the region to which it belongs. This is not the same as increasing AfDB financing, although more operational involvement, including finance mobilised by AfDB, may be needed to scale up. Successful scaling-up requires a strengthened response when favourable conditions emerge within agencies and sectors in RMCs.

It requires (i) taking the lead in designing, implementing and evaluating programmes and projects that are capable of being scaled up; (ii) providing staff with the knowledge and incentives to facilitate this scaling-up and to mobilise resources to support it; (iii) adapting policies and instruments geared to supporting scaling-up; and (iv) convening and forging partnerships with local and foreign actors that support well-coordinated assistance to produce results on a large scale.

With this longer-term ambition, the Bank will aim to enhance its effectiveness for scaling-up in fragile situations along seven lines:

1. **Strengthen response during re-engagement and country turnarounds.** While AfDB seldom disengages completely with a country, it can respond more rapidly and flexibly to positive changes in fragile situations. Key elements of a strengthened response include systematically preparing watching briefs for countries where AfDB is not active; adopting a faster and more flexible approach for securing Board approval for re-engagement; addressing or containing constraints to re-engagement owing to arrears and AfDB membership; and identifying a range of viable options for financing rapid response. ORTS will aim to provide surge capacity during these periods; deploying staff rapidly, including to country offices, to strengthen the Bank’s capacity to respond.

2. **Design country strategies, programmes and projects that enable scaling-up.** Country strategies should be sufficiently flexible to be able to respond quickly to new opportunities that arise. Country programmes should be designed from the outset to reach scale and contain monitoring indicators related to peace and state building as well as development. Support to institution building should be organised around solving country problems rather than transferring ‘best’ practice. Projects should be kept simple so they do not overwhelm implementing organisations, have local legitimacy/ownership and have clarity about institutional arrangements and the underlying theory of change (including any policy drivers of success and financial arrangements for scale-up and operation). Selectivity should take into account the competency and leadership of implementing agencies.

3. **Strengthen Bank instruments for scaling-up:** make use of the potential of the Transition Support Facility (TSF) to attract additional finance for scaling-up; use the unallocated reserve of Pillar I to allocate funds for scaling-up; explore new instruments (or modify existing ones) to provide additional financing for scaling up operations, including giving consideration to a results-based financing instrument and a rapid response lending instrument for turnaround situations.

4. **Enhance the effectiveness of field offices** to facilitate the scaling-up of operations and engage effectively with the government and other partners; review staff incentives to work in fragile situations; and take into account the higher costs associated with operating in fragile situations.

5. **Scale up impact through partnerships with the international community.** Seek opportunities to develop joint country analysis and programme development wherever possible, as well as knowledge sharing based on results. Explore innovative ways to co-finance interventions with other donor partners, and engage in a strategic and systematic way with pooled funding mechanisms, which are increasingly being used as a major instrument for partnership in fragile situations.

6. **Deploy the full range of Bank instruments to partner with the private sector.** The challenges of private investment in fragile situations requires the Bank to deploy the full range of Bank instruments in well-targeted and well-coordinated interventions involving sovereign and non-
sovereign debt and guarantees that also address complementary investments that go beyond the private sector, for example in education, infrastructure, secure serviced land. Capacity building for private firms in critical sectors like construction and building materials, and ensuring funding for preparation of bankable projects, should not be neglected. Scaling-up requires a consistent approach in country and sector strategies, as well as broadly strengthening the Bank’s own capacity through investment in staff training, developing a pipeline of operations, and setting targets for a more robust engagement in private sector engagement in fragile situations.

7. **Strengthen the Bank’s approach to managing the risks inherent in scaling-up.** While concentrating resources on a few programmes that are scaled up might expose the Bank to greater institutional risks (fiduciary and reputational) and programmatic risk (of programme failure), these risks can actually be lower than the sum of the risks associated with many small projects. Scaled-up programmes are associated with investment in institutions and the testing of approaches, systems and institutions that a more fragmented programme may lack. Risks associated with scaling-up can be mitigated through active risk management and sound programme design.
Annex 4: Applying the fragility-lens in operations

Objective: As a key element of the Bank’s Strategy 2014-2019, the objective of the fragility-lens is to ensure that the findings of fragility assessments are effectively applied in the design of Bank strategies and operations in fragile contexts.

Application of a fragility-lens: What does it entail? The application of a fragility-lens in the Bank’s engagement refers to “using a range of analytical tools that assess and monitor the drivers and manifestations of fragility, their interactions, the political economy behind changes and the role of the Bank”. For this purpose, the Bank is introducing watching briefs, country and regional fragility/transition risk assessments, and operational checklists and toolkits to inform the Bank’s engagement in fragile situations.

The application of the fragility-lens entails identifying entry points for programs to address, mitigate, or adapt to drivers of fragility as well program/project areas that can have the greatest impact in building resilience. The evolution of international policy on fragility has generated broad support for the concept of the fragility-lens, which was based on the “Do No Harm” concept and has been elaborated over the past decade. A three-stage process will be piloted under the Bank’s Strategy 2014-2019 to ensure that the Bank’s operations take into consideration fragile situations through: (i) integration of an additional objective and (proxy) indicators that will address the expected impact of the operations on the drivers of fragility; (ii) implementation progress reports and mid-term reviews that will assess the program/project’s performance with regard to addressing drivers of fragility and building resilience, identify needs for adaptation and potential for scaling-up; and (iii) completion and evaluation reports that will assess the program/project’s impact and lessons learned in addressing fragility and building resilience.

Criteria for a fragility-sensitive operation. The fragility lens should be applied to all projects/programs in fragile situations. This includes projects that are financed under TSF Pillar I as well as those not financed by TSF but operating in fragile contexts. A fragility-sensitive project is a project that satisfies the following criteria:

i. Being informed by an analysis of fragility issues at the regional/country/project level that considers the drivers and dynamics of fragility, the key actors, geographical locus of fragility internal and external risks (and opportunities), and sources of resilience
ii. Having a clear objective indicating how the operation contributes to the reduction of fragility and/or building resilience
iii. Having activities/components addressing one or more of the key dimensions of fragility in the country:
iv. Clear indicators that is informed by the analysis in (i)

The criteria provide the necessary elements to ensure that the project/program design is responsive to the drivers of fragility and they are initially applicable to all operations in fragile situations.

Criterion 1.1 - Fragility analysis

Fragility analysis is crucial for designing, planning, implementing and evaluating projects/programmes. Such an analysis should be an integral part of the project cycle management. A fragility analysis preferably tailored to the project or sector is an important aspect of having a fragility-sensitive project design and the basis of all other criteria. The principal purpose of the analysis is to apply the findings of the overall fragility assessment to the specific sector/project/program and to ensure that they inform the design and implementation of the project/program. In each case, the analysis should be informed by the country’s

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48 For this purpose, fragile situations are defined as countries in Categories 1 and 2 and during ADF 13 in the four focus regions (Great Lakes and Central Africa Region, Horn of Africa, Mano River Union, and Sahel).
fragility assessment that underpins its country strategy papers (CSPs). Fragility assessments should be conducted prior to the CSP development, if possible. Drawing on the fragility assessment, the project-level fragility analysis should advise on the risks that the project or program may exacerbate fragility as well as the opportunities that may be available to address fragility issues at the operational level.

Including fragility experts (staff or consultants) in the design team and partnership with sources of relevant expertise are the best ways to ensure a relevant and useful fragility analysis. While a brief summary of the analysis should be presented in the main document of the project appraisal report, a detailed fragility analysis should be prepared as background and be reflected in the technical annex.

Criterion 1.2 - Having a clear objective
The project/program design should clearly articulate how the project/program would address the identified fragility issues based on the country fragility assessment, the approach taken towards fragility in the overall country/regional strategy, and the analysis done for the specific project context. It should discuss ways that potential harm might be mitigated or avoided through adjustments to project design and/or ways that the project may be designed to help build resilience. Costed trade-offs among design alternatives can be a useful part of such context-specific analysis. Common issues of concern may include group-based inequalities that deter people from access to economic, social or political opportunities, resources or services; weaknesses in governance or conflict-resolution systems that may undermine perceptions of the equity of public services; capacity gaps that need to be addressed; and developments in the local, national, or regional social or political environment that may affect project success, including if necessary (and in partnership with relevant competent agencies) security dimensions.

This specifically applies to fragility focused projects/programs, while in fragility sensitive projects/programs, having specific activities or components with clear indicators might be sufficient depending on the context

Criterion 1.3 - Linking activities/components to one or more of the key dimensions of fragility in the country
The project/program design should be effectively linked through its components and/or activities/measures targeted at addressing some of the drivers of fragility identified in the fragility analysis. The understanding of the root causes of fragility should be an important component in directing the structure and scope of the project/program activities. The fragility drivers vary widely by country and in various regions but some of the common entry points would be on issues related to capacity development, social inclusion, youth unemployment, management of natural resources and extractive industries, governance (transparency and accountability), gender equality interventions, etc. Close consultations with the target beneficiaries are essential to determine the relevant activities. Specific activities may help address root causes, build effective capacity to manage fragility, or tackle symptoms to contain problems in conjunction with longer-term strategies and programs. The key activities must be mentioned in the description of project/program components.

Criterion 1.4 - Specification of fragility sensitive indicators
Fragility sensitive indicators should be included in the log frame to measure the corresponding results articulated in project/program appraisal reports. The indicator must be able to measure the intended change specified in the results statement and show clear targeting for beneficiaries by sex and age where applicable.

Implementation Modalities: The fragility lens criteria will be included in the Readiness Review Filter and used to review Board approved programs/projects in order to monitor the Bank’s key performance indicator (KPI) (to be established) on fragility, which determines the level of responsiveness of the Bank operations to fragility.
Annex 5: Multi-Donor Trust Funds

Multi-donor Trust Funds (MDTFs) are important instrument of assistance, particularly in fragile situations as demonstrated in the case of Zim-Fund. By pooling resources within a single umbrella, MDTFs offer various advantages. At the same time, enough experience has been gained with MDTFs in fragile situations to identify a number of key challenges, lessons, and success factors that should be taken into account in considering their use. Key challenges include:

- **Initial transaction costs.** These can be considerable financially and in terms of the time and effort needed to coordinate among stakeholders to set up the MDTF. High expectations for the launch of assistance as well as in some cases the urgency of the situation may conflict with the need to establish the governance and administrative processes that are needed to provide benefits over time.

- **Country ownership.** Although a single channel of dialogue offers the potential for more effective communication, if not accompanied by leadership that prioritizes country ownership, the risks of a donor-driven program may remain high, especially in fragile situations where effective country leadership has not yet been established. Incorporating specific processes for country involvement at various levels, and funded programs of targeted capacity-building for program management can help address this challenge.

- **Contextualization.** Adapting the priorities and processes of the MDTF to the specific context is important, given the wide range of situations. Security considerations may need to take priority in some cases (e.g. Somalia) while the need for having in place essential infrastructure for the MDTF to operate on the ground may need to take precedence in others (e.g. South Sudan).

- **Participation.** In view of the variety of donor processes, priorities, policies, and interests, garnering a critical mass of donor participation is challenging, but essential if the benefits of aligning behind a coherent program, improved ownership, and lower transaction costs are to be realized. High-level advocacy, leadership, and political pressure may be needed to boost participation.

The use of MDTFs needs to take place in the context of the Bank’s overall approach to trust funds. Encouragement for making greater use of MDTFs is part of the Bank’s Trust Fund Policy approved by the Board in 2006, which was evaluated by OPEV in 2013. The evaluation saw the resort to MDTFs as an improvement over earlier use of bilateral trust fund, especially if tied, and encouraged their further use. Nonetheless, it also acknowledged that start-up has costs, including time to negotiate and initially longer times between appraisal and effectiveness and effectiveness to first disbursement, and stressed the importance of explicit and early Management consideration of implementation and reputational issues in each case. When evaluating the potential for establishing new trust funds, due consideration needs to be given to the risk of fragmentation of Bank assistance and internal responsibility and capacity for trust fund management.

Bearing the above considerations in mind, Bank staff are strongly encouraged to consider the use and role of MDTFs in preparing country and regional strategies and operations. TSF (as well as regular PBA resources) resources may be used to participate in MDTFs provided that they are in support of programs aimed at addressing the key drivers of fragility as identified in fragility assessments. At the same time, the TSF itself may be considered a form of MDTF as it may mobilize resources from other traditional and non-traditional donors to support programs in fragile situations.

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## Annex 6: Overview of financing sources for the Bank’s engagement in fragile situations

<table>
<thead>
<tr>
<th>Resources/Instruments</th>
<th>Description</th>
<th>Focal point</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADB</td>
<td>African Development Bank (ADB) resources, which are generally obtained through capital market borrowings, are used to provide loans to its Regional Member Countries (RMCs) on non-concessional terms. In addition, resources from this window are used to support private sector projects in all RMCs through direct loans, lines of credit, equity participations, and guarantees to financially sound and viable private enterprises, and multinational projects that support regional integration. The resource allocation for ADB-only (Category C) and Blend Countries (Category B) from ADB resources is determined by the Financial Management Department (FFMA), which determines individual Country exposure limits.</td>
<td>FFMA</td>
</tr>
<tr>
<td>ADF</td>
<td>The resources of the African Development Fund (ADF) are replenished every 3 years from contributions of ADF State Participants and donor countries and resources generated internally by the Bank Group. ADF resources are used to provide concessional loans and grants to the least-developed countries (LDCs) in Africa. Allocation from ADF resources is determined by the department responsible for Resource Mobilization and External Finance (FRMB), through the Performance-Based Allocation (PBA) process and the Transition Support Facility (TSF).</td>
<td>FRMB</td>
</tr>
<tr>
<td>Transition Support Facility</td>
<td>The TSF was established in 2008 (under the name Fragile States Facility) using ADF-11 resources, and it has traditionally been replenished with each ADF replenishment. However, the Facility is designed to mobilize additional resources and voluntary contributions from donors or third parties. The TSF provides support to eligible countries through three Pillars (see section on TSF). From the TSF, only the resources of Pillar I are allocated to countries. Pillar I resources are allocated upfront, and in full, to beneficiaries at the beginning of each ADF cycle.</td>
<td>ORTS</td>
</tr>
<tr>
<td>Nigeria Trust Fund</td>
<td>The Nigeria Trust Fund (NTF) is a special fund administered by the Bank. Its resources are provided entirely by the Federal Republic of Nigeria under an Agreement signed with the Bank. NTF resources can co-finance operations with the ADB and the ADF, as well as fund stand-alone operations, in both the public and the private sector. The NTF only provides concessional loans. Proposals concerning the poorest ADF countries, countries with small ADF allocations, and fragile states are particularly encouraged.</td>
<td>FRMB</td>
</tr>
<tr>
<td>Regional Operations Framework</td>
<td>Regional Operations (ROs) are defined as those which have a “regional character”, i.e., the operations must involve costs and/or benefits in at least two participating countries and require the involvement of all participating countries to achieve its objectives. Furthermore, the operation should clearly contribute to regional economic integration and/or the provision of regional public goods. Standard multiplier of the RO envelope to PBA allocation from participating countries is 1.5 times for ADF countries. However, countries eligible for Pillar I of the TSF are able to leverage up to a ratio of 1:2. These states are also able to use their Pillar I allocations to leverage funding from the RO envelope. Countries with small PBA allocations are required to contribute at least 40% of project costs up to 10% of their PBA for each regional project.</td>
<td>ONRI</td>
</tr>
<tr>
<td>African Legal Support Facility</td>
<td>The ALSF has the aim of ensuring fair and balanced negotiations between African countries and their investors and creditors by providing legal assistance to strengthen legal expertise and negotiating capacity in debt management and litigation; natural resources and extractive industries management and contracting; investment agreements; and related commercial and business transactions.</td>
<td>ALSF</td>
</tr>
</tbody>
</table>
### Co-financing agreements

The Bank currently has several bilateral co-financing agreements with individual development partners including China, Japan and Korea, among others. The Enhanced Private Sector Assistance for Africa (EPSA) with Japan has a co-financing component called Accelerated Co-financing Facility for Africa (ACFA). ACFA provides joint and parallel project financing with JICA on concessional terms to support the development of infrastructure. The Economic Development Cooperation Fund (EDCF) with Korea also provides joint and parallel co-financing for Bank’s projects. The Africa Growing Together Fund (AGTF) is a co-financing arrangement with China to complement Bank’s resources through AfDB window for sovereign and non-sovereign operations.

### Other Trust Funds and Facilities

**Thematic Trust Funds**

- Africa Climate Change Fund (ONEC)
- Africa Trade Fund (ONRI)
- African Community Practice (ORQR)
- African Water Facility (OWAS)
- Agriculture Fast Track Fund (OSAN)
- Climg-dev Fund (OSAN)
- Congo Basin Forest Fund (OSAN)
- Fund for African Private Sector Assistance (OPSM)
- Global Environment Facility - ONEC
- Global Strategy to improve agr & rural stats (ESTA)
- Governance Trust Fund (FRMB-OSGE)
- Infrastructure Consortium for Africa (ICA)
- Making Finance Work for Africa (OFSD)
- MENA Trust Fund (ORNA)
- Microfinance Capacity Building Fund (OSHD)
- Migration and Development Initiative Fund (OSHD)
- Multi-donor Water Partnership Programme (OWAS)
- NEPAD Infra Project Preparation Facility (ONRI)
- Rural Water Supply and Sanitation Initiative (OWAS)
- South South Cooperation Trust Fund (FRMB)
- Special Fund for the Great Lakes Region (ORNI)
- Sustainable Energy Fund for Africa (ONEC)
- Trust Fund for Countries in Transition (ORNA)
- Value for Money in Social Sectors (OSHD)
- Zimbabwe MDTF (SARC/ZWFO)

**Bilateral Trust Funds**

- Canada
- China
- Finland
- France
- India
- Italy
- Japan
- Korea
- Nigeria
- Norway
- Portugal
- Sweden
- Switzerland
- UK

FRMB
Annex 7: Transition Support Facility during ADF-13

Table 7-I: TSF Resources for the ADF-13 period (2014-2016), UA million

<table>
<thead>
<tr>
<th></th>
<th>Pillar I</th>
<th>Pillar II</th>
<th>Pillar III</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADF-13 resources</td>
<td>571.77</td>
<td>30.00</td>
<td>60.00</td>
</tr>
<tr>
<td>Unused ADF-12 balances</td>
<td>19.12</td>
<td>362.29</td>
<td>4.50**</td>
</tr>
<tr>
<td><strong>Total available resources</strong></td>
<td><strong>590.89</strong></td>
<td><strong>392.29</strong></td>
<td><strong>64.50</strong></td>
</tr>
<tr>
<td>Uses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Country allocations:</td>
<td>531.16</td>
<td></td>
<td>AILSF: 16.00</td>
</tr>
<tr>
<td>Unallocated reserve:</td>
<td>59.72</td>
<td></td>
<td>Unallocated: 44.00*</td>
</tr>
</tbody>
</table>

Notes: *The unused balance is expected to be used under ADF-13 by the same countries to which it was allocated under ADF-12. **For Pillar III, the unused balance comes from ADF-11 as there were no allocations under ADF-12.

TSF Pillar I Resource allocation process: Pillar I resources are allocated upfront, and in full, to beneficiaries upon approval by the Board of Directors. Allocations are calculated based on the average of the two highest 3-year PBA basic allocations received by the country during the previous ADF cycle (the minimum allocation is excluded from the calculation). A top-up multiplier of 2 (1.5 for third cycle recipients excluding pre-arrears clearance and newly engaging countries) is applied to this average.

Next, for countries benefitting from a third cycle of assistance, a set of parameters and associated discount rates are applied to gradually phase out TSF Pillar I support, including: (i) average World Bank/African Development Bank CPIA score to measure performance against the agreed fragility benchmark of 3.3 (i.e. 10 percent discount on gross Pillar I allocation if a country has a CPIA score greater than 3.3); (ii) Gross National Income per Capita on Purchasing Power Parity basis (20 percent discount if greater than USD 500 and 30% discount if greater than USD 1000); (iii) length of reengagement, including pre-TSF engagement under the Post Conflict Country Facility (30 percent discount if greater than 6 years).

A minimum supplemental allocation of UA 10 million and a maximum UA 60 million are set per country. Such limits can be increased if additional voluntary donor contributions materialize.  

Table 7-II: Calculation of Pillar I during ADF-13 discussions, applying updated discount and top-up factors*

<table>
<thead>
<tr>
<th>Country</th>
<th>&quot;High 2&quot; ADF-12 Basic Allocation</th>
<th>2012 CPIA (AfDB/WB harmonized) greater than 3.30</th>
<th>Applied discount (10%)</th>
<th>GNI per capita, PPP (current international) as of 2011</th>
<th>Applied discount</th>
<th>Year of re-engagement (enhanced support): Length in 2014 greater</th>
<th>Applied discount</th>
<th>Total Applied Discount (%)</th>
<th>Applied top-up factor X2 &amp; X1.5</th>
<th>Allocation with top-up factor, X2 &amp; X1.5</th>
<th>After discount</th>
<th>FSF Pillar I Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Burundi</td>
<td>42.36</td>
<td>3.30</td>
<td>10</td>
<td>586.67</td>
<td>20</td>
<td>2004</td>
<td>30</td>
<td>60</td>
<td>1.5</td>
<td>63.55</td>
<td>25.42</td>
<td>25.42</td>
</tr>
<tr>
<td>Central African Republic</td>
<td>19.78</td>
<td>2.80</td>
<td>0</td>
<td>783.33</td>
<td>20</td>
<td>2006</td>
<td>30</td>
<td>50</td>
<td>1.5</td>
<td>29.67</td>
<td>14.84</td>
<td>14.84</td>
</tr>
<tr>
<td>Comoros</td>
<td>6.01</td>
<td>2.55</td>
<td>0</td>
<td>1,096.67</td>
<td>30</td>
<td>2007</td>
<td>30</td>
<td>60</td>
<td>1.5</td>
<td>9.02</td>
<td>3.61</td>
<td>10.00</td>
</tr>
<tr>
<td>Congo DRC</td>
<td>216.86</td>
<td>3.00</td>
<td>0</td>
<td>280.00</td>
<td>0</td>
<td>2004</td>
<td>30</td>
<td>30</td>
<td>1.5</td>
<td>325.29</td>
<td>227.71</td>
<td>60.00</td>
</tr>
<tr>
<td>Cote d'Ivoire</td>
<td>76.26</td>
<td>3.10</td>
<td>0</td>
<td>1,760.00</td>
<td>30</td>
<td>2009</td>
<td>0</td>
<td>30</td>
<td>1.5</td>
<td>114.39</td>
<td>80.07</td>
<td>60.00</td>
</tr>
<tr>
<td>Guinea-Bissau**</td>
<td>11.1</td>
<td>2.70</td>
<td>0</td>
<td>1,216.67</td>
<td>20</td>
<td>2004</td>
<td>20</td>
<td>40</td>
<td>2.0</td>
<td>22.19</td>
<td>13.32</td>
<td>13.32</td>
</tr>
<tr>
<td>Liberia</td>
<td>38.92</td>
<td>3.40</td>
<td>10</td>
<td>483.33</td>
<td>0</td>
<td>2007</td>
<td>30</td>
<td>40</td>
<td>1.5</td>
<td>58.38</td>
<td>35.03</td>
<td>35.03</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>32.94</td>
<td>3.33</td>
<td>10</td>
<td>1,056.67</td>
<td>30</td>
<td>2004</td>
<td>30</td>
<td>70</td>
<td>1.5</td>
<td>49.42</td>
<td>14.83</td>
<td>14.83</td>
</tr>
<tr>
<td>South Sudan**</td>
<td>10.97</td>
<td>2.20</td>
<td>0</td>
<td>2,050.00</td>
<td>0</td>
<td>N/A</td>
<td>0</td>
<td>0</td>
<td>2.0</td>
<td>157.63</td>
<td>157.63</td>
<td>60.00</td>
</tr>
<tr>
<td>Sudan</td>
<td>78.81</td>
<td>2.48</td>
<td>0</td>
<td>1,000.00</td>
<td>20</td>
<td>2008</td>
<td>0</td>
<td>20</td>
<td>1.5</td>
<td>49.59</td>
<td>39.68</td>
<td>39.68</td>
</tr>
<tr>
<td>Togo</td>
<td>33.06</td>
<td>3.10</td>
<td>0</td>
<td>1,000.00</td>
<td>20</td>
<td>2008</td>
<td>0</td>
<td>20</td>
<td>1.5</td>
<td>49.59</td>
<td>39.68</td>
<td>39.68</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>22.46</td>
<td>2.16</td>
<td>0</td>
<td>N/A</td>
<td>0</td>
<td>N/A</td>
<td>0</td>
<td>0</td>
<td>2.0</td>
<td>44.91</td>
<td>44.91</td>
<td>44.91</td>
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<tr>
<td>Total current eligibility list</td>
<td>589.55</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>945.99</td>
<td>678.97</td>
<td>399.96</td>
<td>399.96</td>
</tr>
<tr>
<td>Somalia</td>
<td>5.6</td>
<td>1.20</td>
<td>0</td>
<td>N/A</td>
<td>0</td>
<td>N/A</td>
<td>0</td>
<td>0</td>
<td>2.0</td>
<td>11.2</td>
<td>11.2</td>
<td>11.2</td>
</tr>
<tr>
<td>Mali</td>
<td>152.99</td>
<td>3.70</td>
<td>0</td>
<td>1,013.33</td>
<td>0</td>
<td>2014</td>
<td>0</td>
<td>0</td>
<td>2.0</td>
<td>305.98</td>
<td>305.98</td>
<td>60.00</td>
</tr>
<tr>
<td>Madagascar</td>
<td>72.95</td>
<td>3.10</td>
<td>0</td>
<td>940.00</td>
<td>0</td>
<td>2014</td>
<td>0</td>
<td>0</td>
<td>2.0</td>
<td>145.91</td>
<td>145.91</td>
<td>60.00</td>
</tr>
<tr>
<td>Revised list - Total</td>
<td>821.09</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,409.08</td>
<td>1,142.06</td>
<td>531.16</td>
<td>531.16</td>
</tr>
</tbody>
</table>

Notes: *As agreed during the second ADF-13 meeting, revised discount and top-up factors have been applied to calculate Pillar I allocations. Specifically, (i) an additional discount of 10% on the gross Pillar I country allocation for third-cycle recipients (excluding countries in arrears), and an additional 10% discount on allocations for countries whose GNI per capita (on a Purchasing Power Parity basis) is greater than US$ 1,000; and (ii) Pillar I top-up multiplier of 1.5x for third cycle recipients excluding pre-arrears clearance and newly engaging countries.

**Guinea-Bissau is treated as second cycle recipient due to suspension of Bank operations following the application of de facto govt status in 2012-2013, (i.e. "lost years"). So 20% discount on length of engagement (~2 years), no additional 10% discount on GNI > 1000, and top-up factor of 2.

***For Sudan, no phase-out discount applied because situation has not been normalized yet. Guinea was subsequently found eligible for Pillar I support based on a targeted qualitative assessment.
Table 7-III: Country Allocations of TSF Pillar I

<table>
<thead>
<tr>
<th>Country</th>
<th>ADF-12</th>
<th>3 Year Total Allocation - PBA and Supplemental Financing</th>
<th>ADF-13</th>
<th>3 Year Total Allocation - PBA and Supplemental Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Burundi</td>
<td>57.23</td>
<td>93.27</td>
<td>25.42</td>
<td>64.75</td>
</tr>
<tr>
<td>CAR</td>
<td>26.43</td>
<td>43.16</td>
<td>14.84</td>
<td>29.84</td>
</tr>
<tr>
<td>Comoros</td>
<td>10.00</td>
<td>15.38</td>
<td>10.00</td>
<td>25.00</td>
</tr>
<tr>
<td>Congo DRC</td>
<td>60.00</td>
<td>249.26</td>
<td>60.00</td>
<td>331.93</td>
</tr>
<tr>
<td>Guinea-Bissau</td>
<td>12.51</td>
<td>19.76</td>
<td>13.32</td>
<td>28.32</td>
</tr>
<tr>
<td>Liberia</td>
<td>52.43</td>
<td>91.66</td>
<td>35.03</td>
<td>52.82</td>
</tr>
<tr>
<td>Madagascar</td>
<td>-</td>
<td>61.95</td>
<td>60.00</td>
<td>109.36</td>
</tr>
<tr>
<td>Mali</td>
<td>-</td>
<td>110.32</td>
<td>60.00</td>
<td>114.79</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>28.71</td>
<td>55.00</td>
<td>14.83</td>
<td>34.84</td>
</tr>
<tr>
<td>Somalia</td>
<td>-</td>
<td>5.01</td>
<td>11.20</td>
<td>26.20</td>
</tr>
<tr>
<td>South Sudan</td>
<td>17.03</td>
<td>33.90</td>
<td>21.94</td>
<td>36.94</td>
</tr>
<tr>
<td>Sudan</td>
<td>22.97</td>
<td>77.16</td>
<td>60.00</td>
<td>115.98</td>
</tr>
<tr>
<td>Togo</td>
<td>41.51</td>
<td>63.42</td>
<td>39.68</td>
<td>54.68</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>16.21</td>
<td>33.69</td>
<td>44.91</td>
<td>59.91</td>
</tr>
<tr>
<td>Total</td>
<td>404.94</td>
<td>900.09</td>
<td>531.17</td>
<td>1,198.32</td>
</tr>
</tbody>
</table>

Notes: UA 60 million and UA 10 million refer to the cap and floor respectively.
For ADF-12, PBA refers to the total PBA resources allocated to the country. For ADF-13, PBA is the indicative amount of PBA resources that the country will receive for the entire cycle.
TSF pillar I resources will be available only after Board of Directors approval of country eligibility during CSP examinations or following CSP addendums.
Guinea was added as eligible recipient for Pillar I resources based on a qualitative assessment. The allocation for ADF-13 was set at UA 25 million.
Annex 8: Assessment of Country Capacity to Pay for Arrears Clearance

1. The originally agreed PCCF Burden sharing arrangements incorporated a case by case approach to allow flexibilities in determining burden sharing as between the Bank Group, the donor community and the country itself. On the basis of a review of experience under the PCCF, the Executive Board requested that Management develop a more systematic and quantitative methodology to assess country ability to pay, while also reaffirming the importance of individual country circumstances in determining appropriate final arrangements.

2. This note proposes a revised approach to arrears clearance burden sharing and, specifically, to the assessment of country capacity to pay. The intent is for the indicators presented below to be a framework, a set of guideposts within which Management and Board would exercise judgment on a case by case basis.

3. Under this approach, it will also be possible for other donors to make contribution towards the country portion of the burden share on a voluntary basis

Indicators

4. **Country capacity to pay: all external arrears / Government Revenues**
   - Arrears clearance operations pave the way to debt relief (HIPC, MDRI, Paris Club and non-Paris Club cancellations) where an agreed share of the country’s debt will be forgiven. Other preferred creditors are also implementing arrears clearance strategies, in close coordination with the Bank.
   - “All external arrears” captures the amount which must be financed, while “Government Revenues” captures the financial resources potentially available for that purpose.

5. **Ability to generate financial resources: Current Account / GDP**
   - This indicator broadly captures the country’s present ability to generate foreign exchange resources; it does not depend on the performance of the revenue collection systems in place.

6. **Needs and competing demands: GDP / Capita**
   - The scale of the poverty challenge also needs to be recognized in considering the range of options available to meet debt and debt service obligations.
   - GDP/capita is the most commonly available aggregate to measure that need.

7. **Source of Data**
   Data were gathered from the Bank’s Data Platform as follows:
   - Common source, to avoid methodological discrepancies
   - Time series of year of arrears clearance to ensure comparability

8. **Composite score computation**
   - Thresholds are set for each indicator, to introduce a point system (see table)
   - For each country, points are attributed for each indicator and summed
   - The aggregate score determines the range of country contribution

9. **Range of Country Contributions**
   - Country contributions are set in ranges to allow additional flexibility when circumstances warrant it, while satisfying the comparable treatment requirement for countries with common characteristics.
Annex 9: Annotated Format for Preparing the Arrears Clearance Document

I. Introduction

II. Context for Re-engagement

- Socio-economic context and progress in resolving the conflict - brief
- Assessment of the readiness to re-engage
- Activities of the IFIs and international community in the country – summary of the reengagement programs of the other players including arrears clearance operations and joint trigger for re-engagement.
- HIPC debt relief perspectives – early assessment of debt sustainability and the possible timeline for HIPC decision point.
- Brief Summary of the country’s post-conflict recovery program, including the identified priority areas of support.

III. Country Qualification

- Eligibility criteria

IV. Proposed Arrears Clearance Program

- Arrears to the Bank – Summarized analysis of the size and structure of the country’s arrears to the Bank
- Proposed arrears clearance operations – description of the proposed arrears clearance program, including sources of financing, conditions, and timetable.
- Outlook for Resumed ADF Assistance – Overview of proposed assistance strategy and the outlook for positive net transfers.

V. Conclusion and Recommendations

- Recommendations – proposed grant from the FSF

Proposed Annexes

Annex 1: Country Bank Group Debt Service Track Record – analysis of all debt payments made by the country from the reference date
Annex 2: Country Resource Outlook – Balance of Payments analysis
Annex 3: Country Debt Sustainability Analysis – Analysis of the country’s debt structure including arrears
Annex 4: Country Arrears to the Bank
Annex 5: Country Future Bank Group Debt Service – Analysis of the projected new maturities due to the Bank Group
Annex 6: Country Arrears Clearance program
Annex 10: Summary of Bank-Wide Institutional Arrangements

<table>
<thead>
<tr>
<th>Identifying countries and regions according to the degree of fragility</th>
</tr>
</thead>
<tbody>
<tr>
<td>The process of classifying countries and regions into three categories based on identified criteria (see para 2.9) will be led by ORTS in close consultation with RDs and field offices. The list will be updated annually and as circumstances require.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Assessing fragility at country and regional level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depending on the classification of the country and region, the depth and scope and the responsibilities of carrying out the assessments will vary (see para 2.11 to 2.24). With a view to meeting the Bank’s ambition as articulated in the Strategy that its engagement in all RMCs is informed by an assessment of issues of fragility, ORTS, RDs, SDs and ECON will coordinate closely to ensure that the various fragility products are produced in a timely manner and meet the requirements of the Bank.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Applying the fragility-lens to strategies and operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>ORTS will provide oversight and guidance to RDs and SDs to ensure that the Bank’s strategic and operational engagement addresses fragility and build resilience.</td>
</tr>
<tr>
<td>Strategies: While the RDs with the support of COSP will be responsible for preparing the documents and thereby integrating the findings from the fragility assessments, the role of ORTS will depend on the degree of fragility of the country. (see para 2.27 to 2.29)</td>
</tr>
<tr>
<td>Operations: While SDs will be responsible for applying a fragility-lens to the design of operation, ORTS will provide support along the preparation process and review how issues of fragility are addressed. The fragility-lens will be integrated and mainstreamed into the Bank’s Quality-at-Entry mechanisms in close collaboration with EDRE, ORQR, and RDs. (see para 2.30 to 2.36)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Engaging and implementing effectively in fragile situations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fragile situations are characterized by their volatile and dynamic environments that require continuous monitoring and adaptation to mitigate risks and support turnarounds.</td>
</tr>
<tr>
<td>Monitoring of fragility issues: RDs will be responsible for monitoring at country and regional level and updating fragility assessments on a regular basis. Emphasis will be placed on the implications of any update to the Bank’s strategic and operational engagement in the country and region. (see para 2.38)</td>
</tr>
<tr>
<td>Adapting strategies and operations: RDs will be responsible for carrying out CPPRs, MTRs and PCRs of programming documents and SDs for IPRs, MTRs and PCRs for individual Bank-funded operations. Emphasis will be placed on reviewing the Bank’s engagement vis-à-vis the fragility context, generate lessons learned and assess the potential for scaling-up the Bank’s development impact. ORTS will participate in these processes in line with the degree of fragility of the country and region. (see para 2.39 to 2.41)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Mobilizing resources and leveraging financing instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transition Support Facility: FRMB will establish a network of focal points in partner organizations, promoting the flexible nature of the TSF that positions it as the Bank’s primary instrument for attracting, coordinating and aligning funds for engagement in fragile situations. (see para 2.44)</td>
</tr>
<tr>
<td>Pipeline of operations: ORTS, in consultation with ORVP, will continuously track the Bank’s Indicative Operational Programme (IOP) for fragile situations to facilitate planning and resource mobilization. (see para 2.45)</td>
</tr>
<tr>
<td>Engaging the private sector: Close coordination between OPSM, FSD, ORTS, RDs and SDs is necessary with a view to deploying the full range of Bank instruments in well-targeted interventions involving sovereign and non-sovereign debt and guarantees that also address complementary investments that go beyond the private sector, for example in education and infrastructure. (see para 2.46)</td>
</tr>
<tr>
<td>MDTFs: RDs, ORTS and FRMB will collaborate to assess the potential of participating in and/or setting up MDTFs in fragile situations.</td>
</tr>
</tbody>
</table>
Managing the Transition Support Facility (TSF)

The TSF is managed and administered by ORTS, in partnership with FRMB. They are responsible for ensuring the proper administration, financial management and reporting of the activities of the TSF in line with commitments under each ADF replenishment.

