Citizen-Centered Approaches
to State and Market

Institutional Reform of Development Organizations

CASE STUDY: AFRICAN DEVELOPMENT BANK

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This work program requires mapping the current practices in weak state environments of the World Bank, the United Nations, the African Union, the African Development Bank, and two bilateral agencies to produce a series of papers that will provide a useful basis for learning, allow similarities and differences to be highlighted, and options for reform and transformation proposed. This paper represents the research conducted on the African Development Bank.

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Abbreviations and Acronyms

ADF:	African Development Fund
AfDB:	African Development Bank
AFCR:	African Food Crisis Response
APRM:	African Peer Review Mechanism
DDR:	Disarmament, Demobilization and Reintegration
DSF:	Debt Sustainability Framework
FSF:	Fragile States Facility
FSU:	Fragile States Unit
HDI:	Human Development Index
HIPC:	Highly Indebted Poor Countries
IFI:	International Financial Institution
IMF:	International Monetary Foundation
IO:	International Organization
JTFs:	Joint Trust Funds
MDG:	Millennium Development Goal
MDRI:	Multilateral Debt Relief Initiative
MDTFs:	Multi-Donor Trust Funds
NEPAD:	New Partnership for Africa's Development
NTF:	Nigerian Trust Fund
ODA:	Official Development Aid
OECD-DAC:	Organization for Economic Co-operation and Development- Development Assistance Committee
PBA:	Performance-Based Allocation
PCCF:	Post-Conflict Countries Facility
RMC:	Regional Member Country
UA:	Unit of Account
UN:	United Nations
UNDP:	United Nations Development Program

I Overview

This paper outlines the current strategies of the African Development Bank when operating within weak or fragile states. While the African Development Bank's overall mandate is to support socio-economic development and work towards the eradication of poverty in all of its Regional Member Countries (RMCs), recent studies strongly indicate that additional, specialized attention is needed in order to assist countries in, or recently transitioning out of, major crises or conflict (i.e. fragile states).

There are few areas in the world where the need for a cogent strategy in post-conflict state building is more desperately needed than Africa. The socioeconomic effects of violent conflicts in Africa are profound and nothing short of completely devastating. Negative impacts range from the massive loss of life; material losses; destruction and pillaging of physical assets and infrastructure; reduction, and at times almost complete cessation of both industrial and agricultural output; national economic ruin; displacement of massive amounts of peoples both internally and across international borders; and the spread of communicable diseases, most notably HIV/AIDS. The 10 major conflicts which occurred in Africa between 1960 and 2000 cost the continent approximately 6.6 million human lives, or roughly 4.4 percent of the continent's total population.[1] In the last decade of the 20th Century, warring African countries witnessed the loss of 12 million lives and an additional 2 million persons forcibly displaced. As a result, some estimates put the decline in GDP at roughly 50% and the damage to physical infrastructure at 75%.[2] The situation in Africa has progressed to the point where, according to recent studies, a low-income developing nation in Africa has a 14% chance of witnessing violent conflict in a five-year period.[3]

This paper will proceed as follows: the first section will provide an overview of the African Development Bank and the evolution of its state building strategy in fragile states. The paper will then proceed by discussing the financial resources available to fragile states and the instruments and tools designed to implement these resources. We will then look at the resources and personnel allocated to fragile states, and whether it sufficiently addresses the needs of these states. Finally, the paper will conclude with a summary of possible reform measures to be implemented within the African Development Bank with regards to fragile states.

II The African Development Bank and a Fragile State Strategy

The African Development Bank Group

The African Development Bank Group (AfDB Group) was founded in 1963 and is made up of three lending facilities: the African Development Bank (AfDB), the African Development Fund (ADF), and the Nigerian Trust Fund (NTF).[4] The AfDB came to being with the twin goals of

[1] See Mekenkamp, Monique, Paul Van Tongeren, and Hans van de Veen, ed. 1999. *Searching for Peace in Africa*. Utrecht: European Platform for Conflict Prevention and Transformation.

[2] See Operations Policies and Review Department, The African Development Bank, "Overview of Post-Conflict Recovery and Reconstructions: Experience and Lessons Learnt" (Durban, Republic of South Africa, August 31, 2005), p 6.

[3] See Collier, Paul. 2004. "Development and Conflict." *Centre for the Study of African Economics, Department of Economics, Oxford University*.

[4] Loan structures are very different across the three lending arms. The AfDB provides non-concessionary loans with varying interest rates, a 1% commitment charge, a 20 year maximum repayment period, and an optional 5 year grace period. The Board of Directors reviews AfDB loans every six months to adjust interest rates. In contrast, an ADF concessionary loan is charged no interest, but carries a service charge of 0.75% per annum on all outstanding balances and a minimum commitment fee of 0.50% per annum on undisguised commitments. As well, ADF project

promoting socioeconomic development within African nations and reducing levels of poverty in all of its RMCs. The overall objective of the AfDB Group is "to provide financing to African countries, individually and collectively, for projects that will effectively contribute to their economic and social development, particularly projects that have the strongest poverty reduction impact on the economies and can improve the living conditions of the population."[5]

In order to engender a sense of ownership and accountability on the part of borrowing countries, all projects and program proposals are submitted by borrowing nations and must be in conformity with "jointly agreed" development policies and strategies of the country and its institutions. As well, the AfDB has shifted from a predominantly sector-based approach to a more country-specific focus in terms of project design in order to encourage more stakeholder commitment and hopefully promote the long-term sustainability of projects.

The AfDB Group also works with a myriad of international actors on joint development projects within the African continent. Beyond its own resources, the AfDB employs additional funds and resources through joint-financed projects with bilateral and multilateral development organizations, as well as other international financial institutions (IFIs). The AfDB also works to promote international dialogue and a greater awareness and understanding of African development issues through the hosting of conferences, research and study projects. Lastly, the AfDB works to increase public and private investment in Africa by providing technical assistance and encouraging policy reform within African nations, and facilitating dialogue between potential investors/donors and recipient nations.

In recent years, there has been a greater push towards knowledge generation and investment in order to build a "knowledge-based" development approach among African nations. These efforts have focused around four sectors of development – infrastructure, governance, regional integration and private sector development.[6]

Identifying "Fragile State"

While there are numerous aggregate measures for state fragility (see *Annex II*), fragile states are commonly recognized as transitioning into/out of crisis or extreme and often violent conflict. As such, fragile states are often characterized by extraordinarily weak institutional capacity, a poor and oftentimes non-functioning government, high levels of corruption throughout the nation's institutional structures, a lack of rule of law, political instability and oftentimes ongoing, or past violent conflict (at times perpetrated by the government itself). A common benchmark of a fragile state, utilized by political scientists and policy analysts alike, is when the state no longer has a monopoly on violence- meaning the state no longer can provide it citizens with the most basic services, perhaps the most important of which is security and protection from unwonted violence. Additionally, some experts have used the socioeconomic indicator of a state's ability/inability to achieve the Millennium Development Goals (MDGs) as a criterion for state fragility (see *Annex III*). In this regard, the World Bank report, *Millennium Development Goals:*

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loans have a 50 year repayment period with a 10 year grace period and lines of credit have a 20 year repayment period with a 5 year grace period. NTF loans have repayment periods between 15 and 25 years with a 5 year grace period. Between 1967 and 2008, the AfDB Group approved 3,232 loans and grants totaling UA (Unit of Account) 43.26 billion or USD $66.60 billion. Of that UA43.26 billion, more than half went to the AfDB (UA 24.8 billion or USD $38.2 billion), 42% or UA 18.2 billion (USD $28.0 billion) went to the ADF and 0.7% went to the NTF (UA 304.6 million or USD $0.47 billion). See African Development Bank Group, "AfDB in Brief" (Tunis, Tunisia, 2008), p 28.

[5] See African Development Bank Group, "AfDB in Brief" (Tunis, Tunisia, 2008), p 4.

[6] A more complete detailing of all AfDB loans (between 1967 and 2008) can be found in *Annex I*.

Confronting the Challenges of Gender Equality and Fragile States, indicated that fragile states accounted for 30% all of child related deaths and 29% of adolescents (12 year olds) who had not completed a primary school educations.[7]

The challenge of defining state fragility is twofold. For one, state fragility looks different in every country, depending on the stakeholders involved, the timeframe over which the situation evolves, and other external shocks. Another difficulty in defining state fragility is the fact that the concept itself is often considered in terms of a dynamic continuum, with multiple points or intervals in which a state can inhabit at any given time. The AfDB often uses a four stage continuum approach towards fragility within which a country may be located (See Table 1 below).

