

Operational Plan for Enhancing ADB's Effectiveness in Fragile and Conflict-Affected Situations



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Asian Development Bank

Operational Plan
for Enhancing
ADB's Effectiveness
in Fragile and
Conflict-Affected
Situations

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Printed in the Philippines.

ISBN 978-92-9254-120-0 (Print), 978-92-9254-121-7 (PDF)

Publication Stock No. RPT135365-2

Cataloging-In-Publication Data

Asian Development Bank.

Operational plan for enhancing ADB's effectiveness in fragile and conflict-affected situations
Mandaluyong City, Philippines: Asian Development Bank, 2013.

1. Fragile and conflict-affected situation. 2. Asian Development Bank. I. Asian Development Bank.

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Abbreviations

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
AfDB	–	African Development Bank
AusAID	–	Australian Agency for International Development
COBP	–	country and operational business plan
CPA	–	country performance assessment
CPIA	–	country policy and institutional assessment
CPS	–	country partnership strategy
DMC	–	developing member country
FCAS	–	fragile and conflict-affected situation
FSM	–	Federated States of Micronesia
IDA	–	International Development Association
MDB	–	multilateral development bank
OECD	–	Organisation for Economic Co-operation and Development
OSFMD	–	Operations Services and Financial Management Department
PBA	–	performance-based allocation
PNG	–	Papua New Guinea
PSG	–	Peacebuilding and Statebuilding Goal
PSOD	–	Private Sector Operations Department
RMI	–	Republic of the Marshall Islands
RSDD	–	Regional and Sustainable Development Department
SES	–	special evaluation study
SPD	–	Strategy and Policy Department

Acknowledgments

Manju Senapaty, Lead Planning and Policy Specialist (Development Effectiveness and Partnerships), was the task team leader for the preparation of the FCAS operational plan. The team comprised Gina Marie Umali, and Arlyn Orong.

Kazu Sakai, Indu Bhushan, and Debra Kertzman from the Strategy and Policy Department, and Xianbin Yao and Ayumi Konishi from the Pacific Department provided overall guidance.

Valuable comments and inputs were received from: Rosario Abad Santos, Nessim Ahmad, Lakshman Athukorala, Josefina Balane, Joven Balbosa, Claudia Buentjen, Ilaria Caetani, Hans Carlsson, Karen Decker, Jogendra Ghimire, Anthony Gill, Arjun Goswami, Benjamin Graham, Hemamala Hettige, Neeraj Jain, Tatsuya Kanai, Ayumi Konishi, Kanokpan Lao-Araya, Chongshan Liu, Juan Miranda, Marzia Mongiorgi-Lorenzo, Antolin Naguiat, Sandra Nicoll, Noriko Ogawa, Sean O’Sullivan, Edeena Pike, Patrick Safran, Sabine Spohn, Joji Tokeshi, Raju Tuladhar, V. B. Tulasidhar, Woochong Um, Emma Veve, Hong Wei, Bernard Woods, Ma Xiaoying, and Jia Xinning.

Richard Vokey edited an earlier draft and copyedited the final document. Typesetting and design services were provided by Edith Creus, proofreading by Corazon Desuasido, and pageproof checking by Maricelle Abellar. Compliance review for ADB’s *Handbook of Style and Usage* and Visual Identity System was provided by Anna Sherwood, Ma. Priscila Del Rosario, Cynthia Hidalgo, and Rodel Bautista. Printing was done by Alexander Tarnoff, Victor Lo, Cesar Lopez Jr., and Judy Yniguez.

Executive Summary

Many of the poor and most vulnerable people in Asia and the Pacific live in the developing member countries (DMCs) of the Asian Development Bank (ADB) that are affected by fragility and conflict. Countries facing fragility and conflict-affected situations present political, social, economic, and environmental challenges and conditions that often differ from those in other developing nations. This requires development partners such as ADB to adopt a differentiated approach that is tailored to their particular problems and circumstances.

Supporting its DMCs affected by fragility and conflict is a high priority for ADB. ADB has been an important partner for its DMCs experiencing fragile and conflict-affected situations (FCAS). It has helped some of these DMCs to make a successful transition out of fragility and conflict. ADB adopted its current approach—the Approach to Engaging with Weakly Performing Countries—in 2007 to respond to the special challenges faced by DMCs experiencing conditions that are now generally described as FCAS. Guided by the two pillars of the 2007 approach—selectivity and focus, and strategic partnerships—ADB adopted differentiated approaches in its FCAS countries based on their specific fragility characteristics, and national priorities.

ADB's Long-Term Strategic Framework (Strategy 2020) reinforces ADB's commitment to FCAS. Within its overall mandate of poverty reduction and inclusive growth, Strategy 2020 emphasizes that ADB should employ innovative means to strengthen the effectiveness of country-led models of engagement; sustain commitments for longer periods; align its assistance with that of other development partners; and pursue deeper, more flexible, longer engagements in capacity enhancement and institutional development. The core operational areas and drivers of change of Strategy 2020 are as relevant to FCAS DMCs as they are to ADB's other DMCs.

Good practices and a new paradigm on engaging in FCAS have been evolving. Useful lessons and good practices have emerged from ADB's implementation of the 2007 approach. In a 2010 special evaluation study, ADB's Independent Evaluation Department found that the 2007 approach remained relevant and concluded that it had allowed ADB to respond flexibly to specific country needs. However, it also recommended several steps that ADB could take to enhance the development effectiveness of its FCAS operations. The evolving new paradigm for engaging effectively in FCAS—as stated in the *World Development Report 2011* and a New Deal for Engagement in Fragile States—highlights the deleterious impact of weak state capacity under FCAS, and views peacebuilding and statebuilding as preconditions for better development outcomes. The New Deal also calls for international partners to change their ways of working in these countries and focus more on strengthening state capacity and country systems.

The Operational Plan for Enhancing ADB's Effectiveness in Fragile and Conflict-Affected Situations aims to improve the development impact of ADB's support to the DMCs that are experiencing fragility and the effects of conflict on either a national or subnational level. The plan's overall goal is to achieve improved development progress and strengthened institutions in these DMCs. It builds on lessons learned by ADB while implementing its 2007 approach, including those cited by the 2010 special evaluation study, and incorporates good practices that have developed from its own work and that of other development partners. The plan also aligns ADB's FCAS road map with the evolving international paradigm. The operational plan identifies a comprehensive set of actions to mainstream fragility- and conflict-sensitive approaches in ADB's country strategies and operations and to adopt FCAS-sensitive internal processes that better address the unique challenges that these DMCs face:

- (i) **ADB will continue efforts to make country strategies and plans for all FCAS countries more fragility- and conflict-sensitive.** It will do this by building on past experience and using specific tools to better understand and analyze drivers of the fragility and conflict. In addition, ADB will strengthen discussions of the security aspects in country strategies and plans of DMCs that face conflict situations.
- (ii) **ADB will strengthen human resources for FCAS operations.** Recognizing the importance of field presence and supervision in FCAS operations, the plan seeks to address staff resource constraints and improve staff skills and incentives. It will build on its past efforts and regularly monitor field presence. Through staff training and learning forums, ADB will systematically enhance staff awareness of FCAS issues as well as staff skills and knowledge of good practices. To supplement staff resources supporting FCAS operations, ADB will establish a resource group of FCAS experts to provide direct technical support to staff in operations.
- (iii) **ADB will seek to augment financial resources for FCAS operations.** ADB, together with other development partners, will explore options to enhance financial resources for FCAS operations and to reduce volatility in support for FCAS DMCs. The plan suggests three options for increasing these financial resources, two of which will be a part of a proposal to strengthen the Asian Development Fund resource allocation framework. ADB will consult with Asian Development Fund donors on these options in 2014.
- (iv) **ADB will adopt differentiated business processes for FCAS operations and develop a more appropriate risk framework.** Responding to its commitments under the New Deal, ADB will identify special arrangements and an associated risk framework to address capacity gaps and other challenges facing FCAS DMCs.
- (v) **ADB will develop an institutional strengthening framework for FCAS DMCs.** This framework will aim to help better identify the capacity needs of FCAS countries and design long-term support to build their institutions. This is in line with international recognition that, to make good use of external

assistance and improve their development progress, countries affected by fragility and conflict need stronger country systems and effective institutions that can formulate and implement national policies, manage public resources, and deliver basic services to their citizens.

- (vi) **ADB will refine its approach to identifying FCAS DMCs.** ADB will harmonize its method of classifying DMCs as FCAS countries with that used by other multilateral development banks. This will remove a conceptual bias in ADB's current methodology and allow it to better coordinate its assistance with the operations of other development partners in ADB FCAS countries.

ADB's existing FCAS Steering Committee will ensure overall strategic coherence in implementing the plan and continue to provide overall guidance. The responsibility for implementing the FCAS plan will lie with the regional departments whose operations cover DMCs that are affected by fragility and conflict. The ADB-wide FCAS focal point, supported by the resource group of FCAS experts, will be responsible for coordinating and monitoring the implementation of the plan. This operational plan outlines a pilot results framework to monitor the progress of its implementation.



Introduction

1. The Operational Plan for Enhancing Effectiveness in Fragile and Conflict-Affected Situations (FCAS) aims to improve the development impact of Asian Development Bank (ADB) support to ADB developing member countries (DMCs) experiencing fragility and the effects of conflict on either a national or subnational level.¹ The plan's overall goal is to achieve improved development progress and strengthened institutions in these DMCs. Enhancing its support to countries facing fragility and conflict—and doing it more effectively—will contribute greatly to ADB's mission to help reduce poverty and improve living conditions and quality of life in Asia and the Pacific. Fragility and conflict almost always worsen poverty, and one often leads to or exacerbates the other.

2. **Rationale.** The FCAS operational plan builds on ADB's current approach—the Approach to Engaging with Weakly Performing Countries—which it adopted in 2007 to respond to the special challenges faced by DMCs experiencing conditions that are now generally described as FCAS.² The plan makes use of the knowledge ADB has gained while implementing the 2007 approach, including key lessons identified in a special evaluation study (SES) by ADB's Independent Evaluation Department in 2010.³ It also incorporates the good practices that have emerged from its own work and that of other development partners in their FCAS operations. The international development community's strategies and methods for effective FCAS assistance have evolved through trial, error, and growing discussion at global forums since ADB's 2007 approach was adopted. This operational plan aligns ADB's FCAS road map with this changing paradigm.⁴ In particular, it reflects the commitments to a New Deal on Engagement in Fragile States (the New Deal) endorsed in 2011 by more than 40 countries and organizations, including ADB.⁵

3. **ADB's experience.** Many of the useful lessons and good practices that have grown out of ADB's implementation of the 2007 approach are documented in an FCAS staff

¹ In this operational plan, the term "FCAS countries" or "FCAS DMCs" refers only to those DMCs classified by ADB as fragile and conflict-affected according to a methodology based on ADB's country performance assessment (footnote 12). The term "DMCs facing fragility and conflict" includes not only DMCs ADB classifies as FCAS countries but also other DMCs facing transitional or subnational situations of fragility and conflict.

² ADB. 2007. *Achieving Development Effectiveness in Weakly Performing Countries: The Asian Development Bank's Approach to Engaging with Weakly Performing Countries*. Manila. An ADB steering committee responsible for guiding the implementation of the 2007 approach agreed in June 2008 to replace the use of the phrase "weakly performing countries" with "fragile and conflict-affected situations." This is in line with current agreed international usage and was based on a Multilateral Development Banks (MDBs) Working Group recommendation endorsed during the 2007 heads of MDBs meeting.

³ ADB. 2010. *Special Evaluation Study: Asian Development Bank's Support to Fragile and Conflict-Affected Situations*. Manila.

⁴ World Bank. 2011. *The World Development Report 2011: Conflict, Security, and Development*. Washington, DC.

⁵ A *New Deal for Engagement in Fragile States*. <http://www.g7plus.org/new-deal-document/>. The New Deal was endorsed at the Fourth High Level Forum on Aid Effectiveness at Busan in the Republic of Korea, 29 November–1 December 2011. See Appendix 2.

handbook (the FCAS handbook) prepared by ADB in 2012.⁶ In its 2010 SES, ADB's Independent Evaluation Department found that the 2007 approach remained relevant. It also concluded that the approach had allowed ADB to respond flexibly to FCAS country needs. But it recommended that ADB take several steps to improve the use of the 2007 approach and enhance the development effectiveness of its FCAS operations. These steps included (i) recognizing the fragility and conflict characteristics of a DMC, including any that might exist at the subnational levels, during preparation of the country partnership strategy (CPS); (ii) taking a different approach to fragile countries from what it follows in countries facing conflict; (iii) providing flexibility in FCAS projects and building long-term programmatic approaches; (iv) concentrating more on capacity development and institution building in FCAS DMCs through a systematic needs assessment;

(v) addressing the volatility and insufficient availability of financial resources for FCAS operations; and (vi) improving ADB's institutional effectiveness by enhancing staff capacity and skills to make FCAS operations more effective, and by providing incentives for staff to participate in FCAS work. ADB's operational experience also shows that greater attention to developing more realistic project designs that keep the FCAS context in view, better supervision by staff during implementation, and systematic actions to assess and address the local institutional capacity in DMCs can contribute greatly to improving the success rates and development impact of ADB operations in FCAS.⁷



4. The evolving development paradigm. The international development community's focus and global discussions on understanding and addressing fragility and conflict issues have intensified since ADB's 2007 approach was adopted. The nexus between FCAS and poverty is now widely recognized. Poverty is increasingly concentrated in countries and regions where FCAS have degraded state institutions and quality of life. While only one-fifth of the world's poor lived in fragile states in 1990, the figure now is likely more than one-half.⁸ The international development community has also seen that enduring fragility often leads to violent conflict, which then further corrodes the ability of an already fragile state to carry out its core functions of providing security, justice, basic public services, and financial and macroeconomic management. Development issues then become even more complex, and development outcomes even harder to achieve.

⁶ ADB. 2012. *Working Differently in Fragile and Conflict-Affected Situations—The ADB Experience: A Staff Handbook*. Manila.

⁷ These are based on evidence from ADB project completion reports, project completion validation reports, and project performance evaluation reports issued during 2007–2012 on 15 sovereign projects implemented in ADB's 11 FCAS countries that were rated *partly successful* or *unsuccessful*.

⁸ Overseas Development Institute. 2012. *Horizon 2025: Creative Destruction in the Aid Industry*. London.