Eligibility to the TSF: Under each ADF replenishment cycle, ORTS in consultation with FRMB will establish a list of ADF-only countries potentially eligible for assistance from the TSF that will be updated at least annually based on a number of criteria.

Pillar I: FRMB, in consultation with ORTS, will be responsible for determining initial country allocations of Pillar I resources. As for the unallocated reserve, ORTS will be responsible for preparing the recommendations to the Board, in consultation with FRMB. RDs will ensure that eligibility assessments are included in programming documents for Board approval.

Pillar II: RDs have overall responsibility for processing arrears clearance operations in countries falling under their purview. This activity will be coordinated with ORTS, GECL, GCRO, FFMA, FRMB, FFCO, and OSGE. ORTS will monitor the overall utilization of Pillar II and the situation of eligible and potentially eligible countries in coordination with RDs, while FFCO will provide the latest data and projections.

Pillar III: General oversight and management of Pillar III resources will be under the responsibility of ORTS.

Indirect support: Pillar III provided a grant to the ALSF that will be administered by the ALSF under its own procedures. ORTS will coordinate with ALSF the work program and activities to be financed under this grant. (see para 3.47 to 3.48)

Direct support: To determine the allocation and commitment of Pillar III resources ORTS will initiate a call-for-proposals process in the first quarter of each year. RDs and SDs will be eligible to submit proposals with priority for the target sectors, regional programs, and country engagements. ORTS will evaluate proposed programs against the Pillar III objectives and priorities. Implementation and management of the projects will be the responsibility of the relevant sector departments, with the exception of the technical advisory services (TAS) envelop that will be under the responsibility of ORTS.

Administrative and financial management: FTRY and FFCO will ensure in partnership with ORTS and FRMB that the management of the TSF will comply with the Bank’s financial processes and procedures.

Assessing and managing risk

Risk management: The Bank recognizes that risk management is not the exclusive domain of the Group Chief Risk Officer (GCRO), instead it is an enterprise-wide concern affecting each and everyone within the organization. ORTS will contribute to this broader process by facilitating the coordination and sharing of (sensitive) information coming from various Bank departments with a view to informing the Bank’s management in fragile situations. Initially, a standing reference group will be established that will comprise the main stakeholders, notably GCRD, SECU, BCP, ORPF, RDs and EDRE.

Monitoring, Evaluation, Results and Reporting

Development effectiveness: The Bank’s performance and results in its engagement in fragile situations will be monitored and reported regularly against the results-framework of the Strategy, in the Bank’s Annual Reports and Development Effectiveness Reviews, independent evaluations and Annual Progress reports by ORTS. ORQR, ORTS and IDEV will therefore be key to ensuring that the Bank adequately assesses, reports and feeds back the Bank’s progress in implementing the Strategy.
Annex 11: The Results Framework for Engagement in Fragile Situations

### Table 1: What development progress are countries in Fragile Situations making (Level 1)

This table summarises the development progress between 2010 and 2013.

- **Progress is strong and better than peers:**
- **Progress is positive but less than peers:**
- **Regression against the baseline:**
- **Data are not available to measure progress.**

<table>
<thead>
<tr>
<th>PROMOTING INCLUSION AND ACCESS TO SERVICES AND MARKETS</th>
<th>ALL AFRICAN COUNTRIES</th>
<th>FRAGILE SITUATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>BASELINE 2010</td>
<td>LATEST 2013³</td>
</tr>
<tr>
<td>GDP per capita (USD)</td>
<td>1,182</td>
<td>1,213</td>
</tr>
<tr>
<td>Population living below the poverty line (%)</td>
<td>42</td>
<td>42</td>
</tr>
<tr>
<td>Income inequality (Gini index)</td>
<td>42</td>
<td>42</td>
</tr>
<tr>
<td>Unemployment rate (%)</td>
<td>10.6</td>
<td>11.3</td>
</tr>
<tr>
<td>Violence Against Women</td>
<td>...</td>
<td>43</td>
</tr>
<tr>
<td>Food insecurity (% of population)</td>
<td>29</td>
<td>27</td>
</tr>
<tr>
<td>Access to improved water source (% population)</td>
<td>66</td>
<td>67</td>
</tr>
<tr>
<td>Access to improved sanitation facilities (% population)</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Access to finance (% population)</td>
<td>...</td>
<td>22</td>
</tr>
<tr>
<td>Access to Electricity</td>
<td>46</td>
<td>46</td>
</tr>
<tr>
<td>Road density (km per km²)</td>
<td>7.9</td>
<td>7.9</td>
</tr>
<tr>
<td>Cost of trading across borders (USD)</td>
<td>2,090</td>
<td>2,290</td>
</tr>
<tr>
<td>Business costs of crime and violence (7-1)</td>
<td>...</td>
<td>42</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>STRENGTHEN STATE CAPACITY AND SUPPORT EFFECTIVE INSTITUTIONS</th>
<th>ALL AFRICAN COUNTRIES</th>
<th>FRAGILE SITUATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>BASELINE 2010</td>
<td>LATEST 2013³</td>
</tr>
<tr>
<td>Political Stability and Absence of Violence (1-100)</td>
<td>35</td>
<td>...</td>
</tr>
<tr>
<td>Tax revenues (% of GDP)</td>
<td>18.9</td>
<td>19.2</td>
</tr>
<tr>
<td>Transparency, Accountability, Anti-Corruption in the Public Sector (1-6)</td>
<td>3.1</td>
<td>3.2</td>
</tr>
<tr>
<td>Diversion of Public Funds (7-1)</td>
<td>3.1</td>
<td>2.9</td>
</tr>
<tr>
<td>Quality of budgetary and financial management (1-6)</td>
<td>3.6</td>
<td>3.6</td>
</tr>
<tr>
<td>Institutional capacity for environmental sustainability (1-6)</td>
<td>3.5</td>
<td>3.6</td>
</tr>
<tr>
<td>Natural resources governance index (1-100)</td>
<td>...</td>
<td>43</td>
</tr>
<tr>
<td>Quality of public administration (1-6)</td>
<td>3.2</td>
<td>3.2</td>
</tr>
<tr>
<td>Equity of Public Resource Use (1-6)</td>
<td>3.5</td>
<td>3.5</td>
</tr>
<tr>
<td>Judicial Independence (1-100)</td>
<td>43</td>
<td>43</td>
</tr>
<tr>
<td>Property Rights (1-100)</td>
<td>45</td>
<td>44</td>
</tr>
<tr>
<td>Personal Safety (1-100)</td>
<td>45</td>
<td>43</td>
</tr>
<tr>
<td>Refugees and people in refugee-like situations (‘000)</td>
<td>2,831</td>
<td>3,561</td>
</tr>
</tbody>
</table>

---

1 Peers refer to other developing countries around the world. For two indicators—the Mo Ibrahim index and institutional capacity for environmental sustainability—Africa is not assessed against peers but rather on the basis of progress on historic trends.

2 Where data are not available for 2013, the latest available values are used.

3 As the Global Financial Inclusion Database does not have historic data available, proxies from the IMF are used to assess progress in expanding access to credit.

Notes: For the purpose of this RMF, countries were selected on the following basis: 2014 harmonized list of countries in fragile situations, plus two countries for which ADB conducted qualitative assessments (Guinea and Niger). Other countries with pockets of fragility will be assessed and reported separately. Countries included are: Burundi, Central African Republic, Chad, Colombia, Democratic Republic of the Congo, Congo, Côte d’Ivoire, Eritrea, Guinea, Guinea-Bissau, Liberia, Libya, Madagascar, Malawi, Mali, Niger, Sierra Leone, Somalia, Sudan, South Sudan, Togo, and Zimbabwe.
Table 2: How well is AfDB contributing to development in Fragile Situations (Level 2)

This table presents the contribution the Bank is making to development through its operations in Fragile Situations. The Bank’s performance is measured by comparing expected and actual achievements for all operations that have been completed:

- Bank operations achieved 95% or more of their targets
- Bank operations achieved 60-94% of their targets
- Bank operations achieved less than 60% of their targets
- Data are not available to measure performance