Table 1
The Continuum Approach for Fragile states

Market Deterioration	**Active Conflict and Prolonged Crisis**	**Post-Crisis/Transition**	**Gradual Improvement**
* Failing economic and financial management * Significant corruption and poor governance * No consensus between partners and government on development priorities * Deteriorating economic and social indicators	* Absence of legitimate government * Breakdown of effective administration * Civil conflict and/or domestic political impasse * IFI and/or international sanctions * Marked reversals in economic and social indicators	* Post-conflict situation after peace agreement, reconstruction phase * Post crisis/political transition after reconciliation agreement	* Broadly stabilizing situation * Improving government function * Presence of macro-economic reforms, increased donor support * Restoration of positive trends in key income and social indicators, albeit slowly and perhaps with reversals * Improved access to external finance

Table taken from "Strategy For Enhanced Engagement in Fragile States."[8]

The fragile state continuum ranges from a country experiencing marked deterioration, to active conflict or crisis, to post-conflict/crisis transition and finally gradual improvement. Movement along the continuum is not unidirectional, as a state can move forward (improving) or backwards (deteriorating) based on conditions within the country.

To simplify and harmonize measurement and identification of fragile states among other international organizations, the AfDB Group has adopted the Multilateral Development Bank (MDB) Working Group's definition of state fragility.[9] According to this document, a state qualifies as fragile if it meets *any* of the following criteria: (i) it has a composite AfDB and World Bank CPIA score of 3.2 or lower; (ii) it has a low income and does not have a CPIA score; or (iii) UN or other regional peacebuilding, peacekeeping or mediation operations have

[7] See World Bank, *Millennium Development Goals: Confronting the Challenge of Gender Equality and Fragile States. Global Monitoring Report 2007*. Washington DC: World Bank.
[8] See African Development Fund, "Strategy for Enhanced Engagement in Fragile States" (Tunis, Tunisia, 2008), p 2.
[9] Multilateral Development Bank participants in the Working Group include: AfDB, Asian Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank, the International Monetary Foundation (IMF), and the World Bank.

taken place within the country in the last three years.[10] By this definition, twenty regional member states, encompassing approximately 226.8 to 495 million people (numbers vary by study[11]) or ¼ of Africa's total population, are currently categorized as fragile. Based on these estimates, it is no wonder that the AfDB has put considerable effort in recent years towards addressing this complex issue that affects not only Africa, but the entire international community.

The Evolution of the Fragile State Strategy

The Creation of a Separate State Building Strategy for Fragile States

The AfDBs lending policy to fragile states is based on its mandate to support socioeconomic development projects and reduce poverty within African nations. Of the three lending arms of the AfDB Group (the AfDB, the NTF and the ADF), support for fragile states predominantly falls under the purview of the ADF. Prior to 2001, AfDB lending treated all RMCs as equals, regardless of whether they were fragile states.[12] During this time, all instruments, policies and procedures were broadly designed toward macroeconomic reform, improving service delivery, reforming institutional capacity, strengthening income earning opportunities within those nations, and at times, providing arrears assistance and debt relief.

More specifically, resource allocation under the AfDB was largely determined by the Performance Based Allocations (PBA) system, where states are designated development resources according to the country's Country Policy and Institutional Assessment (CPIA) score (See Annex IV). Unfortunately, this system seemed to punish the weak states by focusing on the very deficiencies that made external support necessary in the first place.[13] The PBA system, focused on performance results, meant that many fragile states did not qualify for assistance, and those who did had to compete with better performing developed nations for limited resources. Studies in 2005 showed that less than half of all Official Development Aid (ODA) was channeled to the 65 poorest countries, while well over 10% of that ODA went to countries too rich to legally qualify for ODA.[14]

Over the years, many within the AfDB, and the international community at large, began to see this logic as simply unrealistic when applied to fragile states. Fragile states often suffer from weak institutional capacity and as such these states do not have the infrastructure or absorptive capacity to utilize the aid they receive, thus resources are often disposed of inefficiently or in a corrupt manner. Within a fragile state, much of the country's infrastructure can be destroyed without the state-capacity to rebuild, and domestic resources are only a fraction of what they might otherwise be under non-crises conditions. Additionally, fragile states are more likely than other recipient nations to default on loans and find themselves further paralyzed by an enormous amount of unpaid arrears. As such, fragile states often do not qualify for nearly enough aid

[10] See MDB Working Group on Fragile States and Weakly Performing Countries, "Towards a More Harmonized Approach to MDB Engagement in Fragile Situations" (Washington DC, 2007).

[11] See African Development Bank, "Proposals for Enhancing Bank Group Assistance to Fragile States in Africa," (Tunis, Tunisia, 2006), p ii; see African Development Bank, *Conflict Resolution, Peace and Reconstruction in Africa*. *African Development Report 2008/2009*. Oxford: Oxford University Press. p 60.

[12] Today the ADF provides economic and social development (loans, grants, technical training and capacity building) in 38 least developed African nations, almost all of these countries have a GNP per capita less than $785 USD, and do not qualify for AfDB non-concessionary loans.

[13] According to this system, a countries allocation increases with its population size but decreases with its per capita income. As such, the system places a higher premium on performance than need, and many believe it is biased against fragile states (with their endemically weak institutions, policies and governance), penalizing them for their weak institutional capacity to implement aid projects.

[14] See Riddell, Roger. 2007. *Does Foreign Aid Really Work?* New York: Oxford University Press. p 358.

based on their actual levels of poverty. External aid flows that do arrive are often highly variable and volatile, and may be interrupted during times of increased conflict and violence. All of the above factors make it extremely difficult for fragile states to climb their way out of poverty and establish any sort of sustainable economic development.

Post-Conflict Assistance Policy Guidelines

In 2001 the AfDB created the Post-Conflict Assistance Policy Guidelines in order to better address the specific needs of fragile states. Some aspects of this new policy included: reconstructing and rehabilitating basic infrastructure and social services within fragile states-especially in the security sector; assisting with reform policies towards greater adherence to the rule of law, good governance and accountability; economic development and recovery in war-torn areas; and supporting greater economic integration and the development of a more robust private sector.

Under the Post Conflict Assistance Policy Guidelines, recovery efforts and development aid was established only after a cessation of violence and the establishment of a legitimate interim or transitional government, supported by all stakeholders within the country, as well as the international community. Once this benchmark was achieved, the AfDB would begin its needs assessment report, which included: a results measurement framework that laid out priority actions, outcomes, and the financial implications of these actions; and tools intended to help national and international stakeholders achieve successful transition out of conflict and minimized the likelihood of backsliding into conflict.

While this new policy initiative made progress toward better addressing fragile states, it still came up short in terms of providing adequate resources and support for these nations. For example, under the prevailing framework, the AfDB would not make additional loans to states that were already heavily in debt or carried significant arrears. As many fragile states emerged from conflict with substantial arrears, they remained ineligible for debt relief of the Highly Indebted Countries (HIPC) policy framework.[15] The Post-Conflict Countries Facility (PCCF) was created in order to address the problem of arrears clearance that was limiting the flow of aid to many fragile states and prohibiting the normalization of relations between these states and many IFIs.

Post-Conflict Countries Facility

Established in July of 2004, the primary objective of the AfDBs Post Conflict Countries Facility program was to assist with the clearance of vast arrears accumulated by conflict-torn countries.[16] In close coordination with other bilateral and multilateral donors, including the World Bank and the IMF, the PCCF was originally established with a three-way clearance plan –one third to be repaid by the recipient nation, one third to be repaid by donor partners, and the final third to be repaid by the PCCF. The end goal of the PCCF program was to get arrears to a level where fragile states would once again be eligible for HIPC and the Multilateral Debt Relief Initiative (MDRI) relief assistance.

[15] The HIPC requires the clearance of all arrears to all IFIs before countries are eligible for loans.

[16] In May 2004, total AfDB Group member states arrears in fragile states was approximately UA 500 million. See African Development Bank Group, "Bank Group Post-Conflict Assistance Policy Guidelines" (Tunis, Tunisia), p 1.

Under the PCCF, countries including Burundi (in 2004), the Republic of Congo (in 2004), Central African Republic (in 2006), Liberia (in 2007) and Comoros (in 2007) all received assistance with arrears clearance. Of these cases, Burundi and the Republic of Congo alone received UA 8 million and UA 3.3 million respectively.[17] As a result of its arrears clearance in 2004, Burundi became eligible for a USD $826 million program through the HIPC in September of 2005, and is on target to receive further assistance from the MDRI program.[18] The HIPC funds made available to Burundi have helped to resettle displaced persons, develop needed infrastructure, and improve access to and reconstruction of necessary health care and education facilities.

The PCCF was successful in the AfDBs push to better address state building in fragile states in that it placed fragile states in a different category than non-fragile states and thus not having to compete with more stable countries for limited resources. Additionally, the PCCF took an individual approach toward each country case, designing an arrear clearance program appropriate for the financial and economic circumstances of each recipient nation. This type of individually design development assistance allowed for greater flexibility, applicability, and ultimately success when addressing the challenges of fragile states.

Unfortunately, while the PCCF was a necessary step in providing aid to fragile states, it was not sufficient in addressing the myriad of challenges that affected these countries. Based on an independent review conducted in 2006, the AfDB drafted the "Proposal for Enhancing Bank Group Assistance to Fragile States in Africa." This review found that based on the ADF-X budget allocations, an additional UA 800 million over a 3 year cycle was needed to meet the needs of fragile states in Africa.[19] Some of the unmet needs of fragile states included: an absence of funds for recurrent costs and capacity to run governments and Ministries; a lack of resources to rebuild state institutions or build them from scratch; a lack of sufficient interventions and field presence to strengthen capacity, to stabilize macroeconomic performance, to improve governance and to fight corruption; a lack of assistance to restore or rebuild the institutional capacity to deliver basic public services and develop human capacity; insufficient, late and slow programs related to security sector reform and DDR; and late and slow operational systems/procedures and implementation of reconstruction of key infrastructure (roads, water, sanitation and energy).

Fragile States Facility

Based on the findings of the above 2006 review, as well as input from partner organizations and lessons derived from the OECD-DAC "Principles of Good International Engagement in Fragile States and Situations" (2006), the AfDB created its "Strategy for Enhanced Engagement in Fragile States" (2008). One of the primary outcomes of this document was the creation of the Fragile States Facility (FSF). The FSF was designed to "provide a broader and integrated framework through which the Bank can more effectively assist eligible fragile states, especially those emerging from conflict or crisis, to consolidate peace, stabilize their economies and lay the foundation for sustainable poverty-reduction and long-term economic growth."[20] More

[17] UA or Unit of Account is the financial accounting unit for the AfDB Group. It has an exchange value of about UA 1.00= $1.50 USD.
[18] See African Development Bank, 2008 (note 8), p 12.
[19] See African Development Bank, "Proposals for Enhancing Bank Group Assistance to Fragile States in Africa," (Tunis, Tunisia, 2006), p 15.
[20] See African Development Bank, *Conflict Resolution, Peace and Reconstruction in Africa*. *African Development Report 2008*. Oxford: Oxford University Press. p 70.

specifically, resources allocated under the FSF are intended to: reform and rebuild basic infrastructure; strengthen national institutional capacity and accountability, including economic and financial governance; support regional operations in order to increase efficiency, local ownership and minimize spill-over effects in conflict affected areas; and support secondment through the use of international professionals in order to fill the human resource gap in select public sectors. Driving this strategy was the desire to inspire countries to pursue more effective and transparent economic management policies, thus facilitating their transition out of fragility.

The FSF consists of three grant support windows to assist reform and recovery within fragile states and post-conflict countries. The Supplemental Support Window (Pillar I) is intended to provide financial support above and beyond that which is provided by PBA allocations. The Arrears Clearance Window (Pillar II) replaced the former PCCF as the primary arrears clearance mechanism. Countries eligible for either Pillar I or II funds must pass a two-stage criteria for FSF support, assessing: (i) progress made in the areas of peace consolidation, security and provision of socio-economic needs of the citizen population; and (ii) the implementation of sound policy increasing macroeconomic stability, and levels of transparency/accountability of debt and financial management practices.[21] Finally, the Target Support Window (Pillar III) serves as an additional source of supplemental funds, providing resources for technical assistance and knowledge management within fragile states, that can be allocated on a needs-based system.

III Financing

Financial Support for Fragile States

By all accounts, funding for fragile states has been well below the needs of these countries. Some estimates indicate that while a reasonable aid flow target needed to help a country out of fragility should be equal to approximately 22% of the recipient country's GDP, aid flow's to these countries hovered around a mere 5% of their GDP during the late 20th Century and early 21st Century.[22]

Some would argue that the recent initiatives within the AfDB, aimed at assisting fragile states, are successfully reversing this trend. AfDB approvals in support of economic recovery in twenty fragile states increased from USD $154 million in 2001 to USD $392 million in 2007. The cumulative portfolio of the twenty countries was approximately USD $1.5 billion in 2007, or 9.3% of the AfDB Group's total public sector portfolio of USD $16.2 billion.[23] During its first year of operation under ADF- 10, the FSF received a total of UA 35.6 million in resources. According to the ADF-11 replenishment, the FSF received UA 408.4 million, or 7.5% of the ADFs total replenishment.[24]

In addition to increasing the total amount of funds available to fragile states, the FSF also sought to address past issues of aid flow volatility and variability as uncertainty regarding the value of future aid receipts may drive down the level of planned investment (both short- and long-term)

[21] For a more detailed description of the two-stage criteria, see *Annex V*.
[22] See Chauvet, Lisa and Paul Collier. 2004. "Development Effectiveness in Fragile States: Spillovers and Turnarounds." *Centre for the Study of African Economies, Department of Economics, Oxford University*, p 7.
[23] Much of the increase in funding between 2001 and 2007 is a result of the PCCF program, initiated in 2004.
[24] This translates to an increase of 2.17 times the average allocation per fragile state between ADF-10 and ADF-11. For a breakdown of ADF-11 funds allocated according to FSF Pillar, see *AnnexVI*. All numbers came from the FSF website. See *Fragile States Facility website*. Retrieved on 29 July 2009. http://www.afdb.org/en/topics-sectors/initiatives-partnerships/fragile-states-facility/. Last updated February 2009.

and economic growth among recipient nations. In order to counter this trend among fragile states, the FSF extended grant funding from a one year period to a minimum of three years (in line with the country's Debt Sustainability Framework (DSF)), with the potential for one three year renewal. This will allow fragile states to plan more long-term recovery projects and hopefully witness greater economic growth.

Potential Challenges

While the AfDB has worked hard to address the issue of insufficient funding for fragile states, increasing levels and duration of aid allocations among recipient nations is not without its challenges or pitfalls. Nations receiving large amounts of donor aid may witness an increase in levels of corruption among bureaucratic elite and thus be more likely to pursue non-development and growth oriented policies, including overspending, a lack of investment (short- and long-term) and the ineffective utilization of tax revenues.[25] This increase in levels of corrupt and inefficient financial policies may be due to the fact that aid is considered an easily plundered resource, encouraging rent-seeking and other corrupt practices. It could also be due to the fact that recipient nations fear that an increase in financial output and stability will equate to decreased donor support, and thus less aid in the long-run.

Additionally, increasing the length and relative stability of aid flows often decreases volatility and variability, but it may also increase levels of dependency. The longer a nation has access to aid flows and donor support that supplement activities otherwise carried out and paid for by that state government, the more dependent on these resources a state becomes. In addition, the more time and money an aid organization invests in a given country or project, the more likely they will be to extend this project in the future (through an increase in monetary or temporal support) in order to realize a successful return on their initial investment.[26] As such, more aid can simple create a downward spiral with the recipient nation pursuing inefficient economic practices and the donor organization enabling these practices through longer and larger development projects.

Finally, though aid to fragile states has increased significantly in recent years, some research indicates that it still may not be enough. The current global financial crisis has been extremely punishing to fragile states. Fragile states, more than other more stable nations, rely heavily on the export of primary commodities, accounting for up to 95% of a fragile state's total export revenue. As commodity prices have fallen sharply throughout the crisis, so too has foreign exchange earnings, government revenue and household incomes in these fragile states. This has been especially apparent among oil exporting fragile nations, as oil export revenues in Chad fell by 59%, and in Equatorial Guinea by 43%, between 2007 and 2008.[27] In addition to falling commodity prices, fragile states have had to cope with the negative externalities associated with a decline in remittance payments and foreign direct investment, as well as increasingly scarce foreign credit and volatile exchange rates.

An internal review paper, entitled "Panel 1: The Global Financial Crisis and Fragile States in Africa" (2009), claims that in light of the current global financial crisis, total financial allocations to fragile states by the AfDB and the FSF will decrease from the high in 2008 of USD $ 1 billion

[25] See Mkandawire, Thandika. 2001. "Thinking about Developmental States in Africa." *Cambridge Journal of Economics: Volume 25.*

[26] This is often termed the Samaritan's Dilemma. For more on the Samaritan's Dilemma, see Clark C. Gibson, Krister Andersson, Elinor Ostrom and Sujai Shivakumar. 2005. *The Samaritan's Dilemma*. Oxford University Press.

[27] See African Bank Group, "Panel 1: The Global Financial Crisis and Fragile States in Africa" (Dakar, Senegal, 2009), p 2.

to USD $ 890 million in 2009.[28] At the same time, export revenue shortfalls for 13 of the most fragile states in Africa is going to reach a predicted USD $ 61 billion by the end of 2009 (See Table 2).

Table 2
Export Revenue Shortfalls (Billion US$)

Country	2009	2010
Angola	38.2	45
Burundi	0.01	0.01
Central African Republic	0.15	0.15
Chad	2.5	2.1
Congo, Democratic Rep.	2.9	4.5
Congo, Republic	7.3	8.6
Cote d'Ivoire	3.6	3.8
Dijibouti	0.02	0.04
Gambia	0.03	0.04
Guinea	0.45	0.51
Liberia	0.36	0.77
Sudan	5.5	6.4
Togo	0.2	0.25

The above table comes from: African Bank Group, "Panel 1: The Global Financial Crisis and Fragile States in Africa" (Dakar, Senegal, 2009), p 6.

If these predictions are correct, the demand for financial support among fragile states will far exceed that which is available through the AfDB and the FSF. In order to avoid an increase in the financial burdens which plague many fragile states, additional funds may be needed in order to help these states through this financial crisis.

Moving Forward

Development aid is essential for fragile states, and with the correct implementation strategy, it can lead to increased economic growth and a reduction in the levels of poverty. Here we suggest three essential components of a successful strategy to address the potential pitfalls mentioned above:

1. Graduation and/or Completion Date: In extending the length of development projects for fragile states, the AfDB has implemented reasonable graduation dates for financial support –three years with the potential for one 3 year renewal. While this graduation date does set a time limit for the availability of grants, it does not appear to set a completion date for many of the infrastructure related projects (roads, hospitals, schools).[29] Adding an explicit and agreed-upon timeline can help both the recipient nation and the AfDB to create more realistic project goals. Completion dates or timelines may also encourage those recipient nations to implement and complete that project in the most efficient manner possible, thus decreasing the potential for bureaucratic waste and corruption, and ensuring that grants produce real deliverables.

[28] See African Bank Group, 2009 (note 27), p 6.
[29] See *Appendix VIII* for specific Country Case Studies.

2. Appraisal Process: Little has been indicated as to the exact appraisal process that will be implemented by the recipient nation or the AfDB during a project's life. In order to ensure that projects are completed on time, and funds are being allocated according to the original grant agreement, a regular and specific appraisal process should be implemented throughout the course of the project. Appraisals can and should be carried out by representatives from both the AfDB and the recipient nations, to ensure accountability and transparency in the process. When implemented correctly, specified appraisal processes have been shown to decrease rent-seeking and other corrupt practices, while increasing the likelihood of successful completion of a project.

3. Greater Field Presence: While more research needs to be conducted, recent studies indicate that even with the FSF, the AfDB lacks sufficient field personnel to successfully implement projects within fragile states.[30] A greater field presence would not only help in the appraisal process, but would also ensure greater flexibility as policies and strategies could adapt and change to better reflect actual conditions on the ground. A greater field presence could also increase levels of transparency and trust through more regular communication between the recipient fragile state and AfDB field offices.

   In addition to the sheer number of staff, more resources need to be put towards knowledge enhancement and training, specifically looking at the drivers and challenges of state-building and reform within fragile states.[31] Such knowledge will allow AfDB personnel to better provide support for each fragile state that is context and case sensitive, addressing the specific challenges and needs of that country. Additional knowledge and training may also help in devising better early warning and preventative measures in order to assist countries before they move into conflict or crisis.

IV Instruments for Effectively Engaging Fragile States

In creating the FSF, the AfDB recognized that past support to fragile states was oftentimes delayed and thus less effective due to its cumbersome and under-coordinated organizational structure. Efficient and timely support is especially important with fragile states, more than other RMCs, as they oftentimes face the twin challenges of weak institutions and extremely volatile political environments. In this next section we describe many of the innovative instruments implemented by the FSF, designed to increase intra-organizational efficiency and thus provide more effective aid delivery to fragile states.

Fragile State Unit

Key to improving intra-organizational coordination was the creation of the Fragile States Unit (FSU), the office which oversees AfDB-wide work within fragile states. Under past constructs, fragile state projects were disjointed with supplemental funds allocated to eligible states through the Post Conflict Enhancement Factor (PCEF), arrears clearances granted through the PCCF, and the use of sub- or non-sovereign actors rarely utilized at all by mandate of the AfDB Group. The FSU provides one managing entity to handle everything from supplemental funds, to arrears clearance, to knowledge management and capacity building. The role of the FSU encompasses

[30] See African Bank Group, "Panel 1: The Global Financial Crisis and Fragile States in Africa" (Dakar, Senegal, 2009).
[31] See African Development Bank, 2006 (note 19) p 15.

advising, fund provision and monitoring, and knowledge management, with specific responsibilities including:

- Administrative oversight of the FSF.
- Coordination and harmonization of AfDB work in fragile states with other international organizations.
- Ensuring greater program coherence and thus a greater rapid response within the AfDB relating to issues involving fragile states.
- Providing support to regional and sector departments working with fragile states, specifically focusing on the preparation of country programming documents, as well as the design, implementation and evaluation of projects and programs.

Multi-donor Coordination

Concurrent with the creation go the FSU, the AfDB has made a significant commitment in recent years to better coordinate and harmonize their efforts, in regard to fragile states, with other international organizations (IOs). This comes with the dual realization that: the needs of fragile states far outweigh that which any IO can provide alone; and that many IOs in competition can actually create greater negative externalities than benefits for recipient nations (the creation of overlapping projects, increasing transaction costs, and the increased likelihood of creating a Samaritan's Dilemma[32]). When appropriate, the FSU, and by default the FSF, will coordinate efforts with other multilateral and bilateral donor organizations (eg. Multi-donor Trust Funds), including the World Bank, the IMF, the African Union, New Partnership for Africa's Development (NEPAD), and the OECD Fragile States Group, to name a few.[33] In addition, the AfDB is a member of the Multilateral Development Bank's Working Group on Fragile State (including the World Bank, the IMF, the Asian Development Bank, the Inter-American Development Bank, and the European Bank for Reconstruction and Development among others) in an effort to: indentify common operating procedures for engagement with fragile states; enhance partnerships among IOs in the sector fragile states; and better coordinate operations between multilateral development banks and partner organizations. Finally, the AfDB is also a member of the Fragile States Group within the OECD-DAC.

Arrears Clearance

The Arrears Clearance Window (Pillar II) of the FSF also provides an innovative financial mechanism designed specifically to assist fragile states. While the PCCF provided significant assistance in helping fragile states to clear their arrears and thus normalize relations with other international financial institutions, it was criticized for the high transaction costs and cumbersome negotiations inherent in the three-tier burden sharing mechanism.

The new Arrears Clearance Window provides two fundamental improvements over its predecessor. First, the beneficiary's contribution to its arrears clearance is determined through both a qualitative and quantitative assessment of that country's financial ability to pay.[34] This system allows for a much more case specific approach to each fragile state's debt burden construction, thus increasing the likelihood of successful repayment. Second, arrears clearance will proceed under a two-tier burden sharing agreement as opposed to PCCFs three-tier system. Accordingly, a maximum of one third of a country's outstanding arrears will be paid for by the

[32] For more information on the Samaritan's Dilemma, see Clark et al. (note 26).
[33] For more information on donor coordination based on country case studies, see *Annex VIII*.
[34] For a more detailed description of the methodology, see *Annex VII*.

recipient nation and a minimum of two thirds will be covered by the FSF. Beyond this, partner nations are permitted to make voluntary donations to assist recipient nations in meeting their burden sharing obligations. This new two-tier system not only lowers the financial burden required by a fragile state, it also eliminates some of the logistical bottlenecks that forestalled the process of normalization between fragile states and other MDBs and hastens the point at which fragile states are eligible for additional HPIC or MDRI support.

Financial and Procedural Autonomy

Lastly, under the new administrative policy setup in conjunction with the AfDB, the FSF is to be administered as a trust by the FSU, with special direction by the Board of Directors and the ADF. As such, the FSF is operationally and financially autonomous from the other operations of the AfDB Group and resources. Being legally and financially autonomous allows for greater flexibility, and potential efficiency, in procedure and funding. While core AfDB procedures will be followed, the FSF retains the right to modify those procedures in order to better accommodate the needs of fragile states. Some immediate advantages of this new FSF system are:

- The FSU can provide a fully integrated support network for fragile states, all coordinated by one branch of the AfDB. This will increase efficiency and effectiveness of the distribution of aid and support for fragile states.
- As it is legally autonomous from the AfDB, the FSF will have greater flexibility of procedure with the ability to utilize Joint Trust Funds (JTFs), Multi-Donor Trust Funds (MDTFs), and non- and/or sub-sovereign actors. The hope is that this will allow the FSF to modify and adapt procedure to meet the needs of fragile states without having to amend the overall guidelines of the AfDB Group.
- Under this new system, monetary contributions can be targeted both by country and/or for general use, again allowing for greater case sensitive flexibility.

Moving Forward

Tackling the potential problems associated with multiple donors providing aid within the same sector is one that the AfDB deserves credit for making progress. Multiple, uncoordinated donors have been the Achilles heel of successful development for at least the last 3 decades.[35] In their 2008 study of fragile states, *Fixing Failed States*, Ashraf Ghani and Clare Lockhart note that:[36]

> *Each donor has different procurement procedures and contracting arrangements; each is organized along functional lines that push for certain types of projects regardless of whether they are national priorities; each organization asks for exemptions from prevailing law; and each drains the talent of the government and the private sector while lamenting the government's lack of capability.*

As such, larger number of aid organizations and projects usually means: donor nations have to allocate more resources to accommodate more diverse and complex aid projects; higher transaction costs for the recipient nations as the rules, language and policies of one are distinct from the others; subcontracting out to the point that the majority of the initial aid money goes to the various donor offices, with little left for the actual recipients; the few qualified and trained

[35] In 2004, the average recipient nation received ODA from about 26 different donors. Between 1995 and 2003, the number of individual aid projects increased by more than one and a half times, from approximately 10,000 to over 27,000. While 13 percent of the recipients have fewer than nine donors, 25 percent have more than 30 individual donor organizations within their state. See Acharya, A., A. de Lima, and M. Moore. 2004. "Aid Proliferation: How Responsible are the Donors?" In *IDS Working Paper no. 21*. Brighton: Institute of Development Studies; See Roodman, D. 2006. "Aid Project Proliferation and Absorptive Capacity." In *CGD Working Paper no. 75*. Washington, D.C.: CGD.

[36] See Ghani, Ashraf and Clare Lockhart. 2008. *Fixing Failed States: A Framework for Rebuilding a Fractured World*. New York: Oxford University Press

locals will be attracted to employment with the international NGO, pulling them away from essential local government and private sector jobs; and multiple donor projects can essentially create a series of institutions that run parallel to the government, known as a dual bureaucracy, and competes, more than support, the local government.[37] a increase competition among donors while decreasing accountability among recipient governments. For all these reasons, the AfDB efforts to collaborate with other donor organizations is essential to ensure the most effective aid delivery system.

At the same time, while the AfDB has sought to increase efficiency in providing aid to fragile states, this new initiative toward greater collaboration may create the opposite effect. It is widely accepted that the harmonization of aid projects across donor organizations is a time and capacity intensive process, requiring knowledge sharing in the areas of strategic goals, mission and organizational infrastructure, and protocol, to name a few. While this paper does not advocate abandoning this worthy goal in place of the status quo, it would advise allowing for additional time and resources to accommodate transaction costs that arise as a result of increased multi-donor collaboration. This will help to ensure a more successful implementation of this new agenda.

In addition, the new Arrears Clearance Window faces two potential challenges. While it is reasonable to lessen the unrealistic burden of the overwhelming arrears burden that many fragile states face, the AfDB needs to ensure that this decreased financial obligation does not lead to irresponsible financial policies by the recipient states. Recipient nations must continue to pursue prudent economic policy, regardless of the increased financial aid. Additionally, determining debt burden construction on a case-by-case basis runs the risk of appearing to indicate favoritism towards one recipient nation over another. While measures have been implemented in order to make this process transparent and equitable (see *Annex VII*), the AfDB must be vigilant and take all means necessary to ensure the greatest level of accountability and transparency throughout this process, so that no favoritism is possible.

V Personnel

This next section examines the extent to which the AfDB has the operational mandate and personnel to effectively operate and address the many challenges inherent with state-building within fragile states.

First, it should be assessed as to whether or not it is within the AfDBs mandate to operate within fragile states. The AfDBs mandate obliges the organization to assist nations in the alleviation of poverty, the building of state capacity and accountability, improving financial and economic governance, and promoting sustainable socio-economic development throughout the continent of Africa. Fragile states, often suffering from a lack of consolidated peace, weak institutions, economic stagnation, and a lack of basic civil services, are by nature, in opposition to the AfDBs mission and mandate. As such, in order to successfully fulfill its mandate, the AfDB should provide and train sufficient personnel to operate within the context of fragile states.

[37] See Ghani, Ashraf and Clare Lockhart. 2008. *Fixing Failed States: A Framework for Rebuilding a Fractured World*. New York: Oxford University Press; see Khadiagala, Gilbert M. 2001. “The United States and Africa: Beyond the Clinton Administration.” *SAIS Review XXI* (1).

As well, the AfDBs regional placement allows it certain advantages over other IFIs when dealing with fragile states in Africa. For one, the AfDB is staffed with local personnel that are well versed in local languages, culture, religion and politics, as well as potentially having more experience with, and a greater understanding of, the divisive issues that plague many fragile states. Being regionally based, the AfDB has the ability to respond immediately, altering strategies and providing additional personnel or training as the situation within a country changes and evolves. In terms of perceived credibility, many African nations are more amenable to assistance from a regional IO, than one perceived as a puppet entity of developed western nations.[38]

Recent institutional changes within the AfDB have also helped it to better staff qualified personnel assigned to the task of state building within fragile states. In addition to FSUs administrative role, it provides supplementary and advisory assistance to regional and sector departments within the AfDB to ensure the successful design and implementation of projects and programs. When qualified staff is not to be found within the AfDB, the FSU, in conjunction with the Targeted Support Window of the FSF[39], is responsible for the implementation of the secondment program. The secondment program contracts professionals from around the world to help fill essential human capacity gaps at senior executive levels within fragile states. Essential to this program, all secondment projects must be implemented with a training component in place in order to provide for a smooth and efficient transition to domestically operated services.

Moving Forward

Despite recent efforts to increase field staff numbers and training, many believe that the AfDB needs to provide an even larger, and better trained, field presence within fragile states.[40] Until recently, the AfDB had no field staff in any of the fragile states. This changed with the creation of the FSF and the FSU. It was at this point (2007) that the AfDB created a new staffing policy which increased the incentives for staff working in hardship areas, including fragile states. In conjunction, the AfDB has moved towards a more decentralized approach, with field staff and offices responsible for much of the development, delivery and harmonization of FSF projects. While it is clear that more attention and training is being provided to field staff, recent reports suggest that the AfDB can continue to improve the training, support and staffing of their field offices in fragile states.

In addition to increasing field staff, the AfDB is moving more proactively toward a policy of secondment when senior level executive positions cannot be filled from within a fragile state. This is a reasonable policy, but we would suggest two important caveats. One, the process of contracting-out versus hiring from within the fragile state must be as transparent as possible to ensure the government's credibility among the local population. If the public feels that the process was less that equitable and that qualified citizens were potentially passed over in the process, the government runs the serious risk of appearing to be a puppet government, beholden

[38] In recognition of its regional leadership and knowledge, the AfDB has recently been empowered by NEPAD to oversee governance reform and the facilitation of infrastructure investment through the African Peer Review Mechanism (the NEPAD APRM). See African Development Bank, 2006 (note 19) p 8.
[39] Other external resources provided for by the Target Support Window include the provision of expert advisors and service delivery by non-sovereign entities, including the contracting of outside public sector officials to occupy critical public sector positions such as procurement, auditing, training and social services.
[40] See African Development Fund, 2008 (note 20), p 72; African Development Bank, 2008 (note 8), p 20.

to external actors instead of citizens within the country. Second, vital to this policy must be a sufficient training program to ensure that the senior executive positions are filled with citizens at the soonest possible opportunity.

VIII Conclusion

The purpose of this paper has been to review the evolution of state building and aid practices by the AfDB in fragile states. As was detailed in the *Overview*, the AfDB has done a commendable job reforming its practices and policies to better engage and enhance support to fragile states throughout Africa. No small step in this process was the recognition (beginning in 2001 with the AfDBs Post-Conflict Assistance Policy Guidelines) that fragile and post-conflict states face unique challenges in relation to the goals of reforming financial and institutional governance, and the alleviation of poverty.

While the AfDB has made significant progress in this area, more work can be done in order to assist fragile states. Recommendations for additional reforms and improvements, suggested in this paper, include:

1. Based on the financial needs of fragile states, exacerbated by the recent global financial crisis, the current AfDB budgetary allocations for fragile states are insufficient. Areas where funding gaps remain include: (i) recurrent costs to run key government ministries, especially in the early phases of post-conflict state-building (essential to avoid back-sliding into civil conflict); (ii) assistance to rebuild state institutions and restore basic public services and infrastructure (roads, water, sanitation and energy); and (iii) resources/funds to support additional field offices and personnel for better engagement and oversight/appraisal within fragile states.

2. While the extension of development projects (from one year to three years, with the potential for a one three-year renewal) can help to decrease volatility and increase long-term development projects and reform, an explicit and agreed-upon graduation/completion date would promote realistic project goals, encourage prudent fiscal management and decrease the likelihood of aid dependency among recipient nations.

3. Joint appraisals should be conducted between FSF personnel and recipient nations in order to increase the likelihood that project goals and deadlines are met, while providing accountability and transparency in the process. Appraisal processes have been shown to decrease rent-seeking activities and other corrupt practices, while increasing the likelihood of successful completion of development projects.

4. Increased field presence is needed in order to successfully implement and oversee development projects. Greater field presence can also increase levels of cooperation and trust between the AfDB and recipient nations, while allowing for greater mission flexibility.

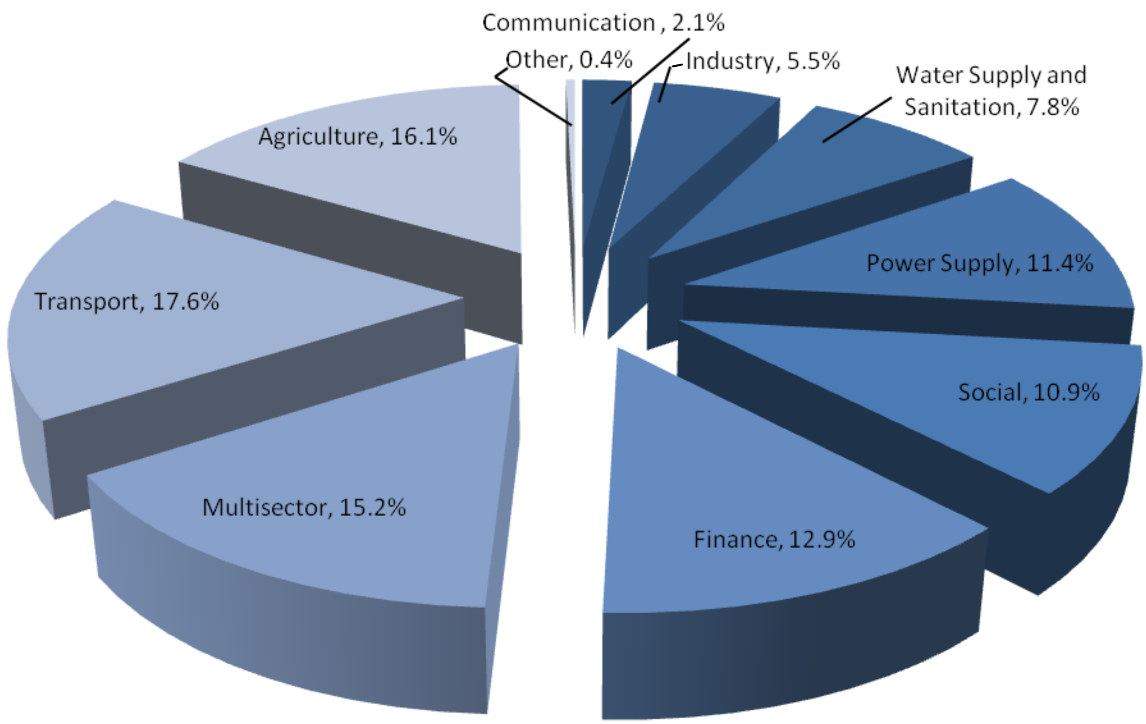
5. Providing the necessary time and resources to support greater collaboration across partner organizations, especially outside of the AfDBs core areas of competency, to ensure maximum success of the multi-donor policy.

6. Vital to the secondment program is both a transparent vetting process, to ensure that all qualified local candidates are considered, and a robust training program designed to eventually replace extra-nationals with local officials in senior executive positions.

Beyond the above mentioned evaluations, it is our belief that an extensive research program, involving interviews with employees of the AfDB, partnering IOs and other major stakeholders (for example, countries currently receiving FSF support), as well as a quantitative/qualitative analyses of deliverables, would provided a much needed evaluation of this newly implemented program. Keeping in mind that the program is relatively new, and country assistance projects/programs are only in their first years of existence, this research will provide an excellent foundation for future evaluations and could indicate initial successes and shortcomings of the FSF program.

Annex I

AfDB Loans by Sector (1967-2008)[41]



Annex II

Aggregate Measures of State Fragility[42]

1. AfDB and World Bank Country Policy and Institutional Assessment (CPIA): The CPIA measures the quality of a country's institutional and policy structures, and the extent to which these structures can promote sustainable economic development, the reduction in poverty and the effective use of development assistance. The CPIA is based on a set of 16 criteria which are divided into four clusters: Economic Management; Structural Policies; Policies for Social Inclusion/Equity; and Public Sector Management and Institutions. In each of the given criteria, a country can receive a score ranging from 1 (low/weak rating) to 6 (high/strong rating).
2. UNDP Human Development Index (HDI): The HDI is a composite index that measures a countries performance in three areas of human development: life expectancy; educational attainment (composite of adult literacy rate and gross enrolment ratio); and GDP level (a proxy for average standard of living). Aggregate scores range from 0.00 (low/weak rating) to 1.00 (high/strong rating).

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[41] Infrastructure (Transportation, power supply, water supply and sanitation, and communication): UA 16.6 billion ($25.6 billion USD) or 38.3%; Agriculture: UA 7.4billion ($11.3billion USD) or 17%; Multisector: UA 6.6 billion ($10.2 billion USD) or 15.3%; Finance: UA 5.5 billion ($8.5 billion USD) or 12.7%; Social: UA 4.8 billion ($7.4 billion USD) or 11.1%; Industry: UA 2.3 billion ($3.5 billion USD) or 5.5%. See African Development Bank Group (note 5) p 28.

[42] See African Development Bank, 2006 (note 19), *Annex 3*.

Annex III

Breakdown of Fragile States at Risk of Not Meeting Millennium Development Goals (MDGs)

As mentioned above, many states are at risk of not meeting the MDGs by the 2015 target date. The AfDB has analyzed nine African states that will be able to meet no more than two of the six MDGs by 2015. Evidence is presented in the table below.

MDG	Target	Inidcator	Improving but Unlikely to Meet MDG by 2015	Unlikely to Meet Target by 2015
Goal 1: Eradicate extreme poverty and hungar	Reduce by half the proportion of people who suffer from hunger,	Population below minimum level of dietary energy consuption (%).	Comoros, Zimbabwe	Burundi, Democratic Republic of Congo, Liberia, Sudan, Togo
Goal 2: Achieve universal primary education	Ensure that all boys and girls complete a full cource of primary education	Primary completion rate, total (% of relevant age group)	Republic of Congo, Guinea, Sudan, Nigeria	Burundi, Democratic Republic of Congo, Guinea Bissau, Zimbabwe
Goal 3: Promote gender equality and empower women	Eliminate gender disparity in primary and secondary education preferably by 2005 and at all levels by 2015	Ratio of girls to boys in primary and secondary education (%)		Burundi, Republic of Congo, Liberia
Goal 4: Reduce child mortality	Reduce by two-thirds the mortality rate among children under five	Under 5 mortality rate (per 1000)	Guinea, Guinea-Bissau, Sudan	Angola, Burundi, Cental African Republic, Democratic Republic of Congo, Republic of Congo, Liberia, Sao Tome and Principe, Somalia, Zimbabwe
Goal 5: Improve maternal health	Reduce by three-quarters the naternal mortality rate	Maternal martality ratio		
Goal 6: Combat HIV/AIDS, Malaria and other diseases	Halt and begin to reverse the spread of HIV/AIDS	Prevalance of HIV, total (% of populaiton aged 15-49)	Democratic Republic of Congo, Central African Republic	Angola, Liberia, Sudan
Goal 7: Ensure environmental stability	Reduce by half the proportion of people without access to safe drinking water	Access to improved water sources (% of population)	Democratic Republic of Congo, Liberia, Sudan	Guinea, Togo

Table from African Development Bank, 2006 (note 19), Annex 4.

Annex IV

Country Policy and Institutional Assessment (CPIA) Framework[43]

1. Macroeconomic Policies
   a. General macroeconomic reforms
   b. Fiscal policy
   c. Macroeconomic and external debt management capacity

2. Structural Policies
   a. External trade policy and foreign exchange policy
   b. Financial stability and depth

[43] See Operations Policies and Review Department, The African Development Bank, 2005 (note 2), p 10.

c. Environment for the private sector development
d. Policies for improving the efficiency of the public sector
e. Policies for regional economic integration and cooperation

3. Policies for Growth with Equity and Poverty Reduction
a. Building human capital
b. Fostering gender equality and social inclusion
c. Pro-poor targeting of programs and investments
d. Poverty monitoring and analysis
e. Labor market policies
f. Environmental protection policies and regulations

4. Governance and Public Sector Performance
a. Political and institutional framework
b. Anti-corruption policies and practices
c. Accountability and transparency of the public service
d. Property rights
e. Quality of budget and public investment processes
f. Revenue mobilization efforts and rationalization of public expenditures

Annex V

Two-Stage Selection Criteria for FSF Support

First-stage criteria: assesses key conditions, within the recipient nation, for peace and security, as well as key socio-economic needs. These criterion include:

- In order to demonstrate a state's commitment to the peace and security process, the candidate nation must provide a signed, internationally recognized peace agreement or reconciliation agreement, inclusive of all stakeholders in the past conflict. In addition, during this time there must be an absence of hostilities of any sort.
- Determination of post-conflict or transitional fragile states is determined by the: the contraction of the GDP per capita by 10% or more since 1990, and very low levels of human development- as indicated by a low score on the HDI (Human Development Index, HDI).

Second-stage criteria: Once a country has passed the first-stage criteria, countries will be assessed according to their commitment toward:

- Improving macroeconomic and debt management policies. This assessment will be carried out in collaboration with other IFIs (like the Bretton Woods Institutions) and based on discussions with relevant authorities and stakeholders within the country in order to agree upon performance benchmarks to assess the countries progress.
- Implementing sound and transparent financial management practices. This will involve the assessment of progress made by the recipient nation towards reforming public expenditure management system, curbing corruption within this sector, and increasing the presence of revenue mobilization institutions.
- Transparency of public accounts. This involves the publishing and review of all government revenues and expenditures, external debt obligations and additional borrowings.

Annex VI

ADF-11 Replenishment Funding

The FSF received UA 408.4 million, or 7.5% of ADF-11 replenishment funds. Disbursement across the three windows was accorded as follows:[44]

- Pillar I (supplemental support window): Pillar I received about 62% of all resources allocated to the FSF. Consistent with guidelines of both the ADF and the FSF, supplemental resources are distributed according to eligibility to support governance and capacity building projects, as well as reconstruction and rehabilitation of infrastructure.

[44] All numbers came from the FSF website. See *Fragile States Facility website.* Retrieved on 29 July 2009. http://www.afdb.org/en/topics-sectors/initiatives-partnerships/fragile-states-facility/. Last updated February 2009.

- Pillar II (arrears clearance window): Pillar II received 32% of all resources allocated to the FSF. These resources will be combined with the UA 102.9 million in funds carried over from the PCCF.
- Pillar III (targeted support window): Pillar III received the remaining 6% of the FSF total resources. As per the ADF and FSF mandates, these resources will be allocated for capacity building and knowledge management projects within eligible fragile states.

Annex VII

Arrears Clearance Capacity Indicators

I. Raw capacity to pay: ADB arrears/Government Revenues
   a. 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.
   b. "ADB arrears" captures the amount which must be financed, while "Government Revenues" captures the financial resources potentially available for that purpose.

II. Ability to generate financial resources: Current Account / GDP
   a. This indicator 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.

III. Spending prioritization: GDP / Capita
   a. The size and depth of the poverty challenge also needs to be recognized in considering the range of options available to meet debt and debt service obligations.
   b. GDP/capita is the most commonly available aggregate to measure that need.

IV. Source of Data
   a. Data was gathered from the Bank's Data Platform as follows:
      i. Common source, to avoid methodological discrepancies
      ii. Time series of year of arrears clearance to ensure comparability

V. Composite score computation
   a. Thresholds are set for each indicator, to introduce a point system
   b. For each country, points are attributed for each indicator and summed
   c. The aggregate score determines the range of country contribution

VI. Range of Country Contributions
   a. Country contributions are set in ranges to allow additional flexibility when exceptional circumstances grant it, while satisfying the comparable treatment requirement for countries with common characteristics.

Note: Under this approach, it will be also possible for other donors to make contribution towards the country portion of the burden share on a voluntary basis.*(*Indicators are presented in:* See African Development Fund, "Strategy for Enhanced Engagement in Fragile States" (Tunis, Tunisia, 2008), *Annex V*.)

Annex VIII

Country Case Studies

The following provides a brief outline of projects and programs currently allocated under FSF funding. While there has been little review as to the successes or failures of these projects to date, this offers a better understanding of where and how the FSF is operating, while also providing a basis from which future research might be conducted.

Sierra Leone

Sierra Leone has gradually been solidifying democratic rule and rebuilding its economy since the brutal civil war which occurred between 1991 and 2002. The recently elected government (2007) has prioritized socio-economic development, the creation of revenue producing jobs and eliminating corruption in the public and private sectors.

While the country appears to be transitioning out of conflict, peace and stability remain fragile and many within the country still rely on the civilian UN mission (UNIOSIL) for the maintenance of security.

In January of 2009, Sierra Leone qualified for a UA72.47 million grant (USD $112 million) in order to promote economic growth through the rehabilitation of its infrastructure, improvement to its agricultural sector and promotion of good governance. Specifically, the grant will help finance:[45]

- Construction of the Port Loko –Lungi Road, worth an estimated USD $39 million.[46] This road will connect Port Loko and the northern and eastern parts of the country with the airport city of Lungi and Freetown, increasing economic and social development along this corridor. Additionally, it will help to promote greater regional networking by connecting Liberia and Guinea.
- Construction of a Water Supply and Construction Project (USD $41 million). This project is intended to provide drinking water and sanitation facilities for rural residents and Freetown residence, improve waste facilities in Freetown, and reform the management and operation of the Guma Valley Water Company;
- Budgetary support and reform (USD $15 million) in order to strengthen public financial management systems, tax collection and customs administration.

Central African Republic

After decades of misrule and unrest, the most recent president, President General Francois Bozize, came to power in 2003 after he led a military coup against the then president Ange- Felix Patasse. While President Bozize won the last elections in 2005, his government does not have full control of countryside areas of resistance, and conflict and unrest threatens to spillover from the neighboring nations of Chad, Sudan and the DRC.

In an effort to support capacity and social development the FSF awarded a USD $12.41 million (UA 8 million) grant to Central African Republic to help finance their Project for Community Development and Support to Vulnerable Groups (PDCAGV). The project will be implemented over a five year period, 2010 to 2014, designed to improve the supply of basic social services at the community levels in order to improve living conditions of local residents. The project was designed as part of the government's 2008-2010 Poverty Reduction Strategy Paper (PRSP) and the AfDB and World Bank's 2009-2012 Joint Country Partnership Strategy Paper (JCSP).

Intended deliverables of this project include:

- 330 grassroots community facilities to provide improved access to drinking water, basic health services and education;
- 240 agricultural, fishing and livestock kits to improve production for smallholders;
- 150 multi-purpose platforms to lessen the amount of domestic chores for women;
- Training of 8 individuals specializing in the supervision and care for the visually and hearing impaired;
- Enhanced knowledge improvement for approximately 100,000 beneficiaries receiving classes in the environment, family planning, human rights or conflict prevention and management through the Information, Education and Communication (IEC) activities;
- And approximately 4,000 children will benefit from the construction or rehabilitation of 55 schools.[47]

Liberia

For almost the last three decades, since 1980, Liberia has struggled through civil wars and political unrest. Recent hope has come to the country with the democratic election of President Ellen Johnson Sirleaf in 2005. Since this election, while the country remains a fragile state, it has worked to develop and rebuild its social and economic institutional capacities and structures. The AfDB has had an operational presence in the country since 1972.

[45] See *Fragile States Facility website,* "Sierra Leone Qualifies for Fragile States Facility Resources." Retrieved on 29 July 2009. http://www.afdb.org/en/news-events/article/sierra-leone-qualifies-for-fragile-states-facility-resources-4277/. Last updated January 22, 2009.

[46] By June of 2009, the specific grant for this road had increased to USD $ 40.65 million (UA 26.26 million). See *Fragile States Facility website,* "Sierra Leone: US$ 40.65 Million Grant for Lungi-Port Loko Road." Retrieved on 29 July 2009. http://www.afdb.org/en/news-events/article/sierra-leone-us-40-65-million-grant-for-lungi-port-loko-road-4790/. Last updated June 17, 2009.

[47] See *Fragile States Facility website,* "CAR: AfDB Approves US$ 12 Million for Community Development Project." Retrieved on 29 July 2009. http://www.afdb.org/en/news-events/article/car-afdb-approves-us-12-million-for-community-development-project-4925/. Last updated July 22, 2009.

In December of 2008, the AfDB Group approved a UA 12 million (USD $17.86 million) grant for Liberia's Public Financial Management Reform Support Program (PFMRSP) I. Of the total grant, UA 9 million will be financed by the FSF, with the remaining UA 3 million coming from the surplus account of the African Food Crisis Response (AFCR).

As per the FSF and AfDB mandate, the FSF portion of the grant will go towards reforming public financial management, and the modernization of its revenue administration, audit and procurement systems. More specifically, the grant is designed to assist the PFMRSP I towards improving "fiscal policy design regarding budget preparation and execution; enhanced capacity for sustainable tax revenue generation ,by revamping the tax revenue departments and implementing a medium-term fiscal framework (MTFF); make operational the one-stop service facility in customs; strengthen the procurement and audit systems of the government. And support government measures to limit the social impact of rising food prices."[48]

Burundi

Burundi has made significant progress in transitioning towards a more stable democracy with the establishment of a new constitution and the democratic election of President Pierre Nkurunziza in 2005. With that said, the country has yet to achieve consolidated peace or security, and still needs to strengthen its governance capacity and reconstruct its economy. A recent sign of hope was the 2008 signing of a peace agreement between the government and the Palipehutu (FNL), the country's last remaining major rebel group.

As part of the reconstruction and development effort, the AfDB approved a UA 14 million (USD $20.8 million) grant intended to help support Burundi's Second Economic Reform Support Program (ERSP-II).[49] Of the total grant, UA 12 million will come from the FSF, with the remaining UA 2 million coming from the AfDB African Food Crisis Response. The program is intended to strengthen institutional capacity of public finance and governance, in addition to enhancing the government's effectiveness in the design, implementation and monitoring/evaluation of socio-economic development projects.

Guinea Bissau

Almost since its independence, Guinea Bussau has experienced constant political turmoil and civil conflict. The most recent of which was the March 2009 assassination of the elected President Vieira. Vieira had previously ruled the country, described by many as an authoritarian dictator, from 1980 until his ouster in 1999, after years of civil war. Malam Bacai Sanha will be sworn in as president on 8 September 2009, taking over for the interim president Raimundo Pereira.

In January of 2009, the AfDB allocated a UA 6 million (USD $9.24 million) grant, through the FSF, to Guinea Bissau in order to help finance the countries National Health Development Program (Health-II).[50] The Health II project is ongoing, beginning in 2001, and has already build and equipped 12 new health centers and rehabilitated 9 other buildings as part of the Simao Mendes National Hospital. The additional funds will go towards the renovation and equipping of buildings and resources at the Simao Mendes National Hospital, as well as reforming the administrative and financial management of the hospital. Recent unrest in the country (as evidenced by the assassination of the president) has threatened the effectiveness of the project. This additional grant was justified as a means to sustain the Health-II project which, at the time of the funding, served more than 1.64 million people in Guinea Bissau.

Côte d'Ivoire

Côte d'Ivoire, in some ways, is a prototypical example of the dramatic toll that political and civil unrest can take on a country. In addition to the death and displacement of thousands of lives, Côte d'Ivoire's intrastate conflict (which began with a civil war in 1999) has devastated the economy, and pushed many civilians to survive without some of the basic living necessities. While Côte d'Ivoire has been working diligently towards a peaceful resolution of the

[48] See *Fragile States Facility website,* "AfDB provides more than US$ 17 million to Liberia for Public Financial Management Reform" Retrieved on 29 July 2009. http://www.highbeam.com/doc/1G1-191196501.html. Last updated December 22, 2008.
[49] See *Fragile States Facility website,* "The AfDB Supports Reforms in Burundi." Retrieved on 29 July 2009. http://www.afdb.org/en/countries/east-africa/burundi/. Last updated 25 November, 2008.
[50] See *Fragile States Facility website,* "AfDB Provides US$ 9.24 Million as Additional Support to Guinea Bissau's Health Programme." Retrieved on 29 July 2009. http://www.afdb.org/en/news-events/article/afdb-provides-us-9-24-million-as-additional-support-to-guinea-bissaus-health-programme-4280/. Last updated 8 January, 2008.

political unrest between the Gbago government and the New Forces Rebel group, the economy remains in shambles, and the country suffers from huge amounts of foreign debt and arrears.

In an effort to help this country rebuild its economy and provide the necessary services to its civilian population, the AfDB has intervened with aid support allocated through the FSF.[51] In March of 2009, Côte d'Ivoire was provided at USD $517 million grant through the arrears clearance window of the FSF in an effort to help Côte d'Ivoire get rid of their arrears, normalize relations with other MDBs, and become eligible for HIPC debt relief- which could provide the country with approximately USD $3billion of aid support in net present value.

In addition to arrears clearance, Côte d'Ivoire has also qualified for supplemental assistance in order to improve the living conditions of those in need, in addition to strengthening governance in the areas of public finance management and the development of regional economic infrastructure. As such, Côte d'Ivoire has been allocated an additional USD $123 million in supplemental funds to support these objectives. The supplemental funding, in combination with the arrears clearance, is part of a larger strategy by the AfDB to strengthen the Côte d'Ivoire's post-crisis agenda and economic reform programs to help ensure that this fragile state is able to more successfully transition to an economically viable democratic nation.

Togo

After years of military dictatorship and essentially one-party rule, Togo is moving more and more towards a consolidated democratic society. In 2007, Togo held its first relatively free and fair legislative elections, as well the country is being re-introduced and welcomed by the international community after years of ostracism due to human rights abuses and poor governance.

As a part of this process, Togo has recently been given support by the AfDB through the FSF.[52] In February 2009, Togo was approved for a UA 12.5 million grant (USD $18.65 million) to help support the country's Reform and Governance Support Programme (PARG). Of the UA 12.5 million, UA 10 million will come from the FSF and the remaining UA 2.5 million will come from the African Food Crisis Response. Top priorities of the FSF support will be arrears clearance, and then to improve public finance management, strengthen the public procurement system, improve the business climate, as well as rebuilding and/or rehabilitating necessary infrastructure. About two thirds of the grant will be allocated towards arrears clearance, with the remaining third going towards supplemental funds.

[51] See *Fragile States Facility website,* "Bank Group Approves Côte d'Ivoire's US $517 million Arrears Clearance Package and Grants US$ 123 miullion ofr Economic and Financial Reforms." Retrieved on 29 July 2009. http://www.afdb.org/en/news-events/article/bank-group-approves-cote-divoires-us-517-million-arrears-clearance-package-and-grants-us-123-million-for-economic-and-financial-reforms-4374/. Last updated 6 March, 2009.

[52] See *Fragile States Facility website,* "Togo: US$ 18 million for Reform and Governance Support Program." Retrieved on 29 July 2009. http://www.afdb.org/en/news-events/article/togo-us-18-million-for-reform-and-governance-support-program-4304/. Last updated February 12, 2009.