5. The new development paradigm calls for FCAS operations to be carefully tailored to the unique context and circumstances of each affected country. This tailoring needs to be informed by a deep understanding of a nation's political economy, the nature and causes of its fragility, and the roots of its conflict. The interdependence between security, justice, and development needs to be understood. Fragility and conflict cannot end in these countries unless capable and legitimate institutions are built to deliver security and peace, address injustice, and provide the conditions for sustained social and economic development (footnote 4). Based on the evolving international understanding of FCAS, a World Bank paper, *Operationalizing the 2011 World Development Report*, highlighted the need for international agencies to reform internal procedures to respond more effectively to the unique challenges of FCAS. The World Bank has called for a paradigm shift in its approach to engaging in FCAS. It is taking steps to refocus its assistance in such countries on strengthening citizen security and justice, creating jobs, and building country institutions.⁹

6. **The way forward.** The operational plan is based on the premise that ADB's 2007 approach is still relevant. In response to the lessons learned, the good practices developed, and evolving thinking on FCAS by both ADB and the international development community, ADB will implement a comprehensive set of actions to mainstream fragility- and conflict-sensitive approaches, strengthen human and financial resources for FCAS operations, and adopt FCAS-sensitive internal processes to improve the effectiveness of ADB's FCAS operation. The plan will also bring the importance of statebuilding¹⁰ and institutional strengthening to center stage in ADB's FCAS operations. Responding to its commitments under the New Deal, ADB will identify special arrangements and an associated risk framework to address capacity gaps and other challenges in FCAS DMCs. It will develop an institutional strengthening framework that will aim to better identify the capacity needs of FCAS countries and to design long-term support to build their institutions. ADB will also harmonize its approach to identifying FCAS countries with that of other multilateral development banks (MDBs). ADB will continue to participate in and contribute to New Deal processes, including the International Dialogue on Peacebuilding and Statebuilding (the International Dialogue).¹¹



⁹ World Bank. 2011. *Operationalizing the 2011 World Development Report*. Washington, DC.

¹⁰ The Organisation for Economic Co-operation and Development (OECD) defined statebuilding in 2008 as a process in a country through which the capacity, institutions, and legitimacy of the state are enhanced, driven by relations between the state and the wider society. In this document, statebuilding is used interchangeably with the strengthening of institutions and country systems.

¹¹ ADB is a member of the Steering Group of the International Dialogue, which was created in Accra, Ghana to monitor the implementation of the New Deal and is hosted by the OECD. See Appendix 2 for details.

7. Paras. 8–20 discuss the 2007 approach upon which the operational plan is based and the lessons learned and good practices developed by ADB during its operations. Paras. 21–53 provide the details on the way forward and actions under this FCAS operational plan, while paras. 54–59 lay out the path for implementing the plan and monitoring it.



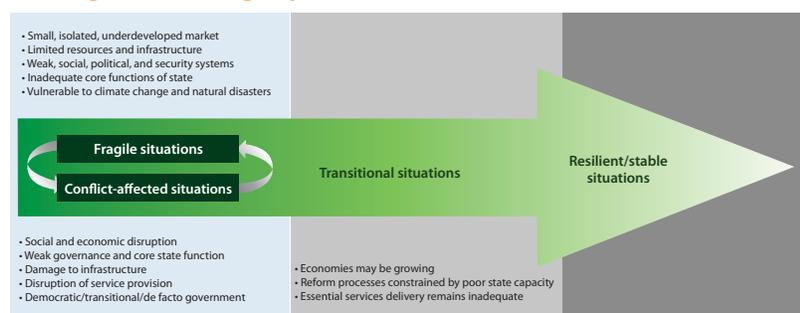
ADB's 2007 Approach, Lessons Learned, and Good Practices

The Context in Asia and the Pacific

8. Many of the region's poor and most vulnerable live in developing member countries (DMCs) that are affected by fragility and conflict and are challenged by a lack of basic infrastructure, poor policy regimes, weak institutions that are unable to deliver basic services, weak governance, and political instability. ADB classified 11 of its DMCs as fragile and conflict-affected situations (FCAS) countries in 2012.¹² Of these, nine are considered fragile and are in the Pacific: Kiribati, the Marshall Islands (RMI), the Federated States of Micronesia (FSM), Nauru, Palau, Papua New Guinea (PNG), Solomon Islands, Tuvalu, and Vanuatu. Two DMCs are considered conflict-affected: Afghanistan and Timor-Leste.¹³ The FCAS DMCs are the farthest away from achieving any of the Millennium Development Goals.¹⁴

9. Fragility can best be understood as a continuum, with countries that may face violence and extreme state failure at one end and countries that are in transitional situations and moving toward stable situations at the other (Figure 1). In addition to the 11 countries that ADB classified as FCAS DMCs in 2012, ADB also recognizes that several other DMCs were

Figure 1 Fragility Continuum in Asia and the Pacific



Source: ADB. 2012. *Working Differently in Fragile and Conflict-Affected Situations—The ADB Experience: A Staff Handbook*. Manila. p.7

¹² Under ADB's current methodology, a DMC is classified as an FCAS country if (i) it is ranked in the fourth and fifth quintiles of the country performance assessments (CPAs) for 2 of the most recent 3 years, or (ii) it is considered to be in a conflict or post-conflict situation. The list of 11 FCAS countries is based on 2011 CPA ratings. This list is updated annually.

¹³ In the proposed updated classification list of 2012, Timor-Leste will no longer have special post-conflict status or post-conflict assistance under Asian Development Fund (ADF) XI. It will be classified as fragile.

¹⁴ Based on FCAS countries data compiled and analyzed by the Strategy and Policy Department of ADB from the first draft of the 2012–2013 Regional Millennium Development Goals report.

experiencing transitional and subnational situations of fragility and conflict. Nepal has been considered to be in a transitional situation from conflict since 2008. Pakistan, the Philippines, and Sri Lanka have subnational territories that are fragile and/or conflict-affected.

10. ADB has long been an important development partner for DMCs experiencing FCAS and has helped some of these DMCs to make a successful transition out of fragility and conflict. As a result, it had gained significant experience in dealing with FCAS issues even before it adopted the 2007 approach. For example, beginning in 1992, ADB helped Cambodia to transform itself after decades of war from a post-conflict DMC to a market-oriented economy that has achieved steady economic and social development (Box 1).

ADB's 2007 Approach and Lessons Learned

11. ADB has built on this past experience and has made support to DMCs facing fragility and conflict an increasingly high priority. This was demonstrated by its adoption of the 2007 approach and its endorsement of the New Deal in 2011. FCAS is also a special theme under Asian Development Fund (ADF) XI, which provides concessional financing over the period 2013–2016. The 2007 approach recognized the need for flexibility and differentiation in engaging with FCAS countries. It also recognized that, given the scarce resources and limited capacities of local institutions in these DMCs, ADB's engagement needs to be selective and focused to ensure that assistance is used efficiently. The approach also calls on ADB to work in strategic partnerships with other development partners to make the best use of limited government counterpart capacities and to avoid causing harm through uncoordinated action. Guided by the two pillars of the 2007 approach—selectivity and focus, and strategic partnerships—ADB has been able to concentrate its FCAS operations in areas where it has comparative advantage and thereby provide effective support. The 2007 approach is consistent with the Organisation for Economic Co-operation and Development's (OECD) 2007 Principles for Good International Engagement in Fragile States and Situations¹⁵ and the international commitments under the 2005 Paris Declaration on Aid Effectiveness.¹⁶

12. The flexibility of the 2007 approach allows ADB to adapt to the FCAS characteristics and national priorities of a DMC and includes a menu of options for ADB operations that reflects the fragility continuum. In countries where leadership and commitment to reforms are strong, ADB assistance can be accelerated. In a country with weak commitment to reforms or where conflict is ongoing, the approach suggests that ADB's engagement be more limited. ADB can monitor for signs of domestic support for reforms or carry out policy analysis on key issues. ADB's Strategy 2020 reconfirms these 2007 approach principles. It also highlights the importance of strengthening strategic partnerships and the need for long-term capacity development in FCAS DMCs.¹⁷

13. Details on how ADB has operated in its FCAS DMCs and the good practices it has employed are documented in *Working Differently in Fragile and Conflict-Affected Situations*, the 2012 ADB staff handbook on FCAS (footnote 6), and are summarized below in paras. 14–20.

¹⁵ OECD. 2007. *Principles for Good International Engagement in Fragile States and Situations*. Paris.

¹⁶ <http://www.oecd.org/dac/effectiveness/34428351.pdf>

¹⁷ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

Box I ADB's Role in Cambodia's Transformation

Once devastated by war, Cambodia has recovered over the last 2 decades from a post-conflict situation and extreme fragility to become a country with a market-oriented economy and steady economic and social development. In 1992, more than one-half of the population was living below the poverty line. Today, that proportion has fallen to below one-quarter. Indications suggest that income inequality has also begun to narrow in recent years.

Statebuilding in Cambodia began from a very low base after decades of armed conflict, extreme loss of human life and capital, and widespread destruction of public institutions, including the judicial and legal systems. Since resuming operations in the country in 1992, the Asian Development Bank (ADB) has been one of Cambodia's lead development partners, maintaining a continuous presence and contributing substantially to its transition and sustained growth. The gross domestic product of Cambodia increased from \$3 billion in 1993 to \$12.8 billion in 2011. Per capita income rose from \$229 to \$911 during the same period, and Cambodia is on track to become a low middle-income country within the next few years.

Evolution of ADB's country strategies and program. ADB's country strategies and programs for Cambodia initially focused on rehabilitation. This was in response to the country's emergency needs in three priority areas: physical infrastructure, social infrastructure, and capacity building and institutional strengthening. This agenda was broadened in 1992 and 2000 by focusing on poverty reduction. The agenda expanded further in ADB's 2005 country strategy and program to emphasize broad-based economic growth, inclusive social development, and good governance. The country partnership strategy for Cambodia for 2011–2013 aims to achieve poverty reduction through an integrated approach to rural development and by targeting the areas where most of the country's poor reside. Four cross-cutting themes are expected to become increasingly important to Cambodia's development process: (i) environment and climate change, (ii) decentralization, (iii) urban–rural links, and (iv) regional cooperation. Over the last 20 years, ADB has provided more than \$1.8 billion in loans, grants, and technical assistance projects. In its first Socio-Economic Development Plan, 1996–2000, the government made eradication of poverty its overriding objective and a key to national reconciliation and maintaining political stability.

ADB's positive contribution in Cambodia's transformation. In a 2004 country assessment program evaluation (CAPE), ADB's Independent Evaluation Department rated ADB's assistance program to Cambodia during 1992–2002 *successful*. The CAPE found that ADB's program had achieved positive impacts in almost all priority sectors—education, finance, transport, and energy. A second CAPE in 2009 that covered the 1998–2008 period also gave ADB's program a *successful* rating. The report concluded that ADB's investment in physical assets and sector reforms boosted connectivity, lowered production costs, and encouraged foreign direct investments. Sustained financial sector reform and the development of small and medium-sized enterprises supported domestic growth. Support to agriculture and rural infrastructure, despite implementation difficulties, paid off in the form of higher yields and extended markets. Education sector assistance helped increase school enrollment rates and provided a useful test of the sector-wide approach modality. Regional cooperation initiatives, particularly through the Greater Mekong Subregion program, enhanced connectivity and information exchange between countries of the subregion.

Sources: ADB. 2004. *Country Assistance Program Evaluation: Cambodia*. Manila; ADB. 2007. *Development Effectiveness Country Brief: Cambodia*. Manila; ADB. 2009. *Country Assistance Program Evaluation: Cambodia—Growth and Sector Reforms*. Manila; ADB. 2011. *Country Partnership Strategy: Cambodia, 2011–2013*. Manila.

Understanding Local Context

14. ADB considers recognition of the unique challenges of each DMC experiencing FCAS to be fundamental to the design of country strategies and operations. ADB's country-led model for developing a country partnership strategy (CPS) requires a sound diagnosis of the distinctive binding constraints to inclusive growth and poverty reduction in each DMC.¹⁸ Based on these diagnostics and in consultation with the government and other stakeholders, the CPS identifies a medium-term strategy and operations for ADB's engagement in the country.

15. Analysis of political economy factors is important in all ADB's DMCs but particularly critical in those countries facing fragility and conflict.¹⁹ This kind of analysis helps development partners gain a sound grasp of the country, sector, and project environments in FCAS countries, identify the specific risks, successfully plan and undertake their operations, and secure greatly needed reforms.²⁰ ADB has used political economy analysis to guide several of its country strategies since adopting the 2007 FCAS approach.²¹ It has adopted a similar approach at the sector and project levels, including, for example, to inform planning for state-owned enterprise reforms and capacity development in Kiribati.²²

16. The use of analytical peacebuilding tools helps ADB understand the context in conflict-affected or transitional countries. ADB adopted a differentiated, conflict-sensitive approach in Nepal in 2010, when the country was emerging from civil conflict, by piloting a peacebuilding tool.²³ By assessing key factors that may cause conflict, the tool helps develop mitigation measures in the design of projects. This enhances the potential for peace and social cohesion in a conflict-affected country.²⁴ ADB is refining this tool and will use it in capacity development training for government officials in a joint undertaking with the United Nations Development Programme.²⁵ ADB has also used a differentiated

¹⁸ Footnote 3 of the ADB Operational Manual (OM) Section A2/Operational Procedures on Country Partnership Strategy, dated 1 February 2013. Knowledge products required to be available at the time of CPS preparation include economic, poverty, and gender analyses, which should contain an assessment of the challenges to inclusive growth. Other knowledge products required for the CPS include a private sector assessment, an environment assessment, priority sector diagnoses, and a risk assessment and risk management plan (see ADB OM section C4 on Governance). Opportunities for public-private partnerships should be identified in the private sector assessment and sector diagnoses. Additional country diagnostic studies, political economy assessments, disaster risk and vulnerability assessments, and other studies and assessments may need to be carried out.

¹⁹ AusAID. 2011. *Framework for Working in Fragile and Conflict-Affected States: Guidance for Staff*. Canberra.

²⁰ Department for International Development (DFID). 2009. *How to Note: Political Economy Analysis*.

²¹ Examples are Papua New Guinea, Solomon Islands, and Timor-Leste. ADB. 2010. *Country Partnership Strategy: Papua New Guinea, 2011–2015*. Manila; ADB. 2012. *Country Partnership Strategy: Solomon Islands, 2012–2016*. Manila; ADB. 2011. *Country Partnership Strategy: Timor-Leste, 2011–2015*. Manila.

²² ADB. 2009. *Kiribati's Political Economy and Capacity Development*. Manila. See details and other examples in the FCAS staff handbook.

²³ ADB. 2012. *A Peacebuilding Tool for a Conflict-Sensitive Approach to Development: A Pilot Initiative in Nepal*. Manila. www.adb.org/publications/peacebuilding-tool-conflict-sensitive-approach-development-pilot-initiative-Nepal

²⁴ The peacebuilding tool was developed jointly with the United Kingdom's Department for International Development and the World Bank.

²⁵ Among the core elements the peacebuilding tool assesses that are closely observed in project analysis and monitoring are inclusion, employment creation, state-citizen relations, accountability and transparency, credibility of the local institutions, gender sensitivity, and geographic linkages. The tool was piloted during the preparation of the Nepal CPS for 2010–2012.

approach in some projects in the Philippines, which faces FCAS at the subnational level in its Mindanao region. This was reflected in the DMC's latest CPS.²⁶

Flexibility in Country Strategies and Operations

17. FCAS require flexibility in country strategies and operations to respond to changing conditions. Depending on the nature and stage of fragility and conflict, ADB allows a country strategy to be a full CPS, an interim operational strategy, or a watching brief (footnote 6). Some development partners follow a similar approach.²⁷ ADB's country and operational business plans (COBPs), which are reviewed annually, also provide an opportunity to make adjustments as conditions change. In 2009, the flexibility of the 2007 approach enabled ADB to adopt its regional Pacific Approach for 2010–2014²⁸ as the CPS for 10 Pacific DMCs, which include seven FCAS countries: Kiribati, the RMI, the FSM, Nauru, Palau, Tuvalu, and Vanuatu.²⁹ A COBP is prepared annually for each of these countries. The regional approach helped address the challenges common to the DMCs and provided opportunities to use economies of scale for these small isolated countries. For example, the multipartner Pacific Region Infrastructure Facility is helping to fill gaps in existing infrastructure and develop innovative approaches to the problems of delivering infrastructure services in the Pacific (footnote 6). The development partners supporting this initiative include ADB, the Australian Agency for International Development (AusAID), the European Commission and the European Investment Bank, the New Zealand Aid Programme, the World Bank, and the developing Pacific island countries. All of ADB's FCAS DMCs from the Pacific, except for PNG and Timor-Leste, are covered by this facility.



18. Using the flexibility of the 2007 approach, ADB has applied simplified procedures in project processing and implementation to address the unique challenges and capacity deficits of national institutions in FCAS countries. For example, turnkey arrangements backed by fixed execution contracts were adopted to achieve rapid results in a short time in a cost-effective manner in conflict-affected Afghanistan. The Hairatan–Mazar-e-Sharif railway project successfully used a design–build contract for project

²⁶ ADB. 2011. *Country Partnership Strategy: Philippines, 2011–2016*. Manila; ADB. 2012. Progress report: ADB engagement in fragile and conflicted-affected situations.

²⁷ AusAID country programs conduct an annual assessment through the annual program performance report. This provides some flexibility to adjust strategies and programs. The World Bank uses 1- and 2-year interim strategy notes.

²⁸ ADB. 2009. *ADB's Pacific Approach, 2010–2014*. Manila. This approach takes into account the strategic agenda and priorities set by Strategy 2020.

²⁹ Footnote 2. The 2007 approach allows for “relaxing expectations for country strategy and program and selectively accepts other, less extensive programming documents.” The other DMCs covered by the regional strategy are the Cook Islands, Samoa, and Tonga.

execution. A successful privatization in Solomon Islands highlighted the importance of flexibility in providing technical assistance to support politically sensitive reforms. In 2009, the Private Sector Development Initiative reconfirmed the government's endorsement of the sales plan of Sasape Marina Limited, a government-owned slipway used for boat repair and maintenance in Tulagi. The transaction was successfully completed in 2010 and serves as an important precedent for the ongoing privatization program. A number of other examples where procedures more appropriate to FCAS were adopted on a case-by-case basis are documented in the FCAS handbook.

Strategic Partnerships

19. The 2007 approach highlighted the fact that strategic partnerships with a broad set of stakeholders are critical to achieving efficiency and sustainability in FCAS. In line with Strategy 2020, ADB's operations in FCAS are based on long-term strategic partnerships with DMC governments, other development partners, the private sector, and civil society organizations. Some examples have been provided in paras. 17 and 20.

Achievements of ADB-Supported Operations

20. ADB's use of the 2007 differentiated approach in FCAS conforms to the strategic priorities, parameters, and core operational areas of Strategy 2020, which are as relevant to FCAS countries as they are to the other DMCs.³⁰ While the FCAS DMCs of the Pacific differ with respect to the natural endowments, populations, and social and economic conditions, their development challenges are very similar—geographical isolation, small size, limited economies of scale, weak state institutions, great vulnerability to climate change, and high risks of natural disasters. Recognizing these challenges, ADB's operations in these DMCs concentrate on basic economic and social infrastructure, climate-proofing, private sector development, state-owned enterprise reforms, and regional cooperation. Timor-Leste's program focuses on addressing challenges of poor infrastructure connectivity and broad weakness in public sector management. In conflict-affected Afghanistan, ADB's activities focus on rebuilding roads, railways, and energy infrastructure; developing the private sector; and facilitating trade through regional programs.³¹ ADB's enhanced engagement in its FCAS DMCs is contributing to positive achievements, as the following examples show:

- (i) **Afghanistan.** Two ADB projects helped promote regional power trade and increased electricity supply to Afghanistan. A 2008 ADB-assisted project transmitted power from Uzbekistan into Afghanistan and provided energy to 2.5 million residents of Kabul. The ADB-financed Regional Power Transmission Interconnection Project (Afghanistan and Tajikistan), which began in July 2011,

³⁰ ADB's strategic agendas under Strategy 2020 are inclusive economic growth, environmentally sustainable growth, and regional integration. Strategy 2020 includes a corporate results framework to assess ADB's performance and to make ADB a much more results-oriented organization. The five core operational areas are infrastructure, environment, regional cooperation and integration, finance sector development, and education.

³¹ For other examples on achievements, see relevant web pages on results of specific FCAS countries at <http://www.adb.org/countries/main>. Also see ADB. 2011. ADB Engagement in Fragile and Conflict-Affected Situations. (Paper prepared for the ADF XI replenishment meeting in Manila, 8–9 September 2011).

- aims to construct transmission lines to link hydropower stations in Tajikistan to a number of border towns in northeastern Afghanistan. This line will supply major electricity demand centers and bring 300 megawatts of comparatively cheap, clean surplus hydropower from Tajikistan into Afghanistan each year. The net economic benefits of this regional cooperation project are estimated at about \$114.1 million, 47% to Afghanistan and 53% to Tajikistan.³²
- (ii) **Nauru.** In 2005, ADB and AusAID helped the Government of Nauru prepare its first national development plan, the National Sustainable Development Strategy, using a participatory approach. This technical assistance operation also contributed to the development of local capacity in participatory methods.
 - (iii) **Pakistan.** In northwestern Pakistan, the Federally Administered Tribal Areas and Khyber-Pakhtunkhwa Province suffered decades of poor governance, regional instability, marginalization, inequity, and underdevelopment. To address these challenges, ADB, the European Union, the United Nations, and the World Bank, jointly with the governments of the province and the federal area administration, conducted a post-conflict needs assessment. The assessment led to formulation of a framework and action plan to rehabilitate affected areas.
 - (iv) **Timor-Leste.** The Institute for Microfinance in Timor-Leste—established in late 2001 under an ADB microfinance project to provide financial and other services to the poor—has become the country's largest domestically owned financial institution. The institution, which puts an emphasis on rural areas and women, increased lending from \$1.0 million in 2004 to \$6.5 million by mid-2010 through the disbursement of 40,417 loans. In July 2011, the institute became the Commercial Bank of Timor-Leste, which was the country's first locally owned commercial bank and continues to provide an important channel into rural areas for finance and government cash payments.
 - (v) **Pacific Climate Change Program.** ADB also recognizes the importance of the climate change agenda to its small island Pacific DMCs. In 2010, ADB established the Pacific Climate Change Program to help ensure the continued economic growth of Pacific DMCs. The program is aimed at reducing their vulnerability to the risks and impacts of global climate change. This is consistent with one of the three strategic agendas of Strategy 2020—environmentally sustainable growth. The environmental agenda is an integral part of national policy priorities and of the post-2015 development agenda for these DMCs.

³² From <http://www.adb.org/countries/afghanistan/results>

The Way Forward: Actions to Enhance ADB's Effectiveness in FCAS

Expanding Use of ADB's 2007 Approach

21. Building on lessons learned and good practices highlighted in paras. 14–20, this operational plan calls for mainstreaming the use of fragility- and conflict-sensitive approaches in ADB's strategies and operations. It calls for a systematic effort to encourage greater use of the good practices and the flexibility of the 2007 approach, by raising the level of staff awareness on the approach and these practices. The fragile and conflict-affected situations (FCAS) plan is relevant for developing member countries (DMCs) that are classified as FCAS countries and other DMCs that are not formally classified as FCAS but exhibit fragility similar to that affecting FCAS countries or face subnational situations of fragility and conflict.³³

Continue Efforts to Make Country Strategies and Plans More Fragility- and Conflict-Sensitive

22. ADB will make the future country partnership strategies (CPSs) and country and operational business plans (COBPs) of all FCAS countries more fragility- and conflict-sensitive.³⁴ An understanding of the drivers of fragility and conflict and their implications for ADB's strategies and business plans is critical.³⁵ Staff can use various tools to better understand and analyze drivers of fragility and conflict—such as political economy analysis and the fragility and vulnerability assessments described in the FCAS handbook. Country teams can undertake political economy analysis as part of the additional country diagnostic studies suggested in the new CPS guidelines (footnote 18), or they can base their analysis and discussion on a similar assessment already completed by other stakeholders.³⁶ A recent ADB note on the use of political economy analysis for ADB

³³ The decision on whether a DMC that is not formally classified as an FCAS country exhibits fragility similar to that experienced by FCAS countries or has a subnational situation of fragility or conflict will be taken by ADB's regional departments and country teams. They will take into account the country context and consult with the government and other development partners in the country in making the decision. Given the diversity of contexts in the region and the variety of factors that may cause fragility and subnational situations of fragility and conflict, a predetermined framework to identify such situations will not be appropriate. Accordingly, whether to apply the operational plan to DMCs that are not formally classified as FCAS but exhibit similar fragility or subnational situations of fragility and conflict will be decided on a case-by-case basis by the regional departments and country teams.

³⁴ The term CPSs in this plan includes the Pacific regional strategy, which serves as the CPS for seven Pacific FCAS countries (para. 17).

³⁵ A systematic peer review mechanism with a fragility lens to review the CPSs, regional strategies, and COBPs covering DMCs facing fragility and conflict will be required. The resource group (paras. 32–33) will develop this mechanism.

³⁶ Country teams are encouraged to undertake these analyses jointly with other development partners. Additional optional assessments can be undertaken as appropriate—a climate risk assessment in the case of Pacific CPSs, for example. For further guidance on assessments, see the FCAS staff handbook (footnote 6).

operations provides ADB staff with guidance on how this analysis can be undertaken and used at the country, sector, and project levels (Box 2).³⁷ Other knowledge products required for the CPS—such as the poverty and gender analyses, and the risk assessment and risk management plan—will themselves need to be made more sensitive to the FCAS context and will require a fragility lens. ADB will make greater efforts to use participatory processes in these countries to help gain a deeper understanding of the local context.

23. In addition, ADB will strengthen discussion of the security aspects in the CPSs and COBPs of all DMCs that are classified by ADB as conflict-affected and those that are identified by ADB country teams as having subnational situations of conflict. As the *World Development Report 2011* noted (footnote 4), a deep understanding of the nexus between security, justice, and development is critical to identifying the potential impacts of the security situation on the operations of development partners. To recognize the implications of the security situation and reflect them in ADB's strategies and operations in such DMCs, ADB will coordinate more closely with other development partners that have greater capacity in security issues, such as the United Nations.³⁸

24. Given the higher risks of operating in FCAS, ADB also needs to rethink its approach to risk frameworks in situations of fragility and conflict. The plan includes development by ADB of a risk framework that will address the additional challenges in these countries (paras. 43–45). The plan calls for CPSs covering FCAS countries to support a long-term institution-strengthening agenda and decrease reliance over time on such short-term responses as outsourced or parallel implementation arrangements. The high risks of weak-capacity environments sometimes require short-term responses to achieve project results, but an exit strategy based on long-term institutional strengthening is important to strengthen country systems and sustain results (paras. 46–49).

Mainstream Good Practices in Project Design and Implementation

25. Equally important to understanding the drivers of fragility and conflict at the country level is the consideration of these factors at the sector and project levels (Box 2). ADB seeks to include explicit statements in project documents to reflect the conditions and risks presented by the FCAS context at these levels and to specify how project design and implementation will address them. Due to the importance of institution building, sector road maps and project documents should assess how ADB's projects may link with broader national statebuilding efforts at the country level. This is something development partners have done poorly in the past. For example, an independent evaluation of the

³⁷ ADB. 2013. Guidance Note on the Use of Political Economy Analysis for ADB Operations.

³⁸ The plan suggests that ADB explore the possibility of allowing 10-year CPSs, with shorter interim strategies, for conflict-affected countries (para. 44). This option would provide flexibility to quickly adapt and react to evolving circumstances.



Box 2 Use of Political Economy Analysis for ADB Operations

An Asian Development Bank (ADB) guidance note explains how political economy analysis can be used to inform the design and implementation of ADB operations and thereby make development outcomes more feasible and sustainable. The note states that political economy analysis adds value to the design and implementation processes by

- contributing to a shared understanding within country teams of the political context and how it affects country strategies and operations,
- identifying the power relations and interests pursued for influencing key stakeholders,
- informing better policy and programming,
- supporting risk management and scenario planning by helping to identify the critical factors that are likely to drive or impede significant change in the future, and
- broadening the scope for dialogue with development and country partners around key political challenges and opportunities at the country and sector levels.

Political economy analysis can be used to inform ADB operations in several ways.

Country-level analysis. Country-level analysis is valuable where there is little prior political economy analysis, especially when ADB is considering operations in a new country or reentry into a country after a long absence. It is particularly relevant in developing member countries (DMCs) facing fragile and conflict-affected situations (FCAS) where political stability is a concern. Political instability will often have profound effects across policy areas and sectors in FCAS DMCs and DMCs with subnational fragility, conflict, or post-conflict situations. The analysis could broadly cover the following: foundational dimensions, such as the relationships between different ethnic groups, the role of religion, and the role of external forces; historical factors; conflict and ethnic tensions; mapping of key institutional structures; and main stakeholders.

Growth diagnostic assessment. The preparation of country partnership strategy (CPS) must be informed by inclusive growth diagnostics. The diagnostic study identifies binding constraints that limit growth, as well as policies to alleviate them. However, even technically sound policy prescriptions can fail if effective political support is lacking. A political economy approach can help identify how to overcome particular economic constraints within the prevailing political realities.

Sector diagnostics. Sector analysis can play a major role in assessing how much readiness and interest exists for institutional change and the time needed to achieve it. Sector analysis provides an opportunity to (i) update the understanding of domestic institutional arrangements and the political and policy development process, (ii) assess the time and resources needed to effect change and develop capacity, and (iii) minimize efficiency losses. The sector political economy analysis could broadly cover the following: role and responsibilities, power relations, historical legacies, and corruption and rent seeking.

The findings of the diagnostic studies guide the potential entry points for ADB engagement in DMCs and show how an intervention might be appropriately sequenced to deliver the best results. In developing CPSs, political economy analysis can help to create a better understanding of the environment in which country operations take place and strategic results are pursued. It also helps spell out crucial governance and political economy risks, especially in FCAS DMCs. A well-prepared sector-level political economy analysis can usefully inform the design of policy reform programs, whether they are supported through loans, technical assistance, or policy dialogue. Political economy analysis conducted on a particular policy or development issue or problem of strategic importance to a DMC will place ADB in a much stronger and more credible position to engage the DMC in policy dialogue.

Source: ADB. 2013. Guidance Note on the Use of Political Economy Analysis for ADB Operations.

African Development Bank's assistance to fragile states noted that significant analysis of political context and the drivers of conflict was undertaken by project teams in most cases but "no explicit links are made to how the Bank's programming should fit into national peacebuilding and statebuilding objectives."³⁹ ADB must place the same importance on analyzing the effects its projects could have on the conflict situation in the country and on ensuring that these projects do not make it worse.⁴⁰

26. To improve the responsiveness of ADB operations in FCAS, the plan encourages ADB staff to be innovative in identifying initiatives and adapting business processes, while still ensuring adequate fiduciary controls. These innovative initiatives and processes should respond to the unique challenges of FCAS, including weak institutional capacity in procurement, financial management, and safeguards. A resource group (paras. 32–33) will develop and help the country and project teams use a fragility lens mechanism in preparing the results frameworks of CPSs and regional strategies and the design and monitoring frameworks of projects and programs in FCAS countries. This mechanism will enable these frameworks to show how ADB's support will address the causes of fragility and contribute to development effectiveness in these DMCs. The resource group will also help to prepare a mechanism to assess whether an FCAS-sensitive approach is being followed at the CPS, COBP, and project levels (footnote 35).

Strengthening Resources for FCAS Operations

Expand Field Presence and Improve Staff Incentives

27. Under this operational plan, ADB will build on its past efforts to upgrade staff capacity and incentives and will further strengthen its field presence in support of FCAS operations. The special evaluation study (SES) noted that improved field presence and supervision is important to achieving effectiveness in operations in FCAS DMCs, given the lower capacity levels of their national governments and institutions (footnote 3). ADB strengthened its staff support for FCAS operations under its 3-year workforce plan for 2010–2012. Building on the advantage of having its headquarters in the region and on the collegial nature of working relations allowed by its size and corporate culture, ADB's decentralization model allows close collaboration between field offices and headquarters.⁴¹ ADB's field presence in Pacific FCAS countries was increased through the establishment of development coordination offices in 2008–2012 in Kiribati, Palau, the RMI, Solomon Islands, and Vanuatu, as well as in the FSM in 2013. Joint development coordination offices were established with the World Bank in Kiribati, Solomon Islands, and Vanuatu. This allowed closer alignment with governments, development partners, and other stakeholders at the country level.⁴²

³⁹ African Development Bank. 2012. *Evaluation of the Assistance of the African Development Bank to Fragile States*. Tunis.

⁴⁰ ADB staff experience has shown that concentrating assistance operations in one geographical area, to the neglect of other areas, can adversely affect a conflict situation.

⁴¹ ADB staff in field offices and headquarters work under the combined leadership of country and sector directors. While sector directors based at headquarters are responsible for project processing and oversight of operations in their sectors to ensure coherent policy dialogue and a consistent approach to sector development, sector staff members work in teams across locations under the combined oversight of the country director and sector director. This ensures consistency at both the country and sector levels. The Pacific Liaison and Coordination office in Sydney also provides strong support in Pacific operations and coordination with other development partners.

⁴² The non-FCAS Pacific countries in which development coordination offices were opened include the Cook Islands, Samoa, and Tonga.

28. So far, an additional 17 positions have been allocated to the resident missions in Afghanistan and Nepal. The added staff will provide greatly needed support in the areas of procurement, project administration and portfolio management, public management and governance, gender and social protection, and the environment. The staffing capacity in ADB's FCAS countries (including Nepal) has increased by 33% since 2009.

The expansion of the development coordination office in the FSM is expected to be fully operational in 2013. Expansion of the PNG resident mission is ongoing. This reflects the increasing devolvement of project implementation responsibilities to ADB's resident missions. ADB will monitor the number of staff supporting FCAS operations to ensure that it provides adequate support to its FCAS DMCs.⁴³



29. Despite better incentives instituted in 2009 for staff posted in hardship and/or hazardous duty stations, ADB's operational departments report difficulties in getting qualified senior staff to fill positions in these stations. The improved incentives package recognized the need to address the special safety, security, and personal conditions for staff and their dependents. Similar to those being offered by the World Bank, the incentives focused on assignment and relocation benefits, including provision of an assignment premium, hardship premium, separate household assistance in a third country, travel-related benefits, and a higher relocation allowance. The difficult conditions and environment under which staff are required to operate in FCAS also need to be recognized. ADB will explore incentives that would grant better career advancement opportunities for staff working in FCAS and hardship duty stations. ADB will continue to monitor these staff incentives in the light of those provided by other major development partners to determine options for improving or adding to them.

Enhance Staff Skills and Awareness

30. Training and support may be needed to help staff translate the results of political economy analysis into realistic strategies and project designs. Without these skills and technical knowledge, country strategies and designs may remain insensitive to the identified special needs of FCAS DMCs even when good diagnostics and analyses have been undertaken. Evaluations by other MDBs suggest a similar problem. An independent evaluation report on the African Development Bank's operations in FCAS said that a "lack of fragility lens and business as usual approach opens up significant risk of failure and conceivably wider damage from Bank's interventions" (footnote 39).

⁴³ ADB may consider the use of an appropriate monitoring indicator in light of those being used by other MDBs. One example is an indicator of staff "face time" with FCAS clients that is being used by the World Bank to monitor staff deployment on FCAS operations. World Bank. 2013. IDA's Support to Fragile and Conflict-Affected States. Washington, DC. para. 27.

31. ADB has conducted no formal training for staff working on FCAS issues. Nor does it have formal institutional arrangements in place to raise staff skills and technical knowledge on these issues. Operational staff require continuous updating of their technical knowledge and awareness of evolving good practices on such complex matters as political economy assessments and understanding the drivers of fragility and conflict. Updating knowledge and awareness on international developments and the New Deal processes will be equally important for staff. ADB will develop a systematic program for training all relevant staff, including the crosscutting specialists, through at least one in-depth staff training session per year, beginning in 2013. The training will also be used for more systematic dissemination to ADB staff of good practices for operating in FCAS and of information on the flexibility inherent in the 2007 approach. This will greatly widen the application of an FCAS-sensitive approach in ADB operations. Strengthening the abilities of ADB staff members will also improve the capacity of the DMC executing agencies that they work with. Efforts are now being made to develop a training program based on ADB's own experiences. This program can benefit from the training programs already being offered to their staff by other institutions, such as AusAID and the World Bank.

Establish FCAS Resource Group

32. ADB needs to commit and invest in additional human resources if it is to successfully mainstream FCAS-sensitive approaches. The institutional responsibility for ensuring effective ADB engagement in FCAS now rests entirely on a single, full-time staff member—the institution-wide focal point—whose only support comes from an informal network of other ADB staff. These staff resources are sometimes supplemented by limited technical support for selective country programming analyses and piloting special tools.⁴⁴ A larger, dedicated team of FCAS experts is required to support project teams in ADB's geographically diverse FCAS countries and in subnational situations of fragility and conflict. An FCAS resource group will therefore be established through the engagement, under regional technical assistance, of consultants with FCAS expertise. The staff handbook provides written guidance for FCAS operations. However, informal discussions with staff at ADB and other MDBs suggest that direct operational support through regular, person-to-person, case-by-case interchanges, particularly on such complex and sensitive issues as those raised by a political economy assessment, is much more effective. The FCAS resource group will help facilitate FCAS sensitivity in designing, monitoring, and implementing projects. It can also provide better, more systematic, and regular technical support now needed for country-level discussions with stakeholders on such issues as governance and capacity development. This additional expert support will also help ADB engage more productively in the New Deal processes at the international and national levels. Due to limited resources, ADB has not been able to participate regularly or contribute directly as a member of the Steering Group of the International Dialogue. It is important for ADB to bring the perspective of the Asia and Pacific region to these discussions. ADB's greater engagement at this international level will enhance staff capacity and knowledge, which will in turn strengthen ADB operations and policies.

33. The resource group will be available almost full-time under regular pre-contracted arrangements to provide direct support to country teams and to the FCAS focal point in coordinating the implementation of this operational plan. It will also help implement and

⁴⁴ ADB. 2009. *Technical Assistance for Supporting ADB's Engagement in Fragile Situations*. Manila.

monitor the plan. The resource group will be led by the ADB-wide FCAS focal point and work closely with an internal group of FCAS experts that will be identified from across ADB.⁴⁵ The internal expert group will include staff from regional departments and cross-cutting specialists in procurement, safeguards, and capacity development.⁴⁶ The resource group will be housed in ADB's Pacific Department, extending the current arrangement of the focal point for FCAS. The focal point will process the regional technical assistance and mobilize the resource group by the end of 2013. Details on the proposed organizational structure for implementing the FCAS operational plan are in para. 55.

Augment Financial Resources

34. FCAS DMCs in the Pacific need a volume of assistance that takes into account the higher fixed costs of development that arise due to their small size, geographical remoteness, and constraints as island economies. FCAS DMCs suffer from inherent structural weaknesses, and those that are affected by conflict face added costs due to poor security. The need for enhanced financial resources to support sustainable long-term development in FCAS DMCs is well recognized.⁴⁷ Development partners should continuously review the availability of resources for these countries and avoid discontinuity in resource allocation (footnote 3). Overall ADB assistance (combined loans, grants, and technical assistance) to FCAS countries amounted to \$2.54 billion during 2007–2011.⁴⁸ About 66% of this assistance came from Asian Development Fund (ADF) grants and other grants, including cofinancing. The FCAS countries in the Pacific have also received additional technical assistance through regional technical assistance initiatives and regional activities.⁴⁹ This amounted to about \$81 million during 2007–2011.

35. The 10 FCAS DMCs of the Pacific benefit from increased allocations from the 4.5% of the total ADF envelope that is set aside and earmarked for the Pacific. During the ADF X period (2009–2012), this amount provided an estimated 34% premium in resource allocation over what would have been allocated under the normal performance-based allocation method. Afghanistan has received higher allocations from the ADF due to a post-conflict premium. It has an extended phaseout period that will resume in 2013 and end in 2018.

36. Despite the 4.5% set aside for the Pacific, the ADF allocation to some of the FCAS DMCs in the region has been less than \$1 million a year. This is not enough to meet their

⁴⁵ The internal group of FCAS experts will include members of the existing informal network of staff, as appropriate.

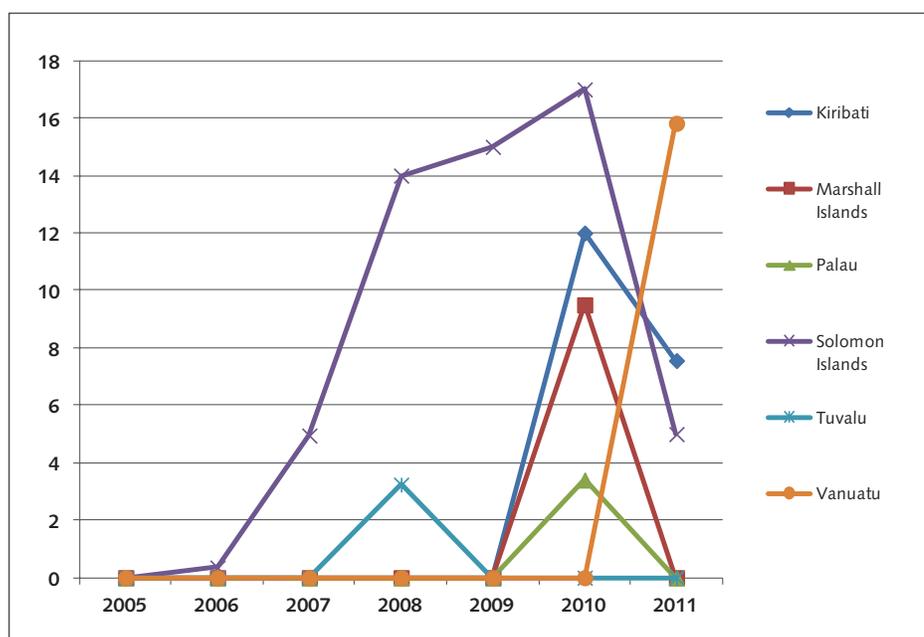
⁴⁶ The staff members from Operations Services and Financial Management Department (OSFMD) and Regional and Sustainable Development Department (RSDD) will continue to be with their parent departments.

⁴⁷ World Bank. 2012. IDA16 Mid-Term Review: Progress Report on IDA Support to Fragile and Conflict-Affected Countries. Washington, DC. October 2012; and Chair's summary of the IDA16 Mid-Term Review; African Development Bank. 2013. Options for a More Robust ADF Performance-Based Allocation System. A discussion paper for the ADF-13 First Replenishment Meeting. Tunis. February 2013.

⁴⁸ Loan and grant assistance approvals totaled \$2.47 billion in 2007–2011. This comprised lending from the ADF and ordinary capital resources, including nonsovereign loans and equity investment from ordinary capital resources and ADF grants and other grants in the form of cofinancing. In terms of recipients, Afghanistan received 60% of total loan and grant assistance, followed by PNG at 29%. Technical assistance (TA) to FCAS countries during the same period, excluding regional technical assistance, amounted to around \$72 million. It comprised advisory TA (48%), project preparatory TA (23%), capacity development TA (20%), and policy and advisory TA (9%). Two conflict-affected countries were given the largest share of this TA, with Timor-Leste receiving 28% and Afghanistan 20%. Also receiving significant TA shares were PNG (18%) and Solomon Islands (10%).

⁴⁹ This includes regional capacity development TA, policy and advisory TA, project preparatory TA, research and development TA, and regional activities for Pacific DMCs.

Figure 2 Asian Development Fund Loan and Grant Approvals for Fragile and Conflict-Affected Countries in the Pacific, 2005–2011 (\$ million)



Note: Papua New Guinea is excluded because of its very high values, which would distort the graph. Timor-Leste is also excluded because of its high values due to its post-conflict special assistance. There were no Asian Development Fund (ADF) loan and grant approvals for the Federated States of Micronesia and Nauru during 2005–2011.

Source: ADB's Loan, Technical Assistance, Grant, and Equity Approvals database.

needs in such priority sectors as infrastructure and transport. In addition, as Figure 2 shows, ADB's support⁵⁰ to these countries has been volatile. In view of this and recognizing the need for sustained support to these DMCs, ADB will explore options to augment financial resources for FCAS operations. The first two of the following options will be a part of the ADF resource allocation framework:

- (i) ADB will consider providing a minimum annual country allocation to ensure that these DMCs receive a dependable, meaningful minimum flow of assistance. This would make ADB's support to FCAS countries less volatile and the predictability of such a guarantee would be a sound basis for planning country operations.
- (ii) ADB will consider replacing the existing set-aside for the Pacific with a set-aside for ADB's FCAS countries. This would minimize changes in assistance levels from year to year and ensure a greater pool of resources for FCAS countries.
- (iii) ADB will consider establishing a pool facility to finance institutional capacity building in FCAS DMCs. Peacebuilding and statebuilding, which are viewed through the international consensus on the New Deal as basic to achieving development in FCAS, require dedicated resources over a sustained period of time. At first, such targeted support could be allowed for such capacity substitution measures as small grants to fill critical procurement and auditing service gaps, but a plan with a clear

⁵⁰ This support, as indicated in Figure 2, includes ADF loans and grants.

exit strategy would have to be formulated for sustained capacity development of government and its institutions.⁵¹

37. ADB will prepare a proposal to strengthen the ADF resource allocation framework for FCAS countries and consult with ADF donors in 2014. ADB will also monitor the World Bank IDA17 and African Development Fund 13 discussions on an enhanced framework and consider their findings and other possible ways to improve resource allocation to FCAS countries. The World Bank is examining options for strengthening the International Development Association resource allocation framework⁵² for countries facing FCAS, and the African Development Bank is doing the same for its African Development Fund. Details are in Box 3.

Responding to International Commitments and Good Practices

38. The international development community began engaging more actively on FCAS issues after the second High Level Forum on Aid Effectiveness in Paris in 2005. The International Dialogue on Peacebuilding and Statebuilding was established in 2008 in Accra, Ghana to respond to the need for better, more focused efforts on the challenges of conflict and fragility.⁵³ The *World Development Report 2011* and the commitments under the New Deal, spearheaded by the g7+ group, highlighted good practices and key messages for engagement in FCAS that are now internationally accepted (Appendix 2). Fragile situations require differentiated approaches. Development partners need to harmonize their approaches, especially at the country level, to avoid causing harm through a lack of coordination. The challenges of fragility and conflict require long-term solutions, and the building of capable and legitimate institutions is critical. Development partners providing support in FCAS need to follow simple procedures and have greater risk appetites. Finally, development partners need to recognize the nexus between development, security, and justice. Development will be difficult to achieve unless the issues of security, political legitimacy, and justice in FCAS countries are addressed.

Monitor Developments on the New Deal Processes

39. ADB will continue to engage in the New Deal process at the international level as a steering group member of the International Dialogue, paying particular attention to the development of the five Peacebuilding and Statebuilding Goals (PSGs) and monitoring indicators: (i) inclusive politics, (ii) security, (iii) justice, (iv) economic foundation, and (v) revenue and services (Appendix 2). The PSGs are seen as a base upon which to achieve the Millennium Development Goals in these countries. The PSG indicators will be used to track progress on these goals at the global level.

⁵¹ ADB has provided capacity development TA grants to these countries but more stable, dedicated assistance is needed to strengthen the capacity and functioning of state institutions in the core areas of ADB's support to these DMCs.

⁵² World Bank. 2012. Draft Final Report by the IDA Working Group on Fragile and Conflict-Affected States.

⁵³ The International Dialogue was the first forum to bring countries affected by conflict and fragility and their international partners together to identify, agree on, and realize more effective ways to support transitions out of fragility and the building of peaceful states. See Appendix 2.

Box 3 African Development Bank and the World Bank—Options for Enhanced Support

The African Development Bank is exploring options to enhance resources for its fragile and conflict-affected member states and will present fully elaborated proposals for consideration at the second African Development Fund 13 replenishment meeting scheduled for June 2013. Two options are being considered:

- (i) One involves using a partially differentiated country policy and institutional assessment (CPIA) for fragile states that assesses country performance in dealing with the sources of fragility. The option is expected to enhance the understanding of drivers of fragility and reward performance, since countries performing well in dealing with fragility drivers will receive additional resources.
- (ii) Another would include an index of fragility in the performance-based allocation formula. This option aims to address the different levels of fragility existing in all African Development Fund countries and redistribute resources from the top performers to the lower performers. While the cost for the largest allocations may be low, the simulations suggest that the option is not a very efficient way to achieve the desired outcome. Fragility indexes may therefore be better used in the context of defining fragility and identifying fragile states.

The World Bank is exploring a comprehensive set of options for strengthening the International Development Association (IDA) resource allocation framework for fragile and conflict-affected countries. These options can be grouped into four categories: (i) the continued use of the current allocation system, (ii) targeted adjustments to the current allocation system, (iii) changes in the relationship between allocations and project performance, and (iv) changes in the nonperformance elements of the allocation formula to reflect vulnerability or to change the weight of the performance exponent in the performance-based allocation system. Based on an assessment of these options against a series of considerations (including implications for incentives, volatility, and trade-offs), a subset of options has been considered by IDA deputies at the IDA 16 midterm review in November 2012 and will be considered further in the context of IDA 17 replenishment discussions in 2013. This subset of options are as follows:

- Option 1. Case-by-case, extend the phaseout period from the exceptional allocation regimes for post-conflict and reengaging countries for the duration of IDA 17.
- Option 2. Increase the notional per capita allocations for post-conflict and reengaging countries.
- Option 3. Increase the minimum base allocation from SDR3.0 million to SDR4.0 million per year.
- Option 4. Eliminate the remaining Multilateral Debt Relief Initiative netting out.
- Option 5. Provide exceptional allocations to “turn-around” situations.
- Option 6. Reduce the country performance rating exponent in the allocation formula from 5 to 4.

Sources: World Bank. 2012. IDA16 Mid-Term Review, Progress report on IDA support to fragile and conflict-affected countries, October 2012; Chairperson's Summary of the IDA16 Mid-Term Review; African Development Bank. 2013. Options for a More Robust ADF Performance-Based Allocation System, Discussion Paper. ADF-13 First Replenishment Meeting, February 2013, Tunis, Tunisia.

40. At the country level, ADB will concentrate its efforts and activities on the two PSGs that correspond to its Strategy 2020 priorities and core areas—economic foundations, and revenue and services.⁵⁴ It will also coordinate closely with development partners who have stronger capacity in pursuing the remaining three goals, which will also have a crucial impact on all development efforts—inclusive politics, security, and justice.

ADB country and project teams need to recognize the importance of this coordination because inaction on any of these other goals and issues can potentially jeopardize ADB activities in its own core operational areas. The resource group will help the ADB-wide institutional focal point and country teams to engage in the New Deal processes and understand the implications of these activities for ADB operations.



41. ADB country teams will also participate in the country-led fragility assessments being piloted in Afghanistan and Timor-Leste as a part of the New Deal.⁵⁵ These assessments are aimed at identifying causes of fragility and sources of resilience so that peacebuilding and/or statebuilding priorities can be identified and recommended. These analyses can serve as useful inputs in political economy assessments and the understanding of fragility and conflict in these DMCs. The PSG indicators will allow the DMCs to measure and monitor country-level development progress through a fragility lens mechanism. When appropriate to the country context and ADB's areas of operations in a DMC, ADB will consider including these indicators in the CPS results frameworks and the design and monitoring frameworks of FCAS projects and programs.

42. The New Deal also commits all endorsees, including ADB, to a series of aid effectiveness principles for achieving better results, known as TRUST. These principles include transparency of aid; risk sharing; the use and strengthening of country systems; the strengthening of national capacities; and improving the timeliness, speed, and predictability of aid. The details of TRUST are in Appendix 2. The operational plan addresses some of these issues, and ADB will make more concerted efforts to adhere to the TRUST principles, especially in the areas of (i) developing a differentiated risk framework for improving responsiveness and flexibility of its operations in FCAS; and (ii) strengthening national institutions and country systems, which it will address through an appropriate capacity development framework for FCAS. These frameworks may need to be different for small island DMCs in the Pacific and for such conflict-affected countries as Afghanistan. ADB also needs to harmonize its approach to identifying FCAS countries with the approaches of other MDBs.

⁵⁴ The goal on economic foundations covers efforts to generate employment and livelihoods, while the one on revenue and services refers to initiatives aimed at managing revenue and building capacity for accountable and fair service delivery. See Appendix 2 for details.

⁵⁵ ADB's Economic and Research Department is also proposing pilot work on developing a fragility index in two DMCs (Papua New Guinea and Timor-Leste). The relevant country teams will keep this in view.

Develop Differentiated Risk Framework

43. ADB's business processes have remained uniform for all its projects, whether they are in FCAS or non-FCAS DMCs. This is true for business processes and guidelines on procurement, financial management, safeguards, and such other due diligence as governance and risk assessment.⁵⁶ It is now widely recognized that FCAS present operational risks that are both greater than and distinct from risks found in other low-capacity environments. Yet the risks of not engaging in these contexts may outweigh most of the risks of engagement. This is true for both the countries themselves and their development partners because urgent action and quick results may be needed to keep FCAS from worsening or at least to limit the extent of further deterioration. Risk-averse behaviors tend to slow the implementation of FCAS projects.⁵⁷ The New Deal advocates greater risks by donors and actions to strengthen and use country systems (Appendix 2).

44. ADB will develop and adopt a differentiated risk framework with fragility- and conflict-sensitive procedures and business processes that can be applied ex ante in ADB strategies, projects, and programs.⁵⁸ The 2007 approach allows for the use of simplified and flexible procedures in FCAS country projects and programs on a case-by-case basis. But the ex ante procedural adaptability of the proposed differentiated risk framework will improve the flexibility, speed, and efficiency of ADB's FCAS operations, enabling ADB to respond more effectively to special conditions and requirements in these DMCs. This ex ante flexibility will also provide clarity to ADB's crosscutting specialists, who may sometimes be hesitant to allow the special arrangements that are permitted on a case-by-case basis under the 2007 approach. Because FCAS DMCs have insufficient institutional capacity in almost all technical areas, including procurement, safeguards, and project management, ADB support through outsourcing of these services can be important in the short run. Alternative implementation arrangements through private entities or a third party can also be important. Conflict-affected DMCs may require a longer-term CPSs covering 10 years and accompanied by shorter-term interim strategies to adapt to sudden changes and evolving situations.⁵⁹ In conflict situations that present security concerns, ADB may require consultant supervision on the ground and recruitment of firms to assist with project management and administration functions. The procedural flexibility provided in ADB's current business processes for timing safeguard assessments in conflict areas should continue.⁶⁰ An effort will be made to identify appropriate flexibility in safeguards for Pacific DMCs, which may face different constraints from those arising from security risks in conflict-affected DMCs such as Afghanistan. Given the focus in Strategy 2020 on private sector operations and DMC priorities in this area, ADB can

⁵⁶ However, an ex ante exception or procedural flexibility in ADB processes is provided in the 2007 approach to address safeguard risks associated with projects in conflict-affected situations. This is explained in para. 44 and footnote 60.

⁵⁷ OECD. 2012. *International Support to Post-Conflict Transition: Rethinking Policy, Changing Practice, Development Assistance Committee Guidelines and Reference Series*. OECD Publishing.

⁵⁸ ADB will explore the possibility of including this new framework in the existing Second Governance and Anticorruption Action Plan guidelines. ADB. 2008. *Guidelines for Implementing ADB's Second Governance and Anticorruption Action Plan II*.

⁵⁹ The interim strategies could be renewed automatically or changed with shorter and simpler approval processes. The terms of the approval process could depend on the extent of change involved.

⁶⁰ *ADB Operations Manual*, Section F1/Operational Procedures on Safeguard Review Procedures dated 4 March 2010. ADB's current approach to address safeguard issues for projects in conflict areas provides procedural flexibility up to the time of Board approval of projects in conflict areas (and emergency projects).

explore a differentiated approach to risk tolerance in nonsovereign operations in these DMCs. The operational plan has identified these and some other broad potential areas in which action may be desirable⁶¹ (Box 4).

45. ADB will determine the scope of this initiative in 2013 and finalize this framework by the end of 2014. To ensure aid harmonization and efficiency, this framework will take into account actions of other MDBs that have instituted similar measures or are proposing to review their risk frameworks and guidelines for FCAS countries.

Develop Institutional Strengthening Framework

46. The operational plan will bring statebuilding and institutional strengthening to center stage in ADB operations in FCAS DMCs. This is in line with the global consensus that building capable, legitimate institutions is fundamental to achieving development progress in FCAS countries (Appendix 2). The leaders of the g7+ countries reiterated this view in the 2013 Dili Consensus, which stated that "improving the effectiveness of the state and its institutions is critical to achieving national development goals."⁶² In addition, ADB's Strategy 2020 identifies good governance and capacity development as a key driver of change and crucial to improving the cost-effective delivery of public goods and services to broaden inclusiveness (footnote 17). Because international organizations and donors have exhibited a weakness in statebuilding and long-term capacity development of institutions in countries in which they operate, a joint, concerted effort to improve their performance is called for (footnote 5). Several factors have contributed to these shortcomings in the past. It is not easy to assess the capacity needs of a country. This can only be done in a complete way by analyzing its political economy—an inherently complex and sensitive undertaking. The process of developing institutions and building capacity is a very long one, and the obstacles to success are more complex in FCAS countries than in others. Capacity is likely to be inadequate across all government institutions and in all sectors in these DMCs, requiring that attention be paid to multiple agencies at the same time.

47. ADB needs to step up its assistance for sustainable, long-term institutional and capacity development in FCAS countries. A change management approach is required for a long-term strategic involvement in these DMCs. ADB has undertaken extensive capacity development work in DMCs facing fragility and conflict by supporting their national institutions and executing agencies in policy formulation and project implementation. It has addressed the issue of chronic shortages of skilled staff in key positions in many FCAS countries, particularly those in the Pacific, which have small populations and high outmigration. Support has been provided for outsourcing financial management and procurement or for making alternative project management arrangements. But these projects typically provide support for only 2–3 years, which means their outcomes may prove unsustainable over the longer term. Capacity issues—whether they involve poor assessment of institutional capacity by ADB, the weak local institutions themselves, or a

⁶¹ These may be considered as only indicative and for further study by ADB team members responsible for this initiative.

⁶² The Dili Consensus was adopted by the g7+ group of countries on 28 February 2013 as part of an international conference hosted by Timor-Leste on 27–28 February 2013 on the post-2015 development agenda for the fragile and conflict-affected countries. www.g7plus.org

Box 4 Differentiated Business Processes—Areas to Explore

In countries experiencing fragile and conflict-affected situations (FCAS) and lacking sufficient institutional capacity due to this fragility or the effects of conflict, special considerations by the Asian Development Bank (ADB) to allow simplified business processes, flexibility in operational procedures, and alternative implementation arrangements would be helpful in addressing the challenges that often arise. Potential areas for this approach include the following:

Trust fund for outsourcing. ADB can look at whether a trust fund should or can be set up to outsource procurement and project management. Whether such a fund would also cover associated training and capacity development measures could also be examined.

A project preparation advance. ADB can explore the use of a project preparation advance facility, especially for small fragile countries of the Pacific, where the advance could be extended as grants.

Alternative project implementation arrangements. Given the limited capacity of governments to implement projects in FCAS countries, ADB could consider alternative project implementation arrangements when governments request them. These arrangements could include (i) ADB arrangements with private entities and third parties for outsourcing project management, and (ii) financing start-up activities through grants from a trust fund. Such arrangements should ideally be accompanied by institutional capacity assessments and capacity building measures to enable timely transfer of implementation responsibilities to the executing agency.

Special arrangements for nonsovereign operations. Many of ADB's FCAS developing member countries (DMCs) have made private sector development a priority. ADB should also explore a differentiated approach to risk tolerance in nonsovereign operations in its FCAS DMCs. Measures could include faster, more streamlined processing for the kind of small transactions likely to be involved initially in the fragile Pacific DMCs. This is especially important because of the high costs of operating in FCAS countries due to the lack of an enabling environment, poor regulatory conditions, the underdeveloped private sectors and insurance markets, and high security costs.

Due diligence in projects. The fiduciary, social, and environmental requirements for projects and programs that are applicable at the project preparation phase may be deferred to the project implementation phase, especially when FCAS involve security concerns. If the safeguards assessment is done during the design work, security contractors engaged for the project can provide security to safeguard consultants.

Procurement. ADB can examine whether procurement should be more flexible in conflict situations. It may also consider whether ADB should allow larger-than-average advance payments to contractors to help them cope with the greater challenges of mobilizing equipment and people and setting up construction or project camps in conflict situations and within areas of conflict.

Source: ADB staff consultations.

lack of government support and ownership in reforms—are commonly cited factors for the *less successful* ratings of ADB sovereign projects in FCAS DMCs (footnote 7). Lack of sustainability, reflected by a *less than sustainable* rating, was a common feature of most of the sovereign projects that were rated *less than successful*.

48. ADB will develop a broad framework for long-term institution building that is suited to FCAS DMCs.⁶³ It will seek to develop this framework jointly with other development partners.⁶⁴ This framework will focus more directly on identifying and addressing capacity gaps and on sustained institution building in DMCs experiencing fragility and conflict. This framework must recognize the interaction between fragility situations, weak institutions, and development activities. Guided by this common framework, capacity development plans for DMCs may vary, based on ADB's portfolio and the specific needs of each DMC.⁶⁵

49. This initiative will keep in view the SES recommendation that the capacity development plans be identified during the preparation of country and sector strategies, based on the country performance assessment (CPA) and the country context.⁶⁶ Evidence based on CPA ratings of ADB's 11 FCAS countries during 2007–2011 suggests that, of the four clusters used for CPA assessments, these DMCs perform consistently lower in two—policies for social inclusion/equity, and public sector management and institutions (Figure 3). Both these clusters represent crucial aspects of long-term statebuilding and are areas of critical importance for meeting the inclusive growth strategic agenda of Strategy 2020.⁶⁷ The results framework of this plan will measure development progress of ADB's FCAS countries in terms of improvements on these statebuilding indicators (Appendix 1).

Harmonize ADB's Classification of FCAS

50. Enhancing harmonization between development partners is central to greater aid effectiveness, especially in operations in countries experiencing fragility and conflict. When development partners do not consult with one another and fail to coordinate their efforts with governments to develop national strategies, manage risks, or launch development interventions, this lack of harmonization can harm country leaderships and institutions that are already weak. The first step toward the joint strategies and

⁶³ This approach could be differentiated for conflict-affected countries like Afghanistan and small, fragile Pacific countries. A results framework for measuring long-term institution building will also be covered as a part of this work.

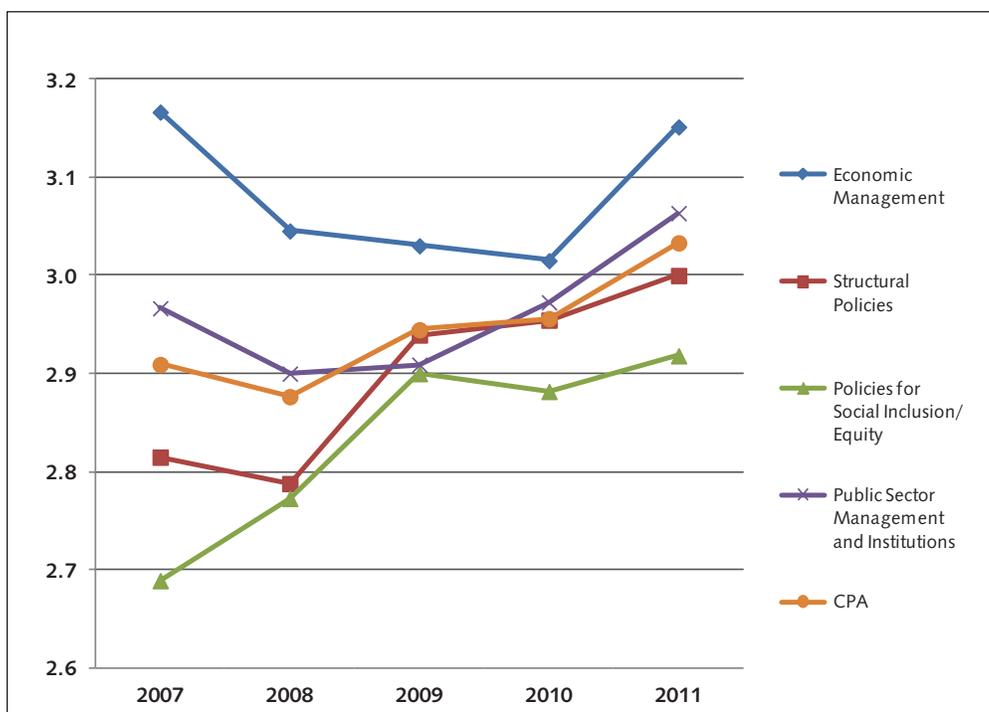
⁶⁴ The World Bank has identified a series of reforms and actions to enhance its development effectiveness in FCAS. These are based on recommendations in the *World Development Report 2011* to adopt a four-track approach. Two of the tracks are (i) providing more and better-integrated assistance for citizen security, justice, and jobs; and (ii) reforming internal agency systems to support rapid action to restore confidence and long-term institution building. Similarly, AusAID highlights the following three primary objectives of its engagement in FCAS: (i) building more responsive states that can provide security and justice and deliver services to all their citizens, (ii) preventing conflict, and (iii) building resilient communities (footnote 9).

⁶⁵ ADB's current framework, as presented in ADB. 2007. *Integrating Capacity Development into Country Programs and Operations, Medium-Term Framework and Action Plan*. Manila, and ADB's Practical Guide to Capacity Development in a Sector Context will be reviewed with a fragility lens. In addition, more tools could be developed for capacity development assessment for FCAS. These could be incorporated in the existing practical guide for staff reference.

⁶⁶ The institutional strengthening framework will also clarify how it can use country diagnostics and knowledge work, including the results of political economy analyses, to assess capacity gaps that prevent key national institutions or subnational institutions from functioning properly.

⁶⁷ FCAS countries also perform consistently lower in the cluster on structural policies. Considering the comparatively lower influence that ADB and other external development partners have on structural policies, however, this cluster is not included in the results framework.

Figure 3 Country Performance Assessment Ratings for ADB's Fragile and Conflict-Affected Developing Member Countries, 2007–2011



ADB = Asian Development Bank, CPA = country performance assessment.

Note: Data on CPA and component clusters are based on simple averages of relevant indicators of 11 FCAS countries during 2007–2011. There were no CPA ratings for Afghanistan and Palau for 2007.

Sources: ADB's annual reports on the country performance assessment exercises for 2007–2011.

coordinated approaches essential for success is for development partners to harmonize their methodologies for classifying countries as fragile and conflict-affected.

51. Harmonizing ADB's methodology. The operational plan will align ADB's FCAS classification system with the harmonized approach of the MDBs.⁶⁸ Until now, ADB has classified a DMC as an FCAS country if it was (i) ranked in the fourth and fifth quintiles in CPA assessments for 2 of the most recent 3 years, or (ii) considered to be in a conflict or post-conflict situation and thus vulnerable. This approach has a conceptual bias that will always categorize about 20% of ADF-recipient DMCs as FCAS countries regardless of the progress they might have made.⁶⁹ The World Bank defines fragile situations based on a quantitative cutoff point rather than through a ranking method like ADB's. The World Bank considers a country fragile if (i) it has an average World Bank harmonized country policy and institutional assessment

⁶⁸ Following the MDBs Working Group's 2007 recommendation, which was endorsed during a meeting of the heads of MDBs, a harmonized approach for classifying FCAS is being followed by the African Development Bank and the World Bank.

⁶⁹ According to ADB's methodology, the bottom 20% of ADB's ADF DMCs ranked according to their CPA assessment ratings form the 4th and the 5th quintile taken together.

(CPIA) annual rating of 3.2 or less;⁷⁰ or (ii) it has had the presence during the previous 3 years of a United Nations and/or regional peacekeeping or peacebuilding mission from such organizations as the African Union, the European Union, or the North Atlantic Treaty Organization (excluding border monitoring operations).

52. Under its FCAS operations plan, ADB will adopt this harmonized CPIA (that is, the average of World Bank CPIA and ADB CPA) quantitative cutoff of 3.2 for determining an FCAS country. This will eliminate the conceptual bias inherent in ADB's current methodology and help harmonize ADB's and World Bank's approaches to individual DMCs, enabling joint analyses and strategic responses. Once the approach is adopted, ADB will classify 9 DMCs as FCAS countries, rather than the current 11.⁷¹ These will be Afghanistan, Kiribati, the RMI, the FSM, Nauru, Nepal, Solomon Islands, Timor-Leste, and Tuvalu. Three DMCs on ADB's current list—Palau, PNG, and Vanuatu—will no longer qualify because their harmonized CPIA averages are above the 3.2 cutoff. Although its CPIA average is above 3.2, Nepal will be added to ADB's FCAS list due to the presence in the country of a United Nations and/or regional peacebuilding and political mission during the past 3 years. Nauru will be retained in the ADB list since its harmonized average is below 3.2.⁷² To be classified as an FCAS country has no negative connotations for a DMC. It merely helps ADB and other development partners apply a more effective and differentiated approach to a group of countries experiencing distinctive challenges.

53. **Ongoing refinements.** The SES recommended that countries be classified as FCAS DMCs at the CPS preparation stage and that this be based not only on the CPA rating but also on other fragility- and conflict-related characteristics. ADB will continue to work with other MDBs to find ways to better identify and reflect fragility and conflict in CPA assessments and ratings. Several efforts at developing indicators of fragility and conflict are underway but no uniform methodology or indicators for assessing fragility or conflict in countries have been developed and agreed so far.⁷³

⁷⁰ The World Bank-harmonized CPIA country rating for countries in Asia and the Pacific is an average of the World Bank CPIA and the Asian Development Bank's CPA ratings. The harmonized ratings for African countries are an average of World Bank CPIA ratings and the African Development Bank's CPIA ratings.

⁷¹ The proposed harmonized list of FCAS DMCs is based on ADB's 2011 CPA scores and the World Bank's CPIA scores for its 2012 fiscal year. The list will be updated based on the updates of their respective CPA and CPIA scores.

⁷² Nauru is not a member of IDA. There is currently no CPA rating for Myanmar, although a joint ADB–World Bank Myanmar office was opened recently. Myanmar will not be classified as an FCAS country by ADB unless it has a CPA rating of 3.2 or less.

⁷³ ADB's Economics and Research Department is piloting work on a fragility index. Under the New Deal, country-led fragility assessments are being undertaken in Afghanistan and Timor-Leste. The African Development Bank is considering options to further analyze and improve the definition and modalities of assessing fragility. See Box 3.

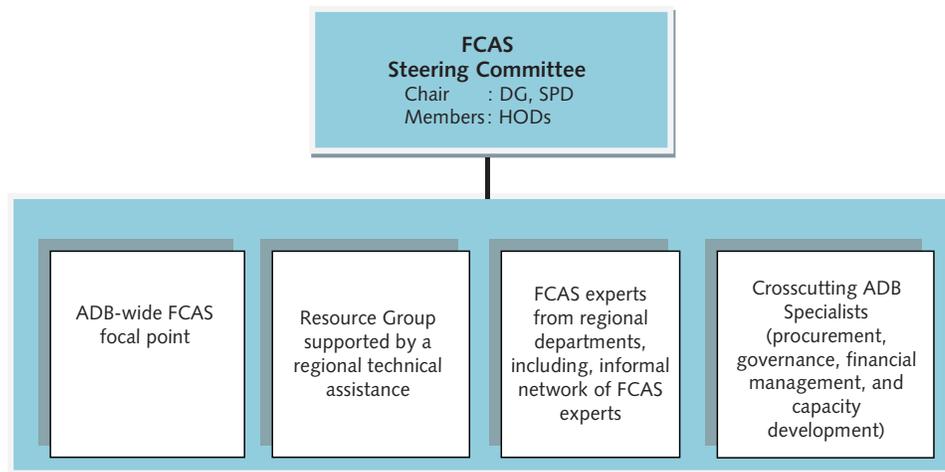
Implementation and Monitoring of the Operational Plan

54. The FCAS operational plan is a change initiative. It aims to adapt ADB's operations to better respond to the unique challenges that confront developing member countries (DMCs) experiencing fragility and conflict. It also seeks to strengthen ADB's focus on the long-term development of institutions and country systems in these DMCs. The plan indicates the areas where change is required and proposes ways to enhance the resources needed to implement these changes.

Implementation Arrangements and Time Frame

55. Figure 4 shows the organizational structure for implementing the FCAS operational plan. ADB's existing Steering Committee on FCAS, headed by the director general of the Strategy and Policy Department (SPD), will ensure overall strategic coherence in the implementation of the plan and continue to provide overall guidance. The responsibility

Figure 4 Organizational Structure for Implementing ADB's Operational Plan for FCAS



ADB = Asian Development Bank, DG = Director General, FCAS = fragile and conflict-affected situations, HODs = heads of departments, SPD = Strategy and Policy Department.

Source: ADB.

for implementing the FCAS plan will lie with the regional departments whose operations cover DMCs that face fragility and conflict. The framework provided by this operational plan will guide the regional departments in dealing with FCAS issues and ADB operations in FCAS DMCs. The Private Sector Operations Department (PSOD) will also be guided by this operational plan in its nonsovereign operations in FCAS DMCs. The regional departments and PSOD will be supported in the implementation of the plan by a team consisting of the ADB-wide FCAS focal point; the resource group and internal group of FCAS experts to be set up under the plan, including the current informal network of FCAS experts; and designated crosscutting specialists from the Regional and Sustainable Development Department (RSDD) and the Operations Services and Financial Management Department (OSFMD). The FCAS focal point will continue to be housed in the Pacific Department. SPD will coordinate the adoption of the harmonized FCAS classification (paras. 51–52) and prepare the paper for augmenting financial resources for FCAS operations. The FCAS focal point will process the regional technical assistance and mobilize the resource group by the end of 2013. The ADB-wide FCAS focal point, supported by the resource group, will have the overall responsibility for coordinating the implementation and monitoring of the plan with the regional departments, RSDD, OSFMD, and PSOD, as per timelines stated in the Table below.

Timeline for Implementing ADB's Operational Plan for FCAS

Phase	Year	Activity
1	2013	<ol style="list-style-type: none"> 1. Adopt MDB's harmonized approach to classify FCAS countries. 2. Train staff, share good practices, and mainstream the use of fragility and conflict-sensitive CPSs, programs, and projects (continuous). 3. Determine the scope of differentiated risk framework initiative. 4. Initiate work on institutional development framework. 5. Process regional technical assistance paper and mobilize resource group. 6. Prepare draft paper for enhancing financial resources for FCAS. 7. Confirm baselines and targets of the results framework.
2	2014	<ol style="list-style-type: none"> 8. Finalize differentiated risk framework with fragility-and conflict-sensitive procedures and business processes. 9. Finalize institutional development framework for FCAS countries. 10. Discuss draft paper for enhancing financial resources for FCAS (stated in activity 6) with ADF donors. 11. Refine and agree on the results framework by the first quarter of 2014. 12. Prepare the first monitoring report by the end of 2014.
3	2015–2020	<ol style="list-style-type: none"> 13. Review operational plan implementation as per operational plan staff instructions.

ADB = Asian Development Bank, ADF = Asian Development Fund, CPS = country partnership strategy, FCAS = fragile and conflict-affected situations, IDA = International Development Association, MDB = multilateral development bank.

Source: ADB.

56. The plan will be implemented in phases, since some actions will require a longer time frame. For example, the identification of measures to improve flexibility in business processes and the development of a risk framework, the proposal to explore options to enhance financial resources for FCAS operations, and the development of a framework to enhance long-term institutional capacity of DMCs, will all require actions over the next year (2014). In these areas, the plan provides only potential directions, based on which more work will be needed by the concerned ADB staff and teams. ADB staff and teams will sometimes work jointly with other development partners, including the MDBs.

Monitoring of Implementation

57. The operational plan includes a pilot results framework in Appendix 1 to monitor the progress of its implementation. The results framework indicators will be refined based on ADB's experience and the development of the peacebuilding and statebuilding indicators being prepared under the New Deal.⁷⁴ The overall result from ADB's engagement in FCAS through this operational plan is expected to be improved development progress and strengthened institutions in FCAS countries and other DMCs experiencing fragility and conflict situations. The results framework will measure results through indicators on four levels:

- (i) **Improved development progress and strengthened institutions in FCAS.** This level measures the development progress in terms of improvements on institutional development and statebuilding indicators. The three indicators used relate to policies for social inclusion and equity, public sector management and institutions, and a specific post-conflict risk indicator. The first two indicators are ADB CPA cluster indicators and the third (post-conflict) indicator is from ADB's post-conflict country performance assessment indicators (cluster D). The baselines are set at the average of the 2009–2011 CPA ratings. Since these are institutional and policy indicators, which take a long time to change, the target is set to "Monitor".⁷⁵



⁷⁴ The International Network on Conflict and Fragility is a subsidiary body of the OECD Development Assistance Committee. It was founded in 2009 to set international norms, track results, and facilitate lesson-learning on fragility and conflict for donors, partner countries, and other stakeholders. See Appendix 2.

⁷⁵ The FCAS plan has not used any of the socioeconomic indicators or Millennium Development Goals that are normally used for measuring development progress in ADB's DMCs. This reflects the view of ADB's FCAS DMCs and other members of the g7+, which do not regard the current Millennium Development Goals as relevant for measuring progress in these countries. However, the results framework will be refined by the first quarter of 2014 in the light of international developments, evolving peacebuilding and statebuilding indicators under the New Deal, and developments on the post-2015 agenda on sustainable development goals. ADB will also monitor the proposal of the World Bank IDA16 working group on FCAS to explore the inclusion of PSG indicators into the IDA results management system.

- (ii) **ADB's contribution to FCAS results.** This level is concerned with results in ADB's FCAS DMCs, based on the proportion of *successful* ratings of completed country strategies and assistance programs, sovereign operations, and technical assistance projects, with distinct monitoring of undertakings with governance and capacity development themes. Since there are only three completed nonsovereign operations with ratings in the 11 FCAS DMCs and they are all in Afghanistan, the pilot framework does not include an indicator on these operations. However, the progress on this indicator will be presented in the FCAS monitoring report. Inclusion of this indicator in the results framework will be reconsidered before the results framework is finalized by the first quarter of 2014, depending on the data on completed nonsovereign operational ratings.
- (iii) **Operational management of FCAS operations.** This level aims to capture changes in the way ADB undertakes its work in FCAS countries under the operational plan, specifically through a flexible and context-specific approach to CPSs and greater use of the flexibility provided under the 2007 approach. It includes indicators on quality at entry, risk assessment and mitigation, and performance of operations during implementation.
- (iv) **Organizational management of FCAS operations.** This level will identify the human and financial resources required to implement the operational plan, as well as help monitor progress on changes in business processes and practices.



58. The first year of the plan's implementation (2013) will be used to confirm baselines for some indicators and establish appropriate baselines for selected indicators for which none are yet available. Some baselines may change after the harmonized list of FCAS DMCs is adopted. Indicators and targets may also be reviewed in the light of international developments on peacebuilding and statebuilding goals under the New Deal. The results framework will be confirmed by the first quarter of 2014 and piloted with the first monitoring report by the end of 2014. The scheduling of the future monitoring reports on this operational plan will be guided by ADB's staff instructions on operational plans.

59. ADB is committed to managing external and internal risks to achieve the overall goal of this operational plan. The potential external risks inherent in ADB operations of FCAS include unfavorable shifts in fluid political situations; security problems; the effects of weak government capacity; the possible unwillingness of FCAS countries to undertake and/or to be engaged in assessments (e.g., fragility assessments or political economy assessments); and a possible lack of additional resources, with continued volatility in resource flows to support FCAS operations. ADB will manage these risks by following more fragility-sensitive approaches that are country-specific and based on regular dialogue and stakeholder discussions. The plan's systematic effort to

mainstream institutional development and augment financial resources for FCAS operations is likely to help ADB achieve a long-term strategic engagement with its FCAS DMCs. ADB will also prioritize systematic management of associated internal risks. These risks include the potential for a low uptake on FCAS training, continued low awareness of good practices among staff, a lack of behavioral change and reluctance to work differently in FCAS, and a lack of additional financial and human resources needed to implement this plan. ADB will manage these risks by making a systematic effort to raise the profile of this work in ADB through senior management messages, exploring staff incentives, and holding learning forums to raise awareness on good practices. ADB will also monitor and maintain staff resources for FCAS, provide more hands-on support to staff in operations, and explore options to allocate greater financial resources for FCAS operations.



APPENDIX 1

Results Framework for ADB's Operational Plan for FCAS

Indicator	Baseline ^a (Year/Period)	Target/ Time Frame
Level 1: Improved Development Progress and Strengthened Institutions in FCAS		
Improvement in rating ^b of FCAS countries on policies for social inclusion and equity (cluster C of CPA)	2.90 (average for 2009–2011)	Monitor
Improvement in rating ^b of FCAS countries on public sector management and institutions (cluster D of CPA)	2.98 (average for 2009–2011)	Monitor
Improvement in rating ^b of FCAS countries on post-conflict risk ^c	2.50 (2011)	Monitor
"New Deal" peacebuilding and statebuilding indicators, and Sustainable Development Goals may be added as they are developed.		
Level 2: ADB's Contribution to FCAS Results		
Quality at Completion of ADB FCAS Operations		
Completed country strategies and assistance programs rated <i>successful</i> (%) ^d	33.3% ^d (average for 2011–2012)	Improvement above baseline
Completed Sovereign Operations^e		
Rated <i>successful</i> (%) ^f	43.5% ^g (average for 2007–2012)	60% (2017)
Rated <i>likely</i> sustainable (%)	37.7% ^g (average for 2007–2012)	TBD
Rated <i>effective</i> (%)	54.6% ^g (average for 2007–2012)	TBD
Completed Sovereign Operations^e—Targeting Themes		
Rated <i>successful</i> on governance (%)	30.0% (average for 2010–2012)	TBD
Rated <i>successful</i> on capacity development (%)	46.2% (average for 2010–2012)	TBD

continued on next page

Table continued

Indicator	Baseline ^a (Year/Period)	Target/ Time Frame
Completed technical assistance projects rated successful (%)	60.3% (average for 2007–2012)	70% (2017)
Completed Technical Assistance Projects— Targeting Themes		
Rated <i>successful</i> on governance (%)	68.8% (average for 2011–2012)	TBD
Rated <i>successful</i> on capacity development (%)	81.3% (average for 2011–2012)	TBD
Level 3: Operational Management of FCAS Operations		
Quality of ADB FCAS Operations at Entry and During Implementation		
Quality at entry of country partnership strategies rated <i>satisfactory</i> (%)	TBD	TBD
Risk assessment and mitigation criteria rated <i>satisfactory</i> (%)	TBD	TBD
Quality at Entry of Operations Rated <i>Satisfactory</i>		
Sovereign operations (%)	TBD	TBD
Nonsovereign operations (%)	TBD	TBD
Performance of Operations at Implementation Rated <i>Satisfactory</i>		
Sovereign operations (%)	TBD	TBD
Nonsovereign operations (%)	TBD	TBD
Level 4: Organizational Management of FCAS Operations		
Human Resources		
Systematic staff training program is launched (2013)		
Resources		
Technical assistance for the FCAS resource group provided (2013)		
Enhancing financial resources (ADF) is explored (2013–2014)		
Business Processes and Practices		
Joint work with MDBs on risk framework (procurement, financial management) is undertaken (2013–2014)		
Joint work with MDBs on capacity development approaches is undertaken (2013–2014)		

ADB = Asian Development Bank, ADF = Asian Development Fund, CPA = Country Performance Assessment, FCAS = fragile and conflict-affected situation, MDB = multilateral development bank, PCR = project completion report, TBD = to be determined.

^a Baseline will be revised as composition of FCAS countries changes with the adoption of the harmonized classification approach.

^b Refers to rating above the baseline average rating.

^c This relates to the cluster D of post-conflict performance indicators.

^d The indicator applies to four FCAS countries (Afghanistan, Papua New Guinea, Solomon Islands, and Timor-Leste). Seven countries (Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Palau, Tuvalu, and Vanuatu) out of current 10 Pacific FCAS countries follow the ADB's *Pacific Approach 2010–2014*. Baseline data for completed country strategies and assistance programs rated successful relate to Afghanistan, Solomon Islands, and Timor-Leste only.

^e Operations refer to projects and policy-based operations.

^f Data on completed nonsovereign operations rated successful is available for three projects only in Afghanistan (66.7%, average for 2007–2012).

^g All sovereign project success rates for 2011 and 2012 have been adjusted, except for the success rates by country. Adjusted project success rates incorporate projected Independent Evaluation Department's (IED) validation results, based on the historical average rates of upgrading or downgrading of project completion report (PCR) ratings. Success rates for 2004–2010 are almost final, as validation and evaluation for this set of operations are substantially complete.

Sources: ADB. Annual Report on the Country Performance Assessment Exercise, 2009 to 2011 issues; Independent Evaluation Department, Private Sector Operations Department, and regional departments.

APPENDIX 2

New Deal for Engagement in Fragile States



A NEW DEAL for engagement in fragile states

THE FACTS

- *1.5 billion people live in conflict-affected and fragile states.*
- *About 70% of fragile states have seen conflict since 1989.*
- *Basic governance transformations may take 20-40 years.*
- *30% of Official Development Assistance (ODA) is spent in fragile and conflict-affected contexts.*
- *These countries are furthest away from achieving the Millennium Development Goals (MDGs).*

The current ways of working in fragile states need serious improvement. Despite the significant investment and the commitments of the Paris Declaration on Aid Effectiveness (2005) and the Accra Agenda for Action (2008), results and value for money have been modest. Transitioning out of fragility is long, political work that requires **country leadership and ownership**. Processes of political dialogue have often failed due to lack of trust, inclusiveness, and leadership. International partners can often bypass national interests and actors, providing aid in overly technocratic ways that underestimate the importance of harmonising with the national and local context, and support short-term results at the expense of medium- to long-term sustainable results brought about by building capacity and systems. A **New Deal** for engagement in fragile states is necessary.

THE VISION

We, the members of the **International Dialogue on Peacebuilding and Statebuilding** (“the Dialogue”), comprised of the g7+ group of 19 fragile and conflict-affected countries, development partners, and international organisations, believe that a new development architecture and new ways of working, better tailored to the situation and challenges of fragile contexts, are necessary to build peaceful states and societies.

These are presented in the **New Deal for Engagement in Fragile States** (the “New Deal”).

The “**New Deal**”, which builds on the vision and principles articulated from the Millennium Declaration to the Monrovia Roadmap, proposes key peacebuilding and statebuilding goals, focuses on new ways of engaging, and identifies commitments to build mutual trust and achieve better results in fragile states.

We recognise that the success of our combined effort depends on the leadership and commitment of the g7+ group of fragile states supported by international actors. We also recognise that constructive state-society relations, and the empowerment of women, youth and marginalised groups, as key actors for peace, are at the heart of successful peacebuilding and statebuilding. They are essential to deliver the “New Deal”.

THE NEW DEAL

We, the members of “the Dialogue”, endorse the “**New Deal**” and commit to undertake the necessary actions and reforms to implement it.

- We agree to use the **Peacebuilding and Statebuilding Goals (PSGs)**, as an important foundation to enable progress towards the MDGs to guide our work in fragile and conflict-affected states. By September 2012, a set of indicators for each goal will have been developed by fragile states and international partners, which will allow us to track progress at the global and the country level.
- We commit to **FOCUS** on new ways of engaging, to support inclusive **country-led and country-owned transitions out of fragility** based on a country-led fragility assessment developed by the g7+ with the support of international partners, a country-led one vision and one plan, a country compact to implement the plan, using the PSGs to monitor progress, and support inclusive and participatory political dialogue.
- We commit to build mutual **TRUST** by providing **aid and managing resources more effectively and aligning these resources for results**. We will enhance transparency, risk management to use country systems, strengthen national capacities and timeliness of aid, improving the speed and predictability of funding to achieve better results.

THE NEW DEAL: The details

I. Peacebuilding and Statebuilding Goals—PSGs

We, the members of “the Dialogue”, agree to use the **Peacebuilding and Statebuilding Goals (PSGs)** as an important foundation to enable progress towards the MDGs and to guide our work in fragile and conflict-affected states. The five goals are:

Legitimate Politics—*Foster inclusive political settlements and conflict resolution*

Security—*Establish and strengthen people’s security*

Justice—*Address injustices and increase people’s access to justice*

Economic Foundations—*Generate employment and improve livelihoods*

Revenues & Services—*Manage revenue and build capacity for accountable and fair service delivery*

The PSGs will guide the identification of peacebuilding and statebuilding priorities at the country level. They will inform the national vision, plan and a country-level compact to implement the plan. They will inform global and country-level funding decisions to help ensure that all fragile countries, and their key peacebuilding and statebuilding priorities, are supported.

By September 2012, a set of indicators for each goal will have been developed by fragile states and international partners, which will allow us to track progress at the global and the country levels. These indicators will combine objective measures with measures to understand the views of people on results achieved.

We will work towards full consideration of the PSGs in the post-MDG development framework beyond 2015 and, after Busan, towards the consideration of the PSGs by the 2012 United Nations General Assembly and other fora.

II. FOCUS—Engagement to support country-owned and -led pathways out of fragility

As part of the “New Deal” we commit to **FOCUS** on new ways of engaging, to support inclusive **country-led and country-owned transitions out of fragility** based on a country-led fragility assessment developed by the g7+ with the support of development partners, a country-led one vision and one plan, a country compact to implement the plan, using the PSGs to monitor progress, and support inclusive and participatory political dialogue. We recognise that an engaged public and civil society, which constructively monitors decision-making, is important to ensure accountability.

F: Fragility assessment. We will conduct a periodic country-led assessment on the causes and features of fragility and sources of resilience as a basis for one vision, one plan. The assessment will include key national stakeholders and non-state actors and will build upon a harmonised methodology, including a **fragility spectrum**,¹ to be developed by the g7+ and supported by international partners.

O: One vision, one plan. We will develop and support one national vision and one plan to transition out of fragility. This vision and plan will be country-owned and -led, developed in consultation with civil society and based on inputs from the fragility assessment. Plans will be flexible so as to address short-, medium- and long-term peacebuilding and statebuilding priorities. The country-led plan will be the guiding framework for all country-led identification of priorities. They will be monitored, reviewed and adjusted in consultation with key stakeholders on an annual basis.

C: Compact. A compact is a key mechanism to implement one vision, one plan. A compact will be drawn upon a broad range of views from multiple stakeholders and the public, and be reviewed annually through a multi-stakeholder review. Recognising differences in fragility and national contexts, and that a compact may take different forms at different points in transition out of fragility, a compact will ensure harmonisation and donor co-ordination, reduce duplication, fragmentation and programme proliferation.² A compact can guide the choice of aid modalities, and can provide a basis to determine the allocation of donor resources aligned to the country-led national priorities, in line with good aid effectiveness principles. A compact can also be used as a short-term key transitional mechanism to guide country-led priorities while establishing one vision one plan, but always country-led. After the Fourth High-Level Forum on Aid Effectiveness in Busan, Republic of Korea (29 November – 1 December 2011), the g7+ and international partners will develop an agreed definition of a ‘compact’ in fragile states for deeper understanding and socialisation, will issue policy guidance on its use, and will consider a peer review mechanism between member countries and international partners to support their implementation.

U: Use PSGs to monitor. We will use the PSGs targets and indicators to monitor country-level progress.

S: Support political dialogue and leadership. We will increase our support for credible and inclusive processes of political dialogue. We will support global, regional and national initiatives to build the capacity of government and civil society leaders and institutions to lead peacebuilding and statebuilding efforts. We will ensure that specific support is targeted to promote youth and women’s participation in political dialogue and leadership initiatives.

III. TRUST—Commitments for results

As part of the “New Deal” we commit to build mutual **TRUST** by **providing aid and managing resources more effectively and aligning these resources for results**. Recent evidence reveals that implementation of the previous commitments has been uneven and we re-affirm the commitments made in the Paris Declaration, Accra Agenda for Action and the Fragile States Principles (2007).ⁱⁱⁱ In doing so, we will enhance transparency, risk management to use country systems, strengthen national capacities and timeliness of aid, improving the speed and predictability of funding to achieve better results.

An essential pre-condition for progress in all of the New Deal’s commitments is to foster confidence between people, communities, the state and international partners. This involves delivering visible results quickly and on a continuous basis.

T: Transparency. We will ensure more transparent use of aid (ODA and non-ODA). We will monitor, through the DAC, overall resource flows to fragile states and will track international assistance against individual goals. Locally, countries with international support, will strengthen, or where necessary, support the creation and development of national reporting and planning systems (e.g. budgets, transparency portals, aid information management systems) and provide support to domestic oversight mechanisms including national parliaments. We will support the greater transparency of fiscal systems in a manner consistent to capacity and context, drawing from good practice from the g7+ and agreed international benchmarks on transparency of aid resources in a manner consistent with International Aid Transparency Initiative (IATI) compatible standards.^{iv} We will solicit citizen’s views to assess the transparency of domestic resources and aid. These commitments build on the Paris Declaration and Accra Agenda for Action.^v

R: Risk-sharing. We accept the risk of engaging during transition, recognising that the risk of non-engagement in this context can outweigh most risks of engagement. We will identify context-specific, joint donor risk-mitigation strategies, which will require different approaches to risk management and capacity development. We will conduct joint assessments of the specific risks associated with working in fragile situations and will identify and use joint mechanisms to reduce and better manage risks so as to build the capacity of, and enhance the use of, country systems, step up investments for peacebuilding and statebuilding priorities, and reduce aid volatility.

U: Use and strengthen country systems. We will jointly identify oversight and accountability measures required to enhance confidence in and to enable the expanded use and strengthening of country systems.^{vi} Recipient governments, with support from international partners, will take all reasonable measures to strengthen their public financial management systems from the ground up and be transparent in this process. In doing so, we will build related fiduciary and administrative capacity within country institutions at the national and local level. International partners will increase the percentage of aid delivered through country systems^{vii} on the basis of measures and targets jointly agreed at the country level.^{viii} Recipient governments will seek to increase the proportion of public expenditure funded by domestic revenues.

S: Strengthen capacities. To ensure efficient support to build critical capacities of institutions of the state and civil society in a balanced manner, we will increase the proportion of funds for capacity development through jointly administered and funded pooled facilities.^{ix} We will substantially reduce programme implementation units per institution and will target the use of external technical assistance, ensuring they report through to the relevant national authority.^x We will work towards an understanding on remuneration codes of conduct between government and international partners for national experts. We will facilitate the exchange of South-South and fragile-fragile experiences on transitions out of fragility.

T: Timely and predictable aid. We will develop and use simplified, accountable fast-track financial management and procurement procedures to improve the speed and flexibility of aid delivery in fragile situations,^{xi} and review national legal frameworks to support our shared objectives. We commit to increase the predictability of aid, including by publishing three-to-five year indicative forward estimates (as committed in the Accra Agenda for Action), and to make more effective use of global and country level funds for peacebuilding and statebuilding.^{xii} Where national legislation may prevent this, development partners will seek to address these aid delivery challenges to allow them to better

deliver on these commitments. We will provide necessary data to the Development Assistance Committee (DAC)^{xiii} to enable regular reporting on volatility.

THE NEW DEAL: From Paris to Busan

The “**New Deal**”, presented in this document, is based on the Paris Declaration on Aid Effectiveness (2005), the Principles for Good International Engagement in Fragile States and Situations (2007), the Kinshasa Statement (2008), the Accra Agenda for Action (2008), the Dili Declaration and consecutive g7+ Statements (2010-2011), the Monrovia Roadmap (2011), and the work undertaken by “the Dialogue” working groups.^{xiv} It also acknowledges that the Principles and Good Practices of Humanitarian Donorship will be followed with respect to humanitarian action.

The Cairo Conference on Capacity Development (February 2011), the Addis Ababa Meeting on Peacebuilding and Statebuilding (September 2011), and the g7+ Juba Ministerial Retreat (October 2011) have contributed to shaping and building consensus around the New Deal.

Recognising that building peaceful states requires long-term efforts and incremental approaches, we will implement the “**New Deal**” between 2012-15, as a trial period.

“THE DIALOGUE” CONTINUES

Going forward, we agree that “the Dialogue” has a vital role to play in supporting members in implementing the “**New Deal**” and in continuing to promote effective ways to support countries transitioning out of fragility and building peaceful states. The g7+ group will continue as the country-owned and country-led global mechanism to monitor, report and draw attention to the unique challenges faced by fragile states. International partners will continue to support this mechanism. “The Dialogue” will continue to provide a platform for its members and reach out to other interested partners, discuss overall progress in reforming efforts to support peacebuilding and statebuilding and agree on additional joint action that may be required. We will meet annually to do so.

We agree to work together through “the Dialogue” to implement this New Deal including *via*:

- **Piloting:** We will support the piloting of the “**New Deal**” (PSGs, FOCUS and TRUST) in self-nominating countries, including Afghanistan, Central African Republic, Democratic Republic of Congo, Liberia, Sierra Leone, South Sudan and Timor-Leste and self-nominating donor partners in these countries. To do so, we will consider the appropriate funding sources.
- **Reporting:** We will report on the delivery of the “**New Deal**” commitments focused at the country level and at the global level. We will agree on the mechanisms to do so.

ⁱ The Fragility Spectrum is a diagnostic tool to assist fragile and conflict affected states to identify the nature of their own fragility and plan a pathway of transition towards stability and development.

ⁱⁱ See Fragile States Principle 7: “Align with local priorities in different ways in different contexts. Where governments demonstrate political will to foster development, but lack capacity, international actors should seek to align assistance behind government strategies. Where capacity is limited, the use of alternative aid instruments - such as international compacts or multi-donor trust funds - can facilitate shared priorities and responsibility for execution between national and international institutions”.

ⁱⁱⁱ See 2011 Survey on Monitoring the Paris Declaration (OECD 2011), and International Engagement in Fragile States: Can’t we do better? (OECD 2011).

^{iv} Transparency can also be pursued through other international standards.

^v See Accra Agenda for Action paragraph 24a.

^{vi} These will include contracting out fiduciary service, using independent monitoring agents, co-managing programme implementation, a donor-led review of acquisition and assistance and any other relevant policies to ensure these objectives are met.

^{vii} Building on Accra Agenda for Action paragraph 15.

^{viii} As permitted by donors’ respective applicable legal provisions.

^{ix} Consistent with donor applicable legal provisions and building on Paris Declaration target 4 that “50% of technical co-operation flows [be] implemented through co-ordinated programmes consistent with national development strategies”.

^x Building on Paris Declaration target 6 which aims to “reduce by two-thirds the stock of parallel project implementation units (PIUs)” in-country, and Fragile States Principle 2: Do no harm.

^{xi} Where possible, in accordance with national legislation.

^{xii} Where possible, in accordance with national legislation and the Accra Agenda for Action paragraph 26c.

^{xiii} The DAC is a committee of the Organisation for Economic Co-operation and Development (OECD). The OECD also hosts the Secretariat of the International Dialogue on Peacebuilding and Statebuilding.

^{xiv} Four “Dialogue” working groups met and discussed key blockages to effective support to peacebuilding and statebuilding, and recommendations to address them in the following areas: i) political dialogue; ii) planning processes; iii) capacity development; iv) aid instruments.

Operational Plan for Enhancing ADB's Effectiveness in Fragile and Conflict-Affected Situations

Supporting its developing member countries (DMCs) affected by fragility and conflict is a high priority for the Asian Development Bank (ADB). This is demonstrated by ADB's adoption of its 2007 approach, which responds to the special challenges faced by DMCs experiencing conditions that are now generally described as fragile and conflict-affected situations (FCAS), and by ADB's endorsement of the *New Deal for Engagement in Fragile States* in 2011. ADB's Strategy 2020 reinforces its commitment to FCAS. The *Operational Plan for Enhancing ADB's Effectiveness in Fragile and Conflict-Affected Situations* provides details on actions that ADB will take to improve the development impact of its support to DMCs that are experiencing fragility and the effects of conflict on either a national or subnational level.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.7 billion people live on less than \$2 a day, with 828 million on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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