Taking AfDB's development impact to scale in fragile situations

- Strengthen AfDB response during re-engagement and country turnarounds
- Design country strategies, programmes and projects that enable scaling-up
- Strengthen Bank instruments for scaling up
- Enhance the effectiveness of country offices
- Scale up impact through partnerships with the international community
- Deploy the full range of Bank instruments to partner with the private sector
- Strengthen AfDB's approach to managing the risks inherent in scaling-up

Responsiveness

Strategies and operations

Instruments

Field offices

Partnerships

Private sector

Risk management

AFRICAN DEVELOPMENT BANK GROUP

Transition Support Department

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Foreword

It is widely recognized that Africa is the continent most affected by issues of fragility that threaten to slow and even reverse development prospects of countries and entire regions. Prospects for achieving the Sustainable Development Goals in Africa seem limited, if we don't address fragility.

At the African Development Bank Group (AfDB), we have come to recognize that issues of fragility vary across countries, and the costs are not limited to individual countries, but are borne by entire regions. Continuing patterns of exclusion and poverty, unemployment, high migration and refugee flows, rapid urbanization, climate change and poor management of natural resources, all present a risk to overwhelm the capacities of African states.

Against this background, and building on our long-standing experience of working in fragile contexts, the AfDB has been among the first major international development institutions to abandon the practice of using a list of fragile "states" and approach fragility as a "risk" to the development process to which no country is immune. These risks need to be analysed and mitigated. Under our new strategy for addressing fragility and building resilience in Africa (2014-2019), we refer to this process as the application of a "fragility-lens" to our engagement.

We know that engaging in fragile situations that are often marked by the presence or a legacy of violent conflict, is particularly challenging and complex for a development partner. It is risky and there is no "silver bullet", as each situation is different. It demands greater flexibility, increased responsiveness, deeper understanding and tailored instruments to make a difference.

Development partners need to adapt their approaches and organizational structures to meet these challenges. This is why we have decided at the AfDB to re-organize our institutional structures in order to deliver more effectively and take our impact to scale in fragile situations.

I believe that the analysis contained in this report is of relevance not only to the AfDB, but also to other development partners, as we jointly strive to enhance our effectiveness in fragile situations.

Janvier K. Litse
Vice President, ORVP

Preface

In 2013, the African Development Bank Group (AfDB) set up the Transition Support Department (ORTS) to coordinate the Bank's strategic and operational change processes to enhance its effectiveness in fragile environments.

In 2014, we approved our new Strategy for Addressing Fragility and Building Resilience in Africa (2014-2019) that understands fragility as a risk to the development process that is all too often related to underlying issues of political, economic or social exclusion.

As the continent's regional development bank, the AfDB seeks to stay engaged in countries at all times, and particularly in moments of fragility, as this is when countries need our support most. However, this is not business as usual and we recognize the difficulties in operating in these environments and the need to adapt our model and processes to strengthen our engagement.

In recent years, we have witnessed many cases of political instability that resulted in the advent of transitory governments. This poses challenges to our traditional business model to which we need to adapt, making better use of our country presence and partnerships.

We recognize the importance of the private sector in promoting economic growth and generating much-needed jobs in these moments. However, engaging with the private sector in such environments calls for better risk mitigation mechanisms and appropriate instruments.

The Bank has been called to play a leading role around issues of fragility in Africa and also think "out of the box" to find solutions. This study analyses constraints and opportunities in the Bank's business model to deliver in fragile situations.

The report identifies seven dimensions that have the potential to significantly strengthen the footprint of the AfDB in these settings:

(i) strengthen response during re-engagement and country turnarounds;
(ii) design country strategies, programs and projects that enable scaling-up;
(iii) strengthen financial instruments for scaling-up;
(iv) enhance the effectiveness of field offices;
(v) strengthen partnerships with the international community;
(vi) deploy the full range of instruments to partner with the private sector;
(vii) strengthen risk management.

I hope that the findings and recommendations contained in this report can serve as a guidepost for the Bank, and our partners, to adapt their approaches to the challenges of working in fragile situations.

Sibry Tapsoba
Director, ORTS

Abbreviations

ADB	African Development Bank (non-concessional window)
AsDB	Asian Development Bank
ADF	African Development Fund (concessional window)
APL	Adaptable Program Loan (World Bank)
AfDB	African Development Bank Group
AU	African Union
AusAID	Australian Agency for International Development
CAR	Central African Republic
CDD	Community-driven Development
CDN	Country Dialogue Note
CHRM	Human Resources Management Department (AfDB)
COSP	Strategy and Operations Policies Department (AfDB)
CPA	Comprehensive Peace Agreement (Sudan)
CPIA	Country Policy and Institutional Assessment
CSO	Civil Society Organisation
CSP	Country Strategy Paper
DAM	Decentralisation of Authority Matrix
DFID	Department for International Development (UK)
DRC	Democratic Republic of Congo
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ESW	Economic and Sector Work
FRMB	Financial Resources Mobilisation and External Finance (AfDB)
SF	Transition Support Facility
FY	Fiscal Year
g7+	Group of Fragile States (originally seven)
GDP	Gross Domestic Product
GIZ	German International Cooperation (Deutsche Gesellschaft für Internationale Zusammenarbeit
GTZ	German Technical Cooperation (now GIZ)
IDA	International Development Association (World Bank Group)
IDEV	Independent Development Evaluation (AfDB)
IDS	Institute of Development Studies
IFC	International Financial Corporation
IFAD	International Fund for Agricultural Development
IFPRI	International Food Policy Research Institute
IMF	International Monetary Fund
ISP	Interim Strategy Paper
LIL	Learning and Innovation Loan (World Bank)
M&E	Monitoring and Evaluation
MDB	Multilateral Development Bank
MDG	Millennium Development Goal
MDTF	Multi-donor Trust Fund

MIGA	Multilateral Investment Guarantee Agency
MOPAN	Multilateral Organisation Performance Assessment Network
NATO	North Atlantic Treaty Organization
NGO	Non-governmental Organisation
NSP	National Solidarity Programme (Afghanistan)
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
ORTS	Transition Support Department (AfDB)
ORQR	Results and Quality Assurance Department (AfDB)
PBA	Performance-based Allocation
PBO	Programme-based Operation
PCG	Partial Credit Guarantee
PDIA	Problem-driven Iterative Adaptation
PECOD	Permanent Committee on the Review and Implementation of the Decentralisation of AfDB Activities
PFM	Public Financial Management
PIU	Project Implementation Unit
PRG	Partial Risk Guarantee
PSF	Private Sector Facility
RBA	Results-based Allocation
RMC	Regional Member Country
SBS	Sector Budget Support
SPIU	Single Project Management Unit (Rwanda)
UA	Unit of Account (AfDB)
UK	United Kingdom
UN	United Nations
UNDP	UN Development Programme
US	United States

Executive Summary

In 2014, the African Development Bank (AfDB) approved a new strategy for addressing fragility and building resilience in Africa that updated its earlier 2008 strategy for enhanced engagement in fragile states. Under its new approach, the Bank recognizes that there is no hope of achieving the Sustainable Development Goals in Africa without successfully addressing fragility and building resilience in the continent.

Making the AfDB fit-for-purpose to scale up its impact in addressing fragility and building resilience at a national and regional level, affecting millions rather than thousands of people, is therefore imperative for the coming years. Underlying this is the expectation that AfDB will become more effective in fragile situations and that the fiscal situation of many shareholders will require it to do more with those resources available to it.

As an aggregate trend, the Bank's commitments to so-called fragile states have risen further and faster than in non-fragile states since 1999, and a combination of the Bank's regular and dedicated instruments has allowed it to respond flexibly to diverse and changing needs, a key strength in fragile environments. However, a number of evaluations have found that AfDB had not yet systematically devoted sufficient attention or capacity to key building blocks for successful scaling-up, such as analysis of country context, establishment of partnerships with non-state and international partners and establishment of systems to evaluate results and feed back lessons learnt into future programming. The efficiency of its administrative procedures, human resource management and approach to decentralisation also need strengthening if it is to engage effectively in fragile situations.

We see scaling-up as increasing the results from all AfDB's activities in a particular country and the region to which it belongs. This is not the same as increasing AfDB financing, although more operational involvement, including finance mobilised by AfDB, may be needed to scale up. The process of scaling-up is dynamic and takes place across time, as ideas get transformed into pilot projects, and the concept of reaching scale is refined as results from implementation come in. Such knowledge arising from practice being fed back into the full-scale rollout of the programme is inherent to scaling-up.

Our review of the literature suggests certain pathways and design features are essential for successful scaling-up of programmes. Designers need to have clarity about how scaling-up is to be achieved, through expanding or replicating a successful pilot or through creating policies and incentives for independent actors to implement activities that reach scale. Sound design of pilots is critical for translating ideas into action. Partners need to invest in institutional development to build the organisational capacity and leadership necessary to go to scale. They also need to learn continuously in real time, adjusting pilot and programme design in the cold reality of results and generating information needed for decisions on scaling-up; this should be at the heart of a scaling up programme. Finally, the environment in which scaling-up will take place needs to be prepared and nurtured.

We propose that successful scaling-up by AfDB will require a strengthened response when favourable conditions emerge within agencies and sectors in its partner countries.

Successful scaling-up will require partners to take the lead in designing, implementing and evaluating programmes and projects that are capable of being scaled up; AfDB staff to have the knowledge and incentives to facilitate this scaling-up and to mobilise resources to support it; the Bank to have policies and instruments geared to supporting scaling-up; and the Bank to convene and forge partnerships with local and foreign actors that support well-coordinated assistance to produce results on a large scale.
While the design of AfDB policies and instruments can constrain scaling-up, the Bank's capacity can also be a binding constraint; realising potential for scaling-up requires having the right staff in field offices, with managers and staff fully aware of how the Bank can apply the policies and resources at its disposal to achieve large-scale results in fragile situations. This report proposes that AfDB adopt an approach along seven lines in order to enhance its effectiveness for scaling-up:

1. **Strengthen its response during re-engagement and country turnarounds.** While AfDB seldom disengages completely with a country, it could respond more rapidly and flexibly to positive changes in fragile situations. Key elements of a strengthened response include systematically preparing watching briefs or Country Dialogue Notes for countries where AfDB is not active; adopting a faster and more flexible approach for securing Board approval for re-engagement; addressing or containing constraints to re-engagement owing to arrears and AfDB membership; and identifying a range of viable options for financing rapid response. The Transition Support Department (ORTS) should be also be encouraged to provide surge capacity during these periods; deploying staff rapidly, including to field offices, allows for programmes to reach scale quickly in turnaround countries.
2. **Design country strategies, programmes and projects that enable scaling-up.** Country strategies should be sufficiently flexible to be able to respond quickly to new opportunities that arise. This will require changing the requirements of the Interim Strategy Paper to enable greater simplicity and flexibility, or seeking Board approval through other instruments, such as the Country Brief or Country Dialogue Note, for preparing initial operations, including financing, and for strengthening the field office. Country programmes should be designed from the outset to reach scale and contain monitoring indicators related to peace and state building as well as development. Support to institution building should be organised around solving country problems rather than transferring 'best' practice. Projects should be kept simple so they do not overwhelm implementing organisations, have local legitimacy/ownership and have clarity about institutional arrangements and the underlying theory of change (including any policy drivers of success and financial arrangements for scale-up and operation). Selectivity should be based on the competency and leadership of implementing agencies. ORTS should produce guidelines for staff on how to design programmes and projects that can reach scale.[1]

[1] A tactical issue for the Bank is whether to develop guidelines for scaling-up in all countries, or to issue interim guidelines for scaling up in fragile situations. We suggest it might be easier to pilot guidelines for fragile situations and then extend them more generally.

3 **Strengthen its instruments for scaling-up:** make more use of the potential of the Transition Support Facility (TSF) to attract additional finance for scaling; give the TSF more flexibility to allocate funds for scaling-up through retaining a portion of funds not allocated to countries and allowing reallocations between countries; and develop new instruments (or modify existing ones) to provide additional financing for scaling up operations, including giving consideration to a results-based financing instrument and a rapid response lending instrument for turnaround situations.

4 **Enhance the effectiveness of field offices** to manage the scaling-up of operations and engage effectively with the government and other partners through clarifying the functions of resident representatives and country programme officers to lead the strategic and operational aspects of the office, respectively; ensure field offices have access to high-quality sector advice by leveraging the role of the regional offices; improve staff incentives to work in fragile situations; and take into account the higher costs associated with operating in fragile situations in budgets for field offices.

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

6 **Deploy the full range of Bank instruments to partner with the private sector.** Scaling-up the impact of the private sector on development, employment and government revenues will involve increased support for private investment generally and an expansion of public–private partnerships, especially in infrastructure. Reforms to the business climate are likely to take place slowly, and private investment is also inhibited by failures in other markets and the supply of skilled labour. The challenges of private investment in fragile situations will require the Bank to deploy the full range of Bank instruments in well-targeted and well-coordinated interventions involving sovereign and non-sovereign debt and guarantees that also address complementary investments that go beyond the private sector, for example in education, infrastructure, secure serviced land. Selectivity in setting priorities for the Bank's country-level private sector development work should be based on potential scale and impact. Capacity building for private firms in critical sectors like construction and building materials, and ensuring funding for preparation of bankable projects, should not be neglected. The Bank has a comparative advantage in private sector development in fragile situations and now has a good range of financing and risk management instruments. Scaling-up will require a consistent approach in country and sector strategies, as well as broadly strengthening its own capacity through investment in staff training, developing a pipeline of operations, management commitment of staff and resources and setting targets for a more robust engagement in private sector engagement in fragile situations.

7 **Strengthen its approach to managing the risks inherent in scaling-up.** While concentrating resources on a few programmes that are scaled up might expose the Bank to greater fiduciary and reputational risks and risk of programme failure, these risks could actually be lower than the sum of the risks associated with many small projects. Scaled-up programmes are associated with investment in institutions and the testing of approaches, systems and institutions through pilots that a more fragmented programme may lack. Risks associated with scaling-up can be mitigated through active risk management and sound programme design. Country strategies need to set out how risks will be managed, including the trade-offs between fiduciary risks and programmatic and contextual risks. In a fragile situation, risk analysis needs to be informed by a deep understanding of the political economy of the country and its evolving political settlement.

1 Introduction

1.1 Background

In 2014, the African Development Bank (AfDB) approved a new strategy for addressing fragility and building resilience in Africa that updated its earlier 2008 strategy for enhanced engagement in fragile states. As part of the process, the AfDB had set up a High-Level Panel, chaired by the president of Liberia, to provide strategic advice on the Bank's response to fragility, that was published in the report "Ending conflict and building peace in Africa: A call to action". Underlying this process was the belief that AfDB should become more effective in fragile situations and that the fiscal situation of many shareholders will require it to do more with those resources available to it.

'If you build small it's difficult to upscale.'

To contribute to the preparation of the new strategy and assess how the institution could become more effective in its engagement in fragile situations, the Bank commissioned this study by the Overseas Development Institute (ODI) with funding from UK's Department for International Development (DfID) on how it might scale up its effectiveness in low-income fragile situations. This report sets out its findings and proposes a methodology and approach for scaling up AfDB's effectiveness in fragile situations.

While there is an evolving understanding among academics and practitioners on what constitutes fragility, there is less agreement on how to measure it and on which states are in fact fragile. Against this background, the AfDB has been among the first major international development institutions to abandon the concept of a list of "fragile states", moving to a concept of "fragile situations", as captured under its new strategy.

1.2 Why does scaling-up matter?

'You can't solve a problem that affects half the world's population one village at a time'.

Chris West in Chandy et al. (2013).

The Bank's new strategy was being prepared at a time when the policy environment for international financial institutions was changing. Fiscal pressures in Organisation for Economic Co-operation and Development (OECD) countries have either reduced the funds available for foreign aid or created pressures for greater aid effectiveness and efficiency of delivery – 'value for money'. Second, new donors such as Brazil, China and India are providing focused finance for large-scale infrastructure projects, an area where AfDB has had a comparative advantage. Third, assessments of aid to fragile states have revealed slow delivery, failure to achieve the Millennium Development Goals (MDGs), financing that fails to implement OECD agreements on aid effectiveness and an imbalance between international expenditure on security and development; both recipient and donor countries wish to see greater development effectiveness from foreign assistance.[2] Fourth, governments of a group of self-defined fragile states have found a collective voice through the g7+ and are demanding more responsive, effective and accountable international assistance delivered under the leadership of the recipient country.

[2] See, for example, Manuel et al. (2012).

While the New Deal[3] does not explicitly mention scaling-up, it is critical of the effectiveness of past foreign aid, with its emphasis on short-term results at the expense of the sustainable medium- to longer-term impacts that building capacity and systems brings about. Under the TRUST principle of the New Deal, the g7+ and its partners agreed to strengthen aid transparency, share and mitigate risks, use and strengthen country systems, strengthen institutional capacity and provide timely and predictable aid. In short, the New Deal calls for partners to manage resources more effectively and to align these resources for results. Scaling-up is not only consistent with the Trust principles, but also a means to implement them.

The New Deal is predicated on the need for international assistance to fragile states to be more effective. Assistance has often been short in term, project-based, slow to achieve results, uncoordinated and incoherent. Often, less assistance per capita has gone to countries affected by issues of fragility than has gone to countries where it is easier to achieve immediate results, and assistance in fragile situations has been volatile in reaction to changing donor preferences and in overreaction to political or security events. Short-term projects, usually implemented in parallel with country systems in order to minimise fiduciary and political risks, have rarely been sustainable in operation and have failed to build institutions, not surprisingly since institutions take decades to cross the threshold of minimum capability. Many of the issues related to aid effectiveness are not necessarily applicable to multilateral development banks (MDBs), which use country government systems to a large extent. While AfDB's reputation as measured by donor assessments has strengthened in recent years, these assessments and the Bank's own evaluations of its performance indicate the need for greater effectiveness, particularly in fragile situations, which comprise a large proportion of its regional member countries (see Section 3.1 of this report).

The need for greater effectiveness is underlined by the results of the recent African Development Fund (ADF) 13th replenishment at $7.3 billion, less than the ADF12 and ADF11 replenishments of $9.5 and $8.9 billion, respectively, although ADF funds earmarked for the Transition Support Facility (TSF – previously called the Fragile States Facility - FSF) have been increasing. Both donors and recipient countries now have greater choices about where to place and receive their aid. How AfDB scales up its effectiveness in fragile situations will have a bearing on the future for the Bank. If the Bank does not deliver on its scaling-up agenda, its clients' development will be less, the Bank will have difficulty in meeting its strategic objectives and the reputational damage would likely weaken its support among regional and non-regional shareholders.[4]

In this study, we review the literature and experiences of other development organisations in scaling-up, assess AfDB's current readiness for scaling-up in fragile situations and make a number of recommendations on how AfDB could strengthen its instruments and capacity for scaling-up.

[3] For more on effectiveness of aid to fragile states, see Ghani and Lockhart (2008), OECD (2010a) and World Bank (2011). On greater choices in providers of aid, see Greenhill et al. (2013).

[4] For more on effectiveness of aid to fragile states, see Ghani and Lockhart (2008), OECD (2010a) and World Bank (2011). On greater choices in providers of aid, see Greenhill et al. (2013).

We set out the basic models for scaling-up, but note that, since every country context is to a large extent unique, there is no blueprint. Consequently, Bank staff need access to knowledge and methodologies that can inform dialogue with partner countries and help with designing programmes and projects capable of generating results on a large scale.

This report is written as a broad guide to AfDB staff seeking to scale up operations. Each country, sector programme and operation is to some extent unique, so the report sets out principles and high-level guidance to assist staff in preparing programmes and operations that can achieve scale. Bank operational policies are in the process of change and consolidation. The report suggests how policies might be adjusted to create a more favourable environment for scaling-up. Once the new policies are in place, the Bank might consider preparing more detailed guidelines for staff on scaling-up.

2 Scaling-up in fragile situations: a conceptual framework

2.1 What is scaling-up?

We see scaling-up as increasing the results from all AfDB's activities in a particular country and the region to which it belongs. This is not the same as increasing AfDB financing, although more operational involvement, including finance mobilised by AfDB, may be needed to scale up. Scaling-up in fragile situations is not necessarily the same as scaling-up in more resilient environments. Fragile situations face security, fiduciary and programme risks as well as shorter timeframes, owing to political pressures to deliver early results that reinforce the legitimacy of the local partner. In a fragile context, the interaction between the security situation, an evolving political settlement and development needs poses a challenge for the Bank, since its mandate forbids political activity and limits it operations to country and regional projects and programmes that further economic and social development.[5] Despite these restrictions, in a fragile situation the Bank may be sought as a partner on development matters in a multidisciplinary group providing assistance that encompasses diplomatic and peace-building support led by an organisation such as the African Union (AU) or United Nations (UN). See Box 1 for an example from Côte d'Ivoire.

Box 1 AfDB Côte d'Ivoire Post-crisis Multi-sector Institutional Support Project

The Côte d'Ivoire Post-crisis Programme was the operational instrument of the Ouagadougou Peace Accord of 2007. AfDB's project provided financing in support of Components 4 and 5 of the programme, which addressed the Restoration of State Authority and National Peace and Reconciliation. Other donors, including the United Nations, the World Bank, the European Union and bilateral donors, supported the first three components of the programme in areas outside of AfDB's mandate (Defence and Security, National Identification, Electoral Process).

Total donor contributions to the -programme amounted to UA 300 million, while AfDB's contribution through its project amounted to UA 20 million. Although Côte d'Ivoire was under sanctions for non-payment of arrears at the time, AfDB was able to finance the project by pursuing an arrears settlement strategy in parallel, and following ADF 10 guidelines for operations in countries with arrears, which enabled interventions focused on institutional support.

Geographically, AfDB's project focused on the Central, North and Western areas of the country, which had been most affected by the conflict. It provided training to teachers, health workers and agriculture and livestock supervisors, and helped renovate public buildings in the same three sectors. It also supported the development of institutional capacity on gender-based violence, raising awareness, providing psychosocial support to victims and establishing protection networks.

In defining what is meant by scaling-up, we suggest that it be based on institutional models that can be sustainable in the country context and enable a country to stand on its own feet within a foreseeable timeframe. Impacts of scaling-up should be at a national or regional level, and affect millions rather than thousands of people. Scaling-up may not necessarily produce immediate results during the period when institutional capacity is built; however, once minimum capacity exists, the programme should be able to grow exponentially rather than linearly (Chandy et al., 2013). While scaling-up may require initial external support, its associated long-run costs should ultimately be financially self-sustaining through the government budget, user fees or other sources, a point we return to later. This typically requires that scaling-up produces economies of scale, in other words the average cost of providing the service or output should decline. This is consistent with the objective of 'value for money' of most current development assistance. Scaling-up is fundamentally different from the 'boutique project' approach, which typically has unsustainable financing (high unit costs that inhibit both replication and operation of the project after aid ceases), makes demands on local institutional capacity that cannot be met, has unsustainable TA requirements, few local institutional or political roots, and limited potential for replication.

Not all projects or programmes are capable of being scaled up, because of physical limits (e.g. the limits on the size of a hydroelectric project imposed by water flows or the site) or other constraints (e.g. the number of university graduates who speak the local language who can become teachers) (Hartmann and Linn, 2008). This may be particularly true in the infrastructure sectors where projects can be large and lumpy. Most of the literature on scaling-up has been related to the social sectors or infrastructure

[5] Article 14 of the Agreement Establishing the ADF sets out that the Bank finances economic and social development, and Article 21 prohibits political activity (http://www.afdb.org/fileadmin/uploads/Documents/Legal-Document/Agreement%20Establishing%20the%20ADF%20ANG%20FINAL%202011.pdf)).

sectors where investment is programmatic and spread over many subprojects, for example in renewable energy.[6] In some cases, policy-based operations cannot be scaled up, particularly when they support one-off, 'stroke of the pen', reforms such as eliminating multiple exchange rates. More often, though, reforms proceed more incrementally and require a programme of policy adjustments.

2.2 Characteristics of fragile situations relevant to scaling-up

The risk of armed violence, which sets development into reverse, distinguishes fragile situations from non-fragile situations. This in turn is a consequence of the lack of institutional capacity in the country to resolve differences peaceably and for the state to competently provide services, to put in place rules to govern the behaviour of citizens and organisations and to embody the spirit of the nation. In a fragile setting, results to be scaled up are not only traditional development objectives such as poverty reduction, effective institutions and economic growth, but also results related to reducing the risk of armed conflict and strengthening the interrelationship between legitimate authority and the population.[7] Such objectives have an inherent political dimension, and Bank-supported activities within its mandate may have a broader impact beyond development, whether this is intended or not. Because of the risk of doing harm to peace building and state building and the potential for playing a constructive role,[8] we argue that the Bank should consciously and actively support countries in their transition from fragility to resilience. See Box 2 for an example from Congo. Even though investment can reduce social tensions related to exclusion of groups from the benefits of development, the role of economic development in preventing armed violence is often overstated.[9] Development support from organisations such as AfDB can be part of a broader package of international and regional support that supports a country-led transition from fragility to resilience.[10]

Other characteristics of fragile situations are relevant for scaling-up. First, the transition from fragility to resilience[11] is primarily about countries building their own institutions that are legitimate and capable of delivering services, such as setting and enforcing rules that the population accepts and providing essential public goods.[12] Second, building such institutions usually takes many decades.[13] Third, focusing only on long-

Box 2 AfDB Congo support project for the reinsertion of marginalised groups

The project aimed to promote socioeconomic reintegration of marginalised groups, by improving their access to basic social services and enabling job creation. It focused on the areas of the country that were most affected by the conflict in the 1990s, and had a particular emphasis on supporting young people and girls.

It supported improved access to social services through support to basic health care (training health workers and community health committees, and renovating health centres), as well as domestic waste removal by youth groups in urban areas. It promoted socioeconomic integration through labour-based works, business enterprise and entrepreneurship training and vocational skills training of target groups.

Although the project's objectives were well targeted to the needs of Congo's marginalised post-conflict population, its ambitious multi-sectoral scope led to challenges in implementation.

6 IFC (2012) describes business models for scaling up energy access, often involving renewable energy.
7 See, for example, OECD (2010a, 2011a) and World Bank (2011a).
8 OECD (2010a) shows how international assistance can inadvertently harm the prospects for peace.
9 On the limits of development approaches to addressing conflict, see Bermann et al. (2011) and Fishstein and Wilder (2011). The question on the relationship between economic development and conflict is controversial, and a number of studies have demonstrated linkages between changes in financial flows, including natural resource revenues and foreign aid, political patronage and conflict (e.g. Bates, 2008; Collier and Hoeffler, 1998; Rubin, 2002). Another literature sets out the relationship between horizontal inequalities between groups that create grievances that political leaders can exploit (e.g. Stewart, 2010). Others stress political and social grievances as the root of conflict (e.g. Cramer, 2002). One might conclude by paraphrasing Tolstoy – happy countries have much in common, but unhappy ones are unhappy each in their own way – in other words, context matters.
10 The New Deal on Effective Engagement in Fragile States agreed in Busan in November 2011 sets out the principles for a country-led strategy to address fragility.
11 By 'resilience', we mean the ability of institutions to manage internal or external shocks and to maintain public confidence in this ability (see World Bank, 2011a).
12 On the relation between institutions and fragility, see Acemoglu and Robinson (2012), Fukuyama (2011), North et al. (2009), OECD (2010a, 2011a) and World Bank (2011a).
13 The World Bank (2011a) shows that the fastest 20 countries to cross minimum institutional thresholds took 17 years (military in politics) to 41 years (rule of law).

Box 3 AfDB Comoros private sector technical assistance and capacity-building support project

This project provides technical assistance and capacity-building support under Pillar III of the TSF to the Chamber of Commerce and a national association for the support of micro- and small enterprises (AMIE), two main Comorian institutions responsible for supporting the development of the local private sector. It aims to develop their capacity to offer business development services, and to support business start-ups in key sectors of the economy and among young female entrepreneurs. It also supports dialogue between the government and the private sector.

By strengthening capacity to support business development, the project is expected to provide a pathway for a future AfDB private sector financing project in Comoros.

term building of institutional capacity and infrastructure is insufficient; governments need to deliver a few short-term results that establish confidence and reduce the risk of violence.[14] Fourth, institutional weaknesses constrain the ability to scale up, particularly using conventional approaches.

These characteristics of fragile situations have several implications for scaling-up. First, the lack of institutional capacity may make scaling-up more difficult than in non-fragile situations; at the very least, strategies for scaling-up will require close attention to organisational matters and solutions that compensate for policy and institutional weaknesses prevalent in fragile settings, for example lack of formal rules, and shortages of critical inputs such as skilled labour and land with clear ownership.

Second, the need for some early results to create public confidence in legitimate authority and strengthen expectations of stability creates a need for urgency that the literature on scaling-up in non-fragile situations tends to discount.[15] For example, Hartmann and Linn (2008) are critical of the emphasis on speed as a dimension of scaling-up, since most scaling-up is a gradual process, and argue that speed may get in the way of effective scaling-up. However, they do stress the importance of planning for and demonstrating early results along the long-term pathway as a way not only to test models but also to assure political buy-in and deal with humanitarian needs. The recent experience of 'quick impact projects' designed to meet short-term political stabilisation goals may appear to reinforce this view; many of these projects fall apart because of lack of attention to their operation and maintenance, often at the time when the initial public euphoria related to the end of conflict is starting to wear thin.[16] These types of projects, usually implemented by international partners to generate short-term results, may not address the underlying sources of conflict, may damage the institutional capacity that exists, may not be sustainable without permanent foreign assistance and may score low in terms of development effectiveness. The way out of this dilemma between short-term results and longer-term scaling-up may be to design early post-crisis interventions as pilot projects with an explicit objective of scaling-up, providing this is technically possible; where it is not, focus early interventions in areas where sustainability is feasible and that do not undermine fragile institutions. See Box 3 for a current example from Comoros.

Third, in post-conflict fragile situations, there may be widespread destruction of public and private assets that requires a scaled-up international response. Reconstruction may be priority, and the return to a development trajectory may depend on how quickly and effectively this can be carried out. Rebuilding after a natural or manmade disaster can take much time, even in industrial countries. In post-World War II Europe, for example, little physical reconstruction took place during the first two years after the cessation of war in June 1945. The Marshall Plan, a scaled-up emergency response to a humanitarian, political and economic crisis in the severe winter of 1947, was not

[14] See World Bank (2011a).

[15] Situations where it is necessary for external assistance to help create public confidence in the state include after a change in governance arrangements following the end of conflict or replacement of a regime that has lost legitimacy.

[16] For a critique of quick impact projects, see Ghani and Lockhart (2008) and Oxfam (2010).

completed until 1952, and would have cost more than $201 billion at current prices.[17] Reconstruction needs to be seen through a scaling-up lens if it is to be effective and to avoid political instability and recurrence of conflict.

Fourth, governments of states in fragile situations have difficulty collecting revenues; revenue/gross domestic product (GDP) ratios of less than 10% are not uncommon. Such countries often need external financing of recurrent budget costs. Scaling-up needs to consider fiscal sustainability in order not to generate a future budget crisis. Fiscal sustainability may limit the extent to which investment can be scaled up, or require a parallel commitment for multi-year recurrent budget support if there are short-term political and technical constraints to raising government revenues.

'Small is beautiful, but big is necessary.'

Attributed to the Bangladesh microfinance organisation BRAC in Hartmann and Linn (2008).

2.3 What guidance does the literature give on scaling-up in fragile situations?

Scaling-up that leads to quantity and quality of impact and sustainability requires a process of institutional change and learning that can take place along four dimensions:[18]

- Quantitative scaling-up, when a programme expands by replication in different places or by increasing its number of beneficiaries in a given location – for example a community-driven development programme that increases the number of participating villages;
- Functional scaling-up by increasing the scope of an activity to provide additional services – for example an irrigation authority providing extension services to farmers in addition to supplying water;
- Political scaling-up through increasing the influence of ideas and efforts through political processes that expand the impacts of programmes, neutralise political opposition and create policy and institutional space conducive to scale-up – for example a government negotiating higher road user charges and convincing truckers of the validity of enforcing axel load limits to better manage road maintenance, thus freeing finance for scaling up road investment; and
- Organisational scaling-up that involves the expansion of the implementing agency, the involvement of other institutions or the development of a new organisation. This expansion can be horizontal with similar institutions or vertical, by increasing the engagement of higher-level institutions. An example might be the creation of a highways authority to expand the trunk road system.

One of the most influential models for scaling-up was developed at the Wolfensohn Center for Development at the Brookings Institution. This has been influential in the scaling-up agendas of bilateral and multilateral agencies such the Australian Agency for International Development (AusAID), the International Fund for Agricultural Development (IFAD), the International Food Policy Research Institute (IPRI), the UN Development Programme (UNDP) and the World Bank, and is worth setting out in some detail.[19]

[17] See Judt (2005) for an account of post war Europe and Behrman (2007) for a history of the Marshall Plan.

[18] See Hartmann and Linn (2008), who attribute these four dimensions to Uvin (1995).

[19] The Brookings model is set out in Hartmann and Linn (2008), applied to fragile states in Chandy and Linn (2011) and published in book form in Chandy et al. (2013). Applications of this model to development agencies are shown in AusAID (2012), IFAD (Hartmann et al., 2013), IFPRI (2012), UNDP (2013) and World Bank (Jonasova and Cooke, 2012).

The Brookings model starts with pilot or model projects that can be scaled up through different institutional approaches. These may be top-down programmes driven by strong centralised leadership, depend on individuals responding to incentives (e.g. improved cookstoves) or promote accumulation of social capital through decentralisation, participatory approaches, empowerment techniques and local accountability, for example community-driven development (CDD). However, in practice, the last two institutional approaches usually require some centralised organisation that seeks scale, takes a long-term perspective and facilitates collective action.

Actual scaling-up usually takes place along three organisational paths – either through 1) scaling up a pilot within the organisation that created it, usually through top-down direction; 2) encouraging other organisations to scale up the pilot; or 3) the spontaneous diffusion of ideas or practices, as when an innovation or pilot gets copied and spread through profit-seeking competition. Spontaneous diffusion may depend on good information, sometimes provided by the public sector, for example the spread of hand washing to improve health through a combination of increasing access to clean water, public information and partnerships with soap manufacturers.

Without drivers that challenge the status quo, an organisation with a model for scaling-up may not see the impact it desires. Hartmann and Linn list some of these drivers that motivate scaling-up:

- **Ideas** that often originate in research, and that practitioners translate into concepts for action, often starting with pilots that test the validity of the idea;
- **Pilots with a vision of scale** that are designed from the outset for scaling-up. These differ from 'boutique' projects, which have high unit costs and require management and skills inputs at levels not capable of reaching scale;
- **Leadership** that believes in the potential of an idea and the model of intervention, is committed to scaling-up, sticks with the agenda and can convince others to follow her or his lead;
- **External catalysts** such as the end of conflict, natural disasters, civil unrest and economic shocks, which precipitate change and create conditions favourable to scaling-up. Mutual commitments between a country and its international partners can also drive development activities to scale, particularly when accompanied by external funding;
- **Incentives and accountability** that support a shared conviction that scaling-up and sustained engagement matter. Public sector organisations often start with incentives that inhibit scaling-up, for example 'to move from one new idea to the next, from one project to another, from one job to another' (Hartmann and Linn, 2008: 19). Shared institutional values, incentives and accountability are needed in organisations such as AfDB that support scaling-up, as much as in the organisations they seek to help.[20] Accountability of donors and governments has been upward to politicians and sideways towards donors, rather than downwards towards beneficiaries (World Bank, 2005, 2011).

Scaling-up takes place within a broader environment that can enable it or thwart it. Without space in this environment for ideas and pilots to grow, scaling-up may not

[20] Johannes Linn makes this point in Chapter 5 in Chandy et al. (2013).

occur. Hartmann and Linn identify seven spaces where constraints to scaling-up need to be removed:

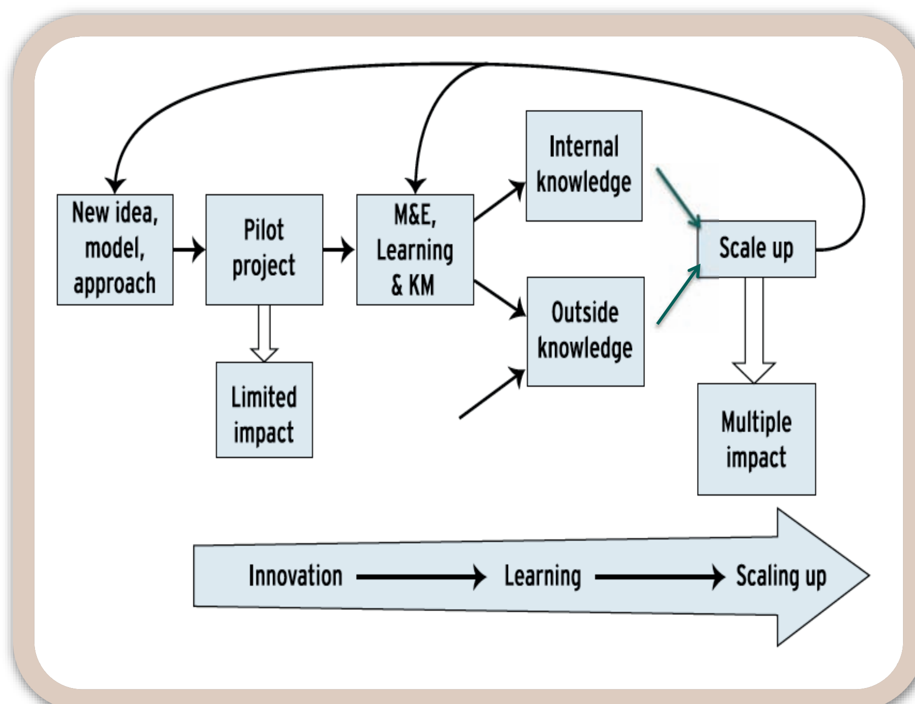
1. **Fiscal and financial space.** Scaled-up programmes generally require more financial resources, without which they cannot grow, even when economies of scale are present. Designers of scaling-up programmes need to take account of their financial sustainability and look for savings and resources generated from fees and taxes as well as new funding; a programme that is dependent on long-term donor funding may not succeed.
2. **Political space.** Sustainable financial resources require political support and navigating around opposition through political outreach, coalition building and proactive advocacy.
3. **Policy space** created by the policy, legal and regulatory framework. Removal of critical constraints to scaling-up may be difficult in a fragile setting owing to the prevailing political settlement. On the other hand, policy change is easier if it removes obstacles to a popular programme reaching scale, as opposed to promoting policy adjustments with less tangible results.
4. **Organisational space** created by institutions making changes and building the capacity necessary for scaling-up to take place. Pervasive capacity limitations in fragile situations and the limitations of conventional approaches to capacity building may require innovative approaches involving contracting-out that can be reconciled with longer-term solutions for service delivery. Training local staff is part of the solution to capacity shortages, but this is unlikely to be successful unless the incentives are in place for learning and career development, which may be difficult without at least partial reforms to the civil service. Low staff capacity and the risks of corruption may call for limiting bureaucratic discretion and providing clear guidelines for staff through manuals, etc.
5. **Cultural space** that ensures the programme recognises social constraints to implementation or beneficiaries' unwillingness to participate in the project.
6. **Partnership space** that mobilises support to enable the programme to scale up from local or domestic partners. Such partners could be private, non-governmental organisations (NGOs), UN agencies or official donors.
7. **Learning space** that supports absorbing lessons as programmes unfold, adapting programme design, welcoming change and learning from failure. Feedback loops based on monitoring and evaluation (M&E) of results during implementation, not waiting for the programme to be completed, enable mid-course corrections to the programme and scaling-up results to be accelerated.

The process of scaling-up is essentially dynamic and takes place across time as ideas get transformed into pilot projects and where the concept of reaching scale is refined later as results from implementation come in. The pilots in turn are scaled up through one of the mechanisms of expansion, replication or spontaneous diffusion outlined earlier. Modifications arising from knowledge generated in the pilots also affect the organisational arrangements for the programme, be they hierarchical, individualistic or relational, and these could shift during the scaling-up, for example from hierarchical to relational in a CDD programme. Such knowledge arising from practice being fed back into the full-scale rollout of the programme is inherent to scaling-up. The dynamic nature of scaling up is seen in Figure 1, taken from Linn (2011), in Chandy and Linn (2011).

Other organisations have also prepared reports, studies and recommendations on how to scale up. A report prepared for the MacArthur Foundation sets out an approach for scaling-up in the health sector (Kohl and Cooley, 2006); this has many common elements with the Brookings model. The authors propose three steps, starting with a plan that encompasses a vision based on an assessment of scalability in the specific context and determining the what, how, who and where of scalability. The second step establishes preconditions for scaling-up that include legitimising change in the political and organisational setting of the programme, building a constituency and realigning and mobilising resources. The third step requires modifying and changing the implementing organisation, coordinating action among the actors involved in implementing and supporting scaling-up and tracking performance to maintain the programme's momentum. The report contains practical guidelines and checklists for practitioners.

The German International Cooperation (GIZ) has published guidelines for scaling-up based on lessons from more than 25 projects (GTZ, 2010). Lessons include thinking big to plan for scaling-up at the outset; ensuring political backing from key stakeholders; a multilevel approach that links policy advice with pilot projects at the local level; monitoring to demonstrate the value indicated by pilots; standards and manuals to ensure quality during the scaling-up process; the need for incentives and engagement of professional institutions; communications and networking to inform and convince stakeholders; and the need for generous budgets and timescales. The paper contains a useful checklist for practitioners that involves evaluating experiences from pilots, design of a scaling-up strategy, selection of partners, mobilisation of resources and monitoring and quality assurance.

Figure 1 Innovation, learning and dynamic scaling-up



Source: Linn (2011), in Chandy and Linn (2011).
Note: Knowledge management shown as 'KM'.

UNDP's approach to scaling-up follows the Brookings model and introduces some innovations. First is the concept of a 'tipping point', where scaling-up breaks out of small pilot projects and becomes institutionalised, or, in the language of epidemiology or computer science, goes viral. The second innovation is mapping out the pathways through which scaling-up happens through actions at the national, local and meso levels of government (UNDP, 2013). The UNDP paper stresses the need for pilots and political and fiscal space to institutionalise results, for strong leadership and for designing a programme at the outset with a view to scaling it up.

During the James D. Wolfensohn presidency at the World Bank (2000-2005), there was a push towards scaling-up at the World Bank Group, the implementation of which was left mainly to sectoral networks.[21] Around this time, the World Bank introduced Learning and Innovation Loans (LILs) designed to quickly implement pilot activities, and Adaptable Program Loans (APLs) capable of scaling up successful projects. Neither instrument is in current use, and neither led to the simpler procedures that their architects envisaged. LILs rarely achieved scale, probably because the principles outlined above were not applied to their design. APLs were required to have triggers that delayed subsequent loans and were rigid and cumbersome in practice. The APL has been incorporated into the provisions for additional financing in the new consolidated investment lending instrument. Corporate policy has evolved to create new instruments that enable scaling-up, such as additional financing of ongoing operations, emergency recovery financing and financing for results that enables results rather than investments to be financed. These new instruments are being introduced at time where operational policies are being streamlined and simplified to make them more understandable to borrowers and staff. Streamlining is also to focus compliance on core policies related to the Bank's Articles and Board policies, since it was difficult for staff to ensure that a large number of complicated policies could be implemented satisfactorily in a particular operation.

Within the World Bank, the Agriculture and Rural Development network has given the most attention to scaling-up. A paper by Binswanger-Mkhize et al. (2009) shows that community empowerment lies at the heart of scaling up local development in rural areas. If scale is to be achieved, this needs to link to institutional changes that empower local government and decentralised sector agencies, improving accountability and building capacity among all the state and non-state actors involved in local and community development approaches. Design of pilots and the programmes that scale them up requires them to be well adapted to local contexts, as well as attention to programme management, reducing costs and financing, plus field-tested manuals and tool kits. The authors stress the importance of political commitment to decentralisation, putting money into the hands of communities to further scaling up through learning by doing, sound technical design, sharing and spreading knowledge, aligning stakeholders incentives for scaling-up and training. They mention that scaling-up can take as long as 15 years. The paper also shows that scaling up local development is feasible in emergencies and post-conflict settings, providing additional attention is given to working with civil society organisations (CSOs) and designing conflict mediation into the programme.

[21] Jonasova and Cook (2012: 3-4) list scaling-up interventions in the CDD, health, education, environment and climate change, water and sanitation and development economics sectors and thematic areas.

Some authors recommend soliciting ideas for scaling up pilots through competition.[22] Another paper commissioned by the World Bank Agriculture and Rural Development network looks at 22 projects selected through the Bank's Development Marketplace (Holcombe, 2012). It addresses the paradox of wanