The African Development Bank's Support to Post-Conflict States

BY SUNITA PITAMBER

Conflict and fragility are considered to pose a major challenge to Africa's growth prospects. While the continent has seen rapid positive economic growth over the last few years, there is strong evidence that this has not resulted in inclusive economic and social transformation. The High Level Panel on Fragile States, established by President of the African Development Bank (AfDB), Donald Kaberuka, and chaired by H. E. President Ellen Johnson Sirleaf of Liberia, indicates that, "Africa is changing at an extraordinary speed." New and emerging challenges posed by rapid urbanization, youth unemployment, lack of private sector development, and pressures on natural resources, amongst others, continue to create pockets of fragility and conflict.

This article outlines the AfDB's support in some of the countries affected by fragility and conflict. It will further clarify the evolution of the Bank's approach to capture some of the most pressing emerging needs. The argument is organized in four sections: 1) the background and context of the Bank's support for post-conflict countries: 2) the tools used to address fragility and post-conflict reconstruction and development in the Mano River Union, Somalia and the DRC: 3) lessons learned from these previous experiences: and 4) new areas in which ways of providing such support are being developed.

Background and Context

The origin of the AfDB's support for the stabilization of post-conflict countries goes back more than a decade. While the Bank has responded to fragile and conflict-affected situations in Regional Member Countries (RMCs) since its inception, it was initially noted that the very institutional and policy weaknesses that characterize post-conflict countries had constrained the Bank's ability to effectively assist these countries.

Operations in post-conflict countries had been sharply reduced or stopped in the context of unstable political and economic environments and recurring conflict, as well as the increasing

Dr. Sunita Pitamber is Head of the Fragile States Unit at the African Development Bank.

weight given to demonstrated country performance as a basis for allocating resources. However, by the early 2000s the Bank recognized the limitations of the approach of continued disengagement, and realized that simply withdrawing from these difficult environments until they righted themselves would only increase costs and risks in the long run. In addition, the significant negative spillover effects on better performing neighboring countries were increasing the risk of regional fragility.

Moreover, the buildup of large arrears to the Bank by these countries was itself a constraint to further engagement even when there was a peace agreement. In response, the Bank has progressively and significantly strengthened its engagement in post-conflict countries with much more targeted, refined and innovative approaches that seek to overcome the existing weak institutional and governance environments in these countries.

In 2001, the AfDB initiated support in the form of debt sustainability by establishing the Post-Conflict Country Facility (PCCF) that constituted a very specific instrument for arrears clearance. This was mainly a financial instrument that provided an incentive to the country and other donors to clear the debt of certain post-conflict countries under a strategic partnership where the Bank would put in a certain amount towards the arrears clearance, as would interested donors, and the country itself would contribute a certain amount, which could be as little as one U.S. dollar. The Bank, through the PCCF, cleared the arrears for the Democratic Republic of Congo (DRC) in 2002, and Liberia and Comoros in 2007, respectively.

In 2008, the Board of Directors approved a new Bank strategy for enhanced engagement in fragile states (SEEFS). This was another major strategic innovation in the Bank's approach to address the development challenges of fragile and conflict-affected countries

Women work at a small business in Côte d'Ivoire

(FCS) and placed it within an overall operational and financial framework.

Innovations under the SEEFS

The central element of the Bank's operational approach in FCS under the SEEFS has been to provide a distinct framework, concretized through the dedicated Fragile States Facility (FSF). The approach has aimed at providing effective and sustained support that is more integrated, more flexible and more closely coordinated with other development partners than are other Bank operations.

The new strategy allowed the Bank to engage in fragile states which were under sanctions, provide early and targeted support for key technical assistance, judicious use of development budget support in circumstances where it might not otherwise be available as an instrument of assistance, more flexible procurement rules in select circumstances, and support via a dedicated Fragile States Unit (OSFU).

- The Fragility Continuum: the SEEFS opened the way for the Bank to engage in countries affected by fragility and conflict immediately, even as peace was being negotiated. Early engagement was seen as critical to mitigating the active conflict and providing the government legitimacy for continued peace and stability.
- Technical Capacity Building: The dedicated resources available for capacity-building under the fragile states facility are considered very valuable by the eligible countries. This new instrument allowed countries to use (as grants) as little as USD 50,000 up to a maximum of their allocation (sometimes as high as USD 12 million) to fill critical technical and institutional capacity gaps. For example, in the case of Somalia a technical assistant was recruited to help the Minister of Finance with the numerous tasks needed in his office. In Liberia, the recruitment of technical assistants in the taxation department helped to train the local staff in improving taxation reporting and collection systems which resulted in the country mobilizing USD 1 million in 2011, simply by auditing tax returns and ensuring that tax claims were appropriately filed. Similarly, in Guinea the technical capacity support delivered through the African Legal Facility enabled the authorities to renegotiate some of the older extractive industries contracts which resulted in huge windfalls to the country. In Togo, as another example, funds were provided to recruit an independent auditing firm to audit the backlog of six key ministries, which resulted in the unlocking of about USD 20 million in budget support from other donors.
- Development support: The investment support provided by the Facility, in the form of grants, helped stabilize salaries and the payroll as well as urgently-needed infrastructure development. For example, Cote D'Ivoire, the DRC, Liberia and Sierra Leone received budget support programs in the early stages of peace that helped those countries to further stabilize their economies. Other support such as to the agricultural sector as well as to water supply and sanitation infrastructure rehabilitation, was key to providing food security and basic services.
- Arrears Clearance: The Bank's leadership in providing a platform for arrears clearance for Liberia, DRC and the Comoros was another critical element for the respective countries' debt sustainability, which also enabled a more conducive investment

environment for other donors as well as for the private sector.

Innovative Funding Mechanisms

The Bank has made further efforts to support urgently needed services even in situations of ongoing democratic consultation processes. In 2010, in a bid to support priority recovery activities of the Government of Zimbabwe, a group of donors decided to create the Zimbabwe Multi-Donor Trust Fund (the Zim-Fund), as a successor to the Zimbabwe Programmatic Multi-Donor Trust Fund (Zim-MDTF). The African Development Bank was designated to manage the Zim-Fund with the endorsement of the Government, the Donor Community and the United Nations at their meetings in Harare and Washington in 2010.

The purpose of the Zim-Fund is to contribute to early recovery and development efforts in Zimbabwe by mobilizing donor resources and promoting donor coordination in the country, in support of such efforts. The thematic scope of the Zim-Fund initially focuses on infrastructure investments in water and sanitation, and energy. An independent fund management firm has been recruited to oversee all day-to-day activities related to the fund while an independent procurement management firm conducts all procurement activities. The Fund has an oversight committee consisting of government and the donor partners. In 2010, the Fund had resources of about USD 80.5 million. While the Bank and the donors recognize that having parallel structures is never a good practice, the Zim-Fund delivered important basic services that, combined with the macro-economic reforms pursued at the time, provided much needed economic and social stability for growth.

The FSF was designed to provide operational support through three windows (or "Pillars") which differentiate between fragile states: Pillar I for countries that have severe needs due to conflict or other crises and that have demonstrated a commitment to consolidate peace and security; Pillar II for countries that also i) have additional financial requirements stemming from the accumulation of arrears to the Bank (and other institutions) and ii) are potentially eligible for debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative; and Pillar III, to provide limited and targeted support in a broader range of fragile situations, including countries at risk of drifting into conflict or crisis in areas that could "not be adequately addressed through traditional projects and instruments," including secondments for capacity building, small grants to non-sovereigns for service delivery, and knowledge-building and dialogue.

The allocation of FSF resources represents a substantial addition to what was provided through the Bank's regular performance-based allocation process (PBA). Resources allocated to the 12 Pillar I countries represent an 89 percent addition to what was provided through the regular performance-based allocation process (PBA).[1] For Pillar II, no resources would have been possible without the arrears clearance that the FSF is funding. Pillar III resources have been small in relation to what has been provided through the other Pillars and as a share of the total Bank Group support for the 19 eligible Pillar III countries, but in some cases Pillar III resources have been able to be brought in sooner than other Bank resources due to broader latitude accorded under Pillar III than for regular Africa Development Fund (ADF) resources.

Addressing Fragility and Supporting Post-Conflict Reconstruction and Development

The Bank's Fragile States Facility is considered to be a valuable instrument that provides financial resources beyond the normal allocations, allowing countries – in some cases – to enjoy almost twice the amount available in a three-year cycle. In addition, the instrument provided the Bank with possibilities to engage along a continuum of fragility as soon as there were some peace negotiations in place. It also allowed the Bank to engage with countries that were under arrears, an important element which would change the Bank's policy for countries under sanctions. The following few examples elaborate the Bank's programmatic interventions that helped address fragility and promote post conflict reconstruction and development.

It is to be noted that Mali was not considered to be "fragile" under any of the previous ADF cycles. However, in 2011 the Bank extended its existing programmatic focus on rebuilding the private sector and supporting rural development with a focus on supporting employment creation. The instrument used by the Bank was budget support to help critical state-building needs in 2011. Since then, and under the present ADF cycle, the Bank has provided a special support to Mali under the Fragile States Facility that will help the country benefit from additional resources and certain key policy flexibilities.