<table>
<thead>
<tr>
<th>PROMOTING INCLUSIVE AND EQUITABLE PATTERNS OF GROWTH</th>
<th>2011-2013</th>
<th>2014-2016</th>
<th>EXPECTED</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Infrastructure</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transport-Roads constructed, rehabilitated or maintained (km)</td>
<td>1,455</td>
<td>955</td>
<td>66%</td>
</tr>
<tr>
<td>Transport-Staff trained/recruited for road maintenance</td>
<td>15</td>
<td>14</td>
<td>95%</td>
</tr>
<tr>
<td>Transport-People with improved access to transport of which women</td>
<td>562,999</td>
<td>562,999</td>
<td>100%</td>
</tr>
<tr>
<td>of which renewable (MW)</td>
<td>271,929</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energy-Power capacity installed (MW)</td>
<td>7</td>
<td>7</td>
<td>100%</td>
</tr>
<tr>
<td>of which renewable (MW)</td>
<td>7</td>
<td>7</td>
<td>100%</td>
</tr>
<tr>
<td>Energy-Staff trained/recruited in the maintenance of energy facilities</td>
<td>--</td>
<td>--</td>
<td></td>
</tr>
<tr>
<td>Energy-People with new or improved electricity connections</td>
<td>10,541</td>
<td>14,493</td>
<td>138%</td>
</tr>
<tr>
<td>Water-Drinking water capacity created (m³/day)</td>
<td>16,595</td>
<td>16,595</td>
<td>100%</td>
</tr>
<tr>
<td>Water-Workers trained in maintenance of water facilities</td>
<td>1,571</td>
<td>1,815</td>
<td>116%</td>
</tr>
<tr>
<td>Water-People with new or improved access to water and sanitation</td>
<td>1,727,723</td>
<td>1,552,183</td>
<td>90%</td>
</tr>
<tr>
<td><strong>Private Sector Development</strong></td>
<td></td>
<td></td>
<td>34</td>
</tr>
<tr>
<td>Government revenue from investee projects and sub-projects (US$ million)</td>
<td>--</td>
<td>--</td>
<td></td>
</tr>
<tr>
<td>SME effect (turnover from investments) (US$ million)</td>
<td>--</td>
<td>--</td>
<td></td>
</tr>
<tr>
<td>Jobs created</td>
<td>856,907</td>
<td>856,907</td>
<td>100%</td>
</tr>
<tr>
<td>of which jobs for women</td>
<td>287,377</td>
<td></td>
<td></td>
</tr>
<tr>
<td>in a Demobilization/Reintegration context</td>
<td>...</td>
<td>...</td>
<td></td>
</tr>
<tr>
<td>People benefiting from investee projects and microfinance</td>
<td>1,927,507</td>
<td>1,979,058</td>
<td>103%</td>
</tr>
<tr>
<td><strong>Inclusion</strong></td>
<td></td>
<td></td>
<td>13,720</td>
</tr>
<tr>
<td>People benefiting from vocational training</td>
<td>86,582</td>
<td>89,865</td>
<td>104%</td>
</tr>
<tr>
<td>Classrooms and educational support facilities constructed</td>
<td>1,232</td>
<td>996</td>
<td>81%</td>
</tr>
<tr>
<td>Teachers and other educational staff recruited/trained</td>
<td>19,513</td>
<td>7,539</td>
<td>39%</td>
</tr>
<tr>
<td>People benefiting from better access to education</td>
<td>2,232,373</td>
<td>2,272,293</td>
<td>102%</td>
</tr>
<tr>
<td><strong>Natural resources</strong></td>
<td></td>
<td></td>
<td>46,125</td>
</tr>
<tr>
<td>Agriculture-Land whose use has been improved, replanted, reforested (ha)</td>
<td>102,066</td>
<td>95,707</td>
<td>94%</td>
</tr>
<tr>
<td>Agriculture-Rural population using improved technology</td>
<td>191,055</td>
<td>587,017</td>
<td>307%</td>
</tr>
<tr>
<td>Agriculture-People benefiting from improvements in agriculture of which women</td>
<td>5,049,173</td>
<td>5,088,488</td>
<td>101%</td>
</tr>
<tr>
<td></td>
<td>2,198,227</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Description</td>
<td>Count</td>
<td>10</td>
<td>71%</td>
</tr>
<tr>
<td>----------------------------------------------------------------------------</td>
<td>-------</td>
<td>----</td>
<td>-----</td>
</tr>
<tr>
<td>Countries with a national capacity development strategy</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Countries with improved transparency, accountability and corruption mitigation in the public sector</td>
<td>14</td>
<td>10</td>
<td>71%</td>
</tr>
<tr>
<td>Countries with improved quality of budgetary and financial management</td>
<td>10</td>
<td>6</td>
<td>60%</td>
</tr>
<tr>
<td>Countries with improved procurement systems</td>
<td>2</td>
<td>1</td>
<td>50%</td>
</tr>
<tr>
<td>Countries with improved quality of public administration</td>
<td>5</td>
<td>5</td>
<td>100%</td>
</tr>
</tbody>
</table>

...=data not available; ha=hectares; km=kilometres; MW=megawatts; m³=cubic metres; SME=small or medium-sized enterprise; US$=United States dollars; ICT=information and communication technology

1 The performance indicator for governance applies different thresholds. Given the nature and attribution distance, the levels for the traffic lights are different from other indicators: green, 75% and above, amber, 50%-75%, and red, below 50%.

Gender-disaggregated figures are extrapolated from a subset of projects that have available data with baseline and actual data built in. As more projects have started to include gender-informed design, these data are expected to become increasingly robust and complete.

Note: UA figures from material converted at 1 UA= $1.53.

Source: African Development Bank.
### Table 3: Is AfDB managing its operations in Fragile Situations effectively (Level 3)

We have achieved or are within 90% of achieving the target; ☑️ We need to pay attention to progress; ● We are not moving towards the target; ⚫ Data points are missing.

<table>
<thead>
<tr>
<th></th>
<th>AfDB</th>
<th>Fragile Situations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>LATEST 2013</td>
<td>BASELINE 2013</td>
</tr>
<tr>
<td>New RISP with fragility-informed design (%)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>New CSP with fragility-informed design (%)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Knowledge Products: Fragility Analysis, ESW, briefs</td>
<td>31</td>
<td>5</td>
</tr>
</tbody>
</table>

### Strengthening Country Dialogue and Engagement

#### Delivering Effective and Timely Operations

#### Learning from our operations
- Completed operations rated satisfactory (%)
  - AfDB: 93%
  - Fragile Situations: 100%
  - Target: >95%
- Completed operations with sustainable outcomes (%)
  - AfDB: 88%
  - Fragile Situations: 100%
  - Target: >95%

#### Ensuring strong portfolio performance
- Disbursement ratio of ongoing portfolio (%)
  - AfDB: 24%
  - Fragile Situations: 24%
  - Target: >22%
- Time for procurement of goods and works (months)
  - AfDB: 9.2 months
  - Fragile Situations: 9.6 months
  - Target: <7 months
- Operations at risk (%)
  - AfDB: 18%
  - Fragile Situations: 18%
  - Target: <15%

#### Preparing high-quality operations
- Time to first disbursement (months)
  - AfDB: 11 months
  - Fragile Situations: 8.4 months
  - Target: <8 months
- New operations rated satisfactory (%)
  - AfDB: 98%
  - Fragile Situations: 100%
  - Target: >95%
- New projects with fragility-informed design (%)
  - AfDB: -
  - Fragile Situations: 80%
  - Target: 100%
- Time for approving operations (months)
  - AfDB: 7.3 months
  - Fragile Situations: 5.1 months
  - Target: 5 months

AfDB = African Development Bank; ADF = African Development Fund; CSP = Country Strategy Paper; CPPR = Country Portfolio Performance Review; ESW = Economic and Sector Work; PCR = Project Completion Report; ... = Data not available

Source: African Development Bank.

1 As programming documents will increasingly consider issues of fragility, all operations in fragile situations will address drivers of fragility in that context and will help build institutional resilience. The Bank will pilot different methods, such as dual objectives, to fully mainstream fragility into its operations over time, building on lessons learned.
Table 4: Is AfDB managing itself efficiently to best address Fragile Situations (Level 4)

- We have achieved or are within 90% of achieving the target; ○ We need to pay attention to progress; ● We are not moving towards the target; ● Data points are missing.

<table>
<thead>
<tr>
<th>DECENTRALISATION: MOVING CLOSER TO OUR CLIENTS</th>
<th>AfDB 2013</th>
<th>Fragile Situations 2013</th>
<th>Target 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational staff based in (FS) field offices (%)</td>
<td>39</td>
<td>11</td>
<td>15</td>
</tr>
<tr>
<td>Projects managed from (FS) field offices (%)</td>
<td>50</td>
<td>40</td>
<td>50</td>
</tr>
<tr>
<td>Time spend on Client engagement</td>
<td>-</td>
<td>[tbd]</td>
<td>[tbd]</td>
</tr>
<tr>
<td>Connecting to (FS) field offices (% successful videoconferences)</td>
<td>98</td>
<td>86</td>
<td>100</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>HUMAN RESOURCES: ENGAGING AND MOBILISING STAFF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of staff in HQ trained in fragility</td>
</tr>
<tr>
<td>Number of staff in Field Offices trained in fragility</td>
</tr>
<tr>
<td>Employee engagement index in FS Field Offices (%)</td>
</tr>
<tr>
<td>Share of women in professional staff in FS Field Offices (%)</td>
</tr>
<tr>
<td>Net vacancy rate—professional staff in FS Field Offices (%)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>VALUE FOR MONEY: IMPROVING COST EFFICIENCY</th>
<th>AfDB 2013 (UA '000)</th>
<th>Fragile Situations 2013 (UA '000)</th>
<th>Target 2019 (UA '000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of preparing a lending project (in FS)</td>
<td>[71]</td>
<td>...</td>
<td>[80]</td>
</tr>
<tr>
<td>Cost of supporting project implementation (in FS)</td>
<td>[28]</td>
<td>[27]</td>
<td>[25]</td>
</tr>
<tr>
<td>Work environment cost per seat (in FS) (UA '000)</td>
<td>3.7</td>
<td>6.8</td>
<td>6.0</td>
</tr>
</tbody>
</table>

UAn: Units of Account; ...: data not available; [Tbd]: estimates
1 Both the cost for project preparation and the cost for project implementation are still based on estimates.
2 This includes all Field presences. Cote d'Ivoire is not included as it is the Bank's Headquarters and costs cannot be singled out.
1. **Background**

1.1. The consistent engagement of the African Development Bank (the "Bank") and the African Development Fund (the "Fund") (the Bank and the Fund, collectively the "Bank Group") in all regional member countries (RMCs) is essential to the fulfillment of the Bank Group’s development mandate. However, this has been particularly challenging in certain countries such as post-conflict countries (PCCs) or otherwise fragile states in which operations have been reduced or discontinued.

1.2. In this connection, and particularly to assist fragile states in overcoming their immediate development challenges, each of the Boards of Directors of the Bank and the Fund, in March 2008, approved the Strategy for Enhanced Engagement in Fragile States (ADB/BD/WP/2008/37-ADF/BD/WP/2008/10) (the "Strategy"). The Bank Group, through this Strategy, intends to deepen its development assistance to PCCs by consolidating the lessons learnt, and expanding the scope of its assistance to fragile states, generally (and not only PCCs), as well as increasing the choice of instruments for the delivery of its assistance to include supplementary financing and institutional support through technical assistance, in addition to arrears clearance grants.

1.3. A key feature of the Strategy is the Fragile States Facility (FSF), which is intended to provide financial and technical assistance to fragile states. The Boards of Directors established the FSF, by Resolution B/BD/2008/05-F/BD/2008/03, adopted on 28 March 2008. The FSF will function through three (3) windows namely the: (i) Supplemental Support Window (SSW); (ii) Arrears Clearance Window (ACW); and (iii) Targeted Support Window (TSW).

- **Supplemental Support Window:** Resources from the SSW will supplement the performance-based country allocations (PBA) to eligible post crisis/transitional countries.
- **Arrears Clearance Window:** The ACW builds upon the Bank Group’s arrears clearance assistance to PCCs through the Post Conflict Country Facility (PCCF). This window will channel resources to assist in the clearance of arrears, similar to the PCCF, and will expand the reach of the Bank Group’s assistance to include fragile states and not only PCCs.
- **Targeted Support Window:** Resources of the TSW will provide to fragile states, supplementary targeted support for technical assistance and knowledge management that would not otherwise be provided through current Bank Group instruments and programs.

1.4. This Legal Note provides clarification and guidance on the legal framework for the creation and implementation of the FSF.\(^{52}\)

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\(^{52}\) In discussing these issues we have referred to inter alia to the following documents: (i) Agreement Establishing the African Development Bank, dated 1963; (ii) Agreement Establishing the African Development Bank, dated 1972; (iii) Strategy for Enhanced Engagement in Fragile States approved in March 2008; (iv) Bank-Group Post Conflict Assistance Policy Guidelines Arrears Clearance Framework adopted on 19 July 2004; (v) Bank Group Policy on Loan Arrears Recovery, dated March 1997; (vi) Guidelines on Development Budget Support Lending (DBSL) dated April 2004; and (vii) Operations Guidelines of the Fragile States Facility.
2. FSF Legal Structure

2.1. Three (3) options for the legal structure of the FSF were considered as follows: (i) a separate earmark or set-aside within ADF-11; (ii) a new special purpose ADF window for the SSW; and (iii) a new, independent, Fragile States Facility (FSF) to provide resources through the (a) SSW; (b) ACW; and (c) TSW. The third option was selected as the best option after due consideration of the legal and operational issues.

2.2. The factors which weighed in favor of the selected option, which are also discussed in other sections of this legal note, include the need to have an operationally distinct and autonomous facility that functions outside of the framework of the Bank Group’s operations. The operational autonomy of the facility is particularly important in light of the refinancing and moral hazard aspects of the ACW; the source of the funding, in the case of the Bank; and the activities and related procedures of the FSF.

2.3. Similar to the PCCF, the FSF will be administered as a trust governed by the general principles of trusts administered by international financial institutions. These general principles are summarized as follows:

(i) the right of ownership of property subject to a trust are divided between the trustee and the beneficiary(ies);
(ii) a trustee must keep trust property separately from its own property as well as the property of other trusts, and must earmark trust property as such, unless relieved of the obligation by law or the terms of the trust;
(iii) the trust is not a legal entity in the sense that it is the bearer of rights or the subject of duties;
(iv) a trustee must not engage in self dealing in administering the trust;
(v) a trustee must administer the trust solely in the interest of the beneficiary(ies);
(vi) in administering a trust, the trustee must use reasonable care and skill and avoid unreasonable risk.

2.4. In addition to being administered as a trust, the FSF will further have operational autonomy by having its own rules and procedures separate from the rules and procedures generally governing Bank Group operations. The FSF also will be financially autonomous with the total separation of its resources from those of the Bank Group or any other trust administered by the Bank Group.

2.5. Given the financial and in the case of the Bank, institutional arrangements for the FSF (including the creation of an organizational unit and secondment/technical assistance activities), the creation of the FSF required the decision of each of the Boards of Directors of the Bank and the Fund.

53 The legal issues raised by the proposed framework are largely the same as those raised in relation to the establishment of the PCCF in 2004. GECL has comprehensively addressed these issues in a legal opinion issued at the time of the establishment of the PCCF.
55 See Resolution B/BD/2008/05-F/BD/2008/03 concerning the establishment of the Fragile State Facility, adopted by the Boards of Directors on March 28, 2008.
3. **Funding the FSF**

3.1. The identified sources of funding for the FSF are: the Bank, the Fund, beneficiary countries (in the case of the ACW), and other donors. In this regard, it may be recalled that in the context of the Eleventh General Replenishment of the ADF (ADF-11), State participants authorized an allocation of resources to the FSF in the total amount of UA420.3 million. This allocation was confirmed by the Board of Governors of the Fund when it approved the Report on the ADF-11.

3.2. In the case of the Bank, the Bank may allocate resources to the FSF from its net income, in accordance with Article 42 of the Agreement establishing the Bank. It may be recalled that allocations from the Bank’s net income require the approval of the Board of Governors, and such approval is granted during the Annual Meetings of the Bank. Furthermore, between Annual Meetings, the Bank may also authorize an allocation of resources from its Surplus Account. An allocation from the Surplus Account also requires the approval of the Board of Governors which may be obtained by postal ballot. Another option which may be considered by the Bank is an allocation to the FSF to be included in the Bank’s contribution to the ADF-11 or future replenishments.

3.3. Specifically for the financing of the ACW, additional funding sources include (i) the balance of the resources of the PCCF in the amount of UA165.64 million; (ii) the contribution of the beneficiary countries; (iii) the contribution of donor countries provided towards the contribution of the beneficiary country to its arrears clearance.

3.4. Appropriate instruments will be concluded to document the terms of the contributions to the FSF, in particular the contributions from beneficiary countries.

4. **Relationship with the PCCF**

4.1. It will be recalled that the PCCF was established in 2004 by the Fund with separate rules and procedures adopted the same year by the Bank and the Fund, for the purpose of clearing the arrears of eligible PCCs, and enabling the PCCs to commence re-engagement with development finance institutions (DFIs) as well as having a real opportunity to benefit from the HIPCs initiative.

4.2. The FSF is designed to continue the activities of the PCCF, albeit providing assistance to a wider range of countries (fragile states and not only PCCs). In order to legally provide for this transition, and after considering the rules and procedures of the PCCF, the following steps and decisions need to be taken:

   (i) In the context of the adoption of the Guidelines for the FSF, the relevant Resolution to be adopted by each of the Boards of Directors of the Bank and the Fund will also authorize the transfer of the activities of the PCCF to the FSF, under the ACW;
   
   (ii) The Boards also will authorize the use of the balance of the resources of the PCCF for the activities of the ACW;

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56 See Documents ADB/BD/WP/2007/84 and the corrigendum thereto (Guidelines for Distribution from the Surplus Account).
(iii) The Boards will further authorize that the Guidelines for the FSF will be applicable to the ACW, and that the Post-Conflict Assistance Policy Guidelines of the PCCF will cease to be applicable; in particular the rules of eligibility for assistance under the ACW of the FSF will be applicable instead of the rules of eligibility for PCCs under the PCCF.

4.3. The balance of the resources of the PCCF consist only of the contributions of the Bank and the Fund. Accordingly, the Bank Group does not need to obtain the consent of any other donor, prior to the use of the PCCF’s resources for the purposes of the ACW. Furthermore, the Bank has no outstanding obligations under the PCCF which may be considered as granting any PCC rights to the balance, and requiring their prior consent to the use of such resources for the activities of the ACW.

5. **Financial Management of the Resources of the FSF**

5.1. It will be recalled that the Board of Governors of the Bank, by Resolution 15-74, adopted the Policy and Procedure for Loans and Investments. This Policy provides in paragraph 21 that "[t]he Bank will finance only goods and services to be directly incorporated into a development project. Loans will not be considered for the refinancing of existing debts." (Emphasis added). The proscription of refinancing is also disclosed in Information Statements issued by the Bank for its various borrowing transactions. It is stated therein that the Bank "follows a policy of not participating in debt rescheduling or renegotiations and does not permit the making of new loans to provide for the servicing or repayment of outstanding loans with its resources."[57]

5.2. Similarly, Article 15(8) of the Agreement establishing the Fund provides that the Fund shall not engage in refinancing operations.

5.3. The above-mentioned provisions specifically prohibit the Bank and the Fund from engaging in refinancing in the course of their operations. Accordingly, given the arrears clearance activities of the FSF, and to ensure compliance with the prohibition against refinancing operations, it is important that the:

- FSF be operationally autonomous
- Resources of the FSF for the financing of its activities should not be taken from the resources allocated to the financing of Bank Group’s operations
- Bank Group, as a further safeguard, would continue with the segregation policy implemented under the PCCF, pursuant to which the resources contributed by a Bank Group entity were not used in the clearance of the arrears owed by a beneficiary country to such Bank Group entity. Accordingly, such resources should not be co-mingled but kept in separate sub-accounts.

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[57] The only exception relates to private sector transactions, which at this time form a rather de minimis portion of the Bank/Bank Group Portfolio. In this regard, Article 87 of the Revised Private Sector Operations Policies provides that the Bank may participate in debt relief measures to enhance the prospect of recovery of the Bank’s investment.
5.4. It is, however, important to recall that the prohibition against refinancing pertains to the operations of the Bank Group. Furthermore, the FSF is a special initiative of the Bank Group, independent of the regular operations of the Bank Group.

6. Application of Certain Bank Group Policies

6.1. Given the operationally and financially autonomous nature of the FSF, Bank Group operations policies would not necessarily be strictly applicable to the activities of the FSF but may, however, provide guidance. While these policies should be considered on a case-by-case basis, in the context of the activities of the FSF, certain of them are discussed below.

6.1.1. Bank Group Policy on Loan Arrears Recovery (the "Sanctions Policy") The Sanctions Policy applies to borrowers and guarantors in arrears on Bank Group loans and prescribes sanctions including the prohibition of: (i) the approval of new loans or guarantees; (ii) the signing of new loan or guarantee agreements; and (iii) the disbursement of the proceeds of any loan.58 The Policy is applied in the context of Bank Group operations to deter the accumulation of arrears as well as reduce the Bank Group’s exposure to financially challenged borrowers/guarantors. The Policy, however, exempts from sanctions certain activities including the provision of technical assistance.59 It is widely accepted that the principles which have informed the exemptions to the Sanctions Policy are that activities which (i) encourage continued dialogue with the challenged country; and (ii) facilitate the timely resolution of the country’s socio-economic challenges as well as the resumption of the Bank-Group’s core operations; should continue to be permitted.

6.1.1.1. The Sanctions Policy was adopted by the Boards of Directors. Accordingly, it is within their powers to create initiatives which would not be subject to the Policy or to approve additional exemptions. Given the principles which informed the exemptions to the Policy, as well as the operationally and financially autonomous nature of the PCCF, the Sanctions Policy was not applicable to the PCCF’s arrears clearance programs.

6.1.1.2. In the case of the FSF, it is important to recall the initial premise that the FSF is a special initiative of the Bank Group, and is both operationally and financially autonomous. Furthermore, its activities are separate from the regular operations of the Bank Group. Accordingly, the Sanctions Policy which is applied in the context of Bank Group operations would not necessarily be applicable. Furthermore, an analysis of the underlying principles of the Sanctions Policy further corroborates the exemption of the FSF from the application of the Policy, as indicated below.

6.1.1.3. Consistent with the previous arrangement under the PCCF, as well as the abovementioned underlying principles for exemptions to the Policy, arrears clearance activities under the ACW would not be prohibited by the Sanctions Policy. Similarly,

58 See paragraphs 2.1 and 2.2 of the Sanctions Policy. Paragraph 2.2 provides that sanctions automatically enter into effect thirty (30) days after the due date of the payment, in the case of the borrower, and fifteen (15) days thereafter, in the case of the guarantor.

59 The Sanctions Policy exempted technical assistance provided through grants from the Fund’s Technical Assistance Fund (TAF). The Fund, however, ceased to allocate resources to TAF from the Ninth General Replenishment of the Fund’s Resources (ADF-IX), and from that period grant financed technical assistance was exempted, generally. See also the Legal Opinion of the General Counsel, dated June 24, 2005, contained in document ADF/BD/IP/2005/121.
technical assistance may be provided to countries in arrears, under the TSW, and will not be considered prohibited, given the exemption of technical assistance activities and the principles underlying such exemption.

6.1.1.4. In the case of the SSW, the Guidelines provide that a country may use all of its supplemental funding and a maximum of 50% of the PBA determined allocation, prior to debt regularization. This upfront use of the supplemental resources as well as PBA allocated resources may be for a wide range of activities including infrastructure rehabilitation and institutional support activities. Grant financed institutional support activities will be exempted similar to the technical assistance activities under the TSW. In this regard, it may be recalled that the exemption of institutional support activities under the Sanctions Policy and specific authorization in the context of the ADF-X, formed the basis for previous institutional support grants for countries under sanctions, such as Côte d’Ivoire. Furthermore, the proposed budget support as well as infrastructure reconstruction and rehabilitation activities under the SSW may justifiably be exempted from the Sanctions Policy, given (i) the fact that the FSF is a special initiative, (ii) these activities are essential to facilitating the timely resolution of the socio-economic challenges facing the target countries; and (iii) the activities are essential to the achievement of the objectives of the FSF.

6.1.2. Bank Group Budget Support Guidelines. It is proposed that certain of the financing from the SSW will be provided in the form of budget support. Generally, financing through budget support, in Bank Group operations, is carried out in accordance with the Guidelines on Development Budget Support Lending (DBSL) dated April 2004, and contained in Document ADB/BD/WP/2003/143/Rev.2- ADF/BD/WP/2003/182/Rev.2. The DBSL Guidelines provide that Bank Group assistance using DBSL would be guided by prudence and applied on a highly selective basis, each case evaluated on its merits. In addition, the prerequisites for Bank Group funding of DBSLs to RMCs include economic and political stability and strong government commitment, a satisfactory CPIA rating during the preceding year evidencing demonstrable government commitment to reforms as well as a viable macroeconomic and financial medium term framework and fiduciary review. In addition, the DBSL Guidelines provides that DBSLs are not feasible in recent postconflict countries.

6.1.2.1. Evidently, certain of the fragile states may not be able to meet the prerequisites set out in the DBSL Guidelines. Accordingly, in order to achieve the objectives of the assistance to fragile states under the FSF, which includes the provision of prompt, predictable, multi-year financing through budget support, certain of the prerequisites for budget support loans and assumptions contained in the DBSL Guidelines would not be applicable for budget support financing under the FSF. Management will, however, need to provide, as part of the FSF Guidelines, the requirements for eligibility for budget support financing under the FSF.

6.1.3. PBA Allocations. It will be recalled that the allocation of resources to countries for operations activities under the ADF-11 is based on the performance-based allocation system. Resource allocations, however, under the FSF are outside of the PBA allocation system.

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60 See paragraph 1.1.6 of the Guidelines on Development Budget Support Lending(DBSL) dated April 2004
61 See Section 5 of the Guidelines on Development Budget Support Lending dated April 2004
62 See para. 5.2(i)
Accordingly, the rule that countries, during the first and second years of the replenishment cycle, may only front load up to 50% of the following year’s allocation, would not be applicable in the case of the FSF. Accordingly, a country’s full allocation of resources under the FSF may be committed during the first year of the replenishment cycle, based on the needs of the country.

6.1.4. Procurement. Save for the rule of origin requirements in the procurement rules of the Bank Group (limitation of procurement eligibility to only member states of the Bank and State participants in the Fund), other procurement rules are prescribed by the Boards of Directors, and may therefore be varied, waived, or amended by such Boards. Accordingly, the Boards may adopt enhancements to facilitate procurement for the benefit of fragile states, as proposed in the FSF Guidelines. In the case of the Fund, however, an amendment to the rule of origin provision, to open procurement to all countries, whether or not they are members of the Bank or State participants in the Fund, was approved by the Board of Governors during the 2008 Annual Meetings. The process for the acceptance of the amendment is ongoing, and if accepted, the amendment is expected to be effective by the end of this year.63

7. Approval Authority for the Guidelines for the FSF

The proposed Guidelines for the FSF will need to be approved by the Boards of Directors, in light of its amendment of previous decisions of the Boards (PCCF and operations policies) and the fact that the adoption of such Guidelines is within the purview of the functions of the Boards of Directors, given its general and policy nature.

8. Modification and Termination of the Guidelines for the FSF

Modifications to the FSF Guidelines will require the approval of the Boards of Directors. The FSF may be terminated by Resolution of the Boards of Directors of the Fund and the Bank.

9. Conclusion

The FSF is a special initiative of the Boards of Directors of the Bank and the Fund. It will be administered as a trust and will be operationally and financially autonomous from the operations of the Bank Group and the resources of the Bank Group as well as other trusts administered by the Bank Group. The FSF will function outside of the framework applicable to the operations of the Bank Group. Accordingly, the policies applicable to Bank Group operations, except otherwise provided, would not strictly be applicable to the FSF.

Kalidou Gadio
Acting General Counsel
June 30 2008

63 See Article 15(4) of the Agreement establishing the Fund.