Mano River Union

The Bank has historically provided support to the Mano River Countries (Cote D'Ivoire,

Farmers show their crops in the rural countryside of DRC

Liberia, Sierra Leone and Guinea - MRU) through its normal Bank operations as well as through the Fragile States Facility. For example, the Bank was one of the first donors to provide debt relief and budget support to Liberia in 2006. The Bank provided similar support to Cote D'Ivoire in 2010 aimed at arrears clearance and budget support. The Bank's approach to assisting Guinea has been focused on providing budget support as well as strengthening the country's capacity to negotiate and manage the extractive industries through the African Legal Facility. The latter is aimed at enabling Guinea to generate potentially significant resources from the extractive industries, which could help the country implement its extensive infrastructure development plans.

The Bank has outlined, as one of its priority focus areas, support to regional integration and for strengthening the role of the regional economic communities (RECs) to play a critical role in both political dialogue and regional economic interventions. Specifically, the regional integration agenda will promote infrastructure for trade while aiming to address the negative regional spillovers of conflict and fragility. In this regard, the MRU Secretariat (based in Freetown) has been provided support by the Bank to build its internal capacity in the areas of financial and procurement management, ICT skills, project development, and partnership dialogue.

In 2013, the Bank committed to accelerate its support to the Mano River Union countries through a dedicated initiative. The MRU initiative proposes a major effort to address the region's infrastructure gap, in particular in transportation and energy. The Mano River Initiative will connect people within and between these countries, and promote trade and private sector development, thereby helping the region transition out of fragility and instability. The initiative has an investment plan of about USD 3.2 billion over the next five years.

In its most recent efforts, the Bank has further accelerated its support to the region to stop the Ebola epidemic. Three operations have been approved in the form of emergency humanitarian support, a donor coordinated intervention to channel funds through the World Health Organization and regional budget support for quick-disbursing funds. The three programs are valued at more than USD 210 million.

Somalia

The Bank's support to Somalia was facilitated by the 2008 Fragile States Strategy and the Fragile States Facility that allowed for engagement with countries under arrears with the Bank. The Bank has worked, together with other partners, to support the Government's peace, state building and economic recovery program, as well as the Public Financial Management Self-assessment and Reform Action Plan by the Federal Government of Somalia as a framework for international support. The Bank is also working closely in line with the Somalia New Deal Compact that was endorsed on 16 September 2013, by the Federal Government and the international community. The Compact lays out the critical priorities under the five Peace and State Building Goals (PSGs) that have been endorsed as part of the New Deal principles for engagement in Fragile States, and also includes a Special Arrangement for Somaliland. The PSGs pillars are: (i) inclusive politics; (ii) security; (iii) justice; (iv) economic foundations; and (v) revenue and services. The Compact will guide international support to Somalia over the next three years (2014-2016). Based on this donor-coordinated approach the following table provides an overview of investments by the Bank in the country.

Democratic Republic of the Congo

The positive trend towards political stability in DRC since the 2000s, as well as the implementation by the Government of economic and structural reforms backed by development partners, has contributed to the gradual consolidation of the country's macroeconomic framework. However, this positive trend of the macro-economic aggregates has not been accompanied by an improvement in the country's social indicators, since economic growth has been driven by a very small number of areas of activity in sectors with little job creation. The DRC is also faced with the episodic and recurrent resurgence of political and security tensions that are sources of vulnerability. This situation underscores the fragility of this Central African giant and the need for the country's authorities to speed up institutional, economic and social reforms with a view to creating the necessary conditions for lasting peace and sustained and inclusive economic growth.

Project	$USm
Building statistical capacity	1.45
Economic and financial governance institutional support project	3.70
Economic and financial governance institutional support project (phase 2)	11.86
Drought Resilience and Sustainable livelihoods project	51.00
Water Resources management and investment plan for Somaliland	2.67
Arrears clearance support and debt management unit technical assistance	0.29
Socio economic reintegration of youth at risk	4.44
Institutional and policy infrastructure development	5.18
Set aside for arrears clearance	105.20

Table 1: AfDB support to Somalia 2007 -2012

Therefore, the main challenge for the DRC authorities and population is to lift the country out of its fragile situation and raise it to a new level of development commensurate with its potential. Indeed, despite significant natural resources and a geo-strategic position conducive to regional integration, the DRC has not yet succeeded in engaging in a development process allowing it to achieve a decisive and lasting transformation of its economy. The main constraints on this process are; (i) a lack of infrastructure services, (ii) weak governance and inadequate institutional capacity, and (iii) a non-conducive business environment.

The country had been classified both by the World Bank and the African Development Bank as a fragile state. It therefore benefitted from arrears clearance support and additional resources to help build institutional capacity in the key transparency and accountability sectors such as the Auditor General, the taxation systems, and generally improved financial and economic governance.

Lessons Learned

The Bank's support to post-conflict countries saw a real turning point with the approval of the new strategy for enhanced engagement in fragile states (SEEFS) in 2008. However, there are a number of lessons that have been drawn from this experience:

Financial Support: The Bank's engagement model was largely oriented to supporting post-conflict reconstruction and development through financing and stabilizing the macroeconomic framework. This was indeed what was needed for creating political legitimacy and stabilization, and countries drew heavily on this support. However, as we know, there are huge development needs during the period of rebuilding. As such, the financial resources provided by the Bank and other donors were used mainly for the most urgent needs in the process of rebuilding. This turned out to be a short to medium term outlook. The focus on developing local production in key sectors was left to the governments to plan for. Because of the fact that the duration of the cycle of fragility is not predictable, long term sustainability and resilience targets should be pushed further into the future.

Strategic interventions must have a significant private sector development focus in situations of fragility and post-conflict.

Donor Coordination: Post-conflict reconstruction and development requires extensive donor coordination, which, if done correctly, will yield great benefits to the recipient country. However, in many cases coordination was limited to those budget support operations that explicitly required that partners have such a coordinated approach. In other sectors, donors engaged based on their own respective priorities in other sectors, which resulted in some services not having significant resources.

Capacity Building Support: Institutional capacity building and development, while being the highest priority in post-conflict development, remained the weakest engagement area in terms of outcomes and results. Major challenges related to insufficient knowledge transfer from technical assistants to government staff. In some cases there were no government staff available that could be trained, and therefore the technical assistants ended up performing the day-to-day job of the ministry and left when their contracts ended.

Private Sector Development: Strategic interventions must have a significant private sector development focus in situations of fragility and post-conflict. Most donor support to date has focused on supporting governmental economic and financial stabilization programs, which are a top priority in economic recovery. Such programs expected that private sector development and increased private sector investments would be an automatic outcome of the economic recovery programs; however, this has not typically been the case. Job creation levels outside the government have been lower than expected.

New Areas

The Bank, in its effort to continue to provide an accelerated and game-changing response to situations of fragility and post-conflict development, has instituted the following innovative instruments in its approach:

- The elements of the Bank's qualitative assessment will be determined country by country in line with the 2011 New Deal for Engagement in Fragile States and the 2012 peace and state building goals (PSGs: Legitimate Politics; Security; Justice; Economic Foundations; and Revenues and Services).
- The Bank's qualitative assessment will complement the PSGs and focus on areas not assessed by the World Bank's Country Policy and Institutional Assessment (CPIA), such as political inclusion; arrangements to meet the expectations of the vulnerable population in a country, including women and youth; and vulnerability to exogenous

factors that fuel conflicts or crises, such as regional spill overs and climate change. On the basis of the qualitative assessment, the African Development Bank will classify countries as fragile and will be able to extend them eligibility for the FSF even if they are not on the Multilateral Development Bank (MDB) harmonized list.

- Three ADF countries have recently been added to the MDB harmonized list of fragile state: Madagascar, Malawi and Mali. Guinea has exited the list. However, Bank Management considers that Guinea merits close qualitative monitoring due to internal political instability and regional security risks (and the same for Niger).
- The rationale here is to help fill current analytical and assessment gaps in a more systematic, regular and standardized manner. As a supplementary diagnostic tool to the CPIA, the Country Resilience and Fragility Assessment (CRFA) will cover the current missing areas. Similar to the qualitative assessment, the starting point for the CRFA is the New Deal's PSGs. Unlike the qualitative assessment, the CRFA will not be used for the purpose of classifying countries as fragile, granting FSF eligibility or for resource allocation purposes during the ADF-13 period.
- CRFA is therefore different from the implemented qualitative assessment in terms of timing (CRFA will be implemented on a longer term after having been tested) and in terms of structure (CRFA is standardized while qualitative assessment is more flexible to take into account context-specific challenges).

Conclusion

The Bank's support for mitigating fragility and promoting post-conflict reconstruction and development spans over two decades. The Bank has gathered rich and extensive experience in supporting state building and peace building. The Bank has continued to build upon its experience to ensure that the support is well designed, focused and results-oriented. The Bank has also recognized the importance of the existence of a legitimate political process. This will only work if it is combined with peace and security. However, the Bank also realizes that political processes and security are not within its direct domains and therefore partnerships will be critical. The Bank has committed itself to provide the support needed in the long haul because fragility will block any efforts for economic development and inclusive growth. PRISM

Notes

[1] The MDB harmonized list of 'Fragile Situations' classifies a country as fragile or conflict-affected if it has (a) an average AfDB/World Bank Country Policy and Institutional Assessment (CPIA) rating of 3.2 or less or (b) the presence of UN and/or regional peace-keeping or peace-building missions during the past three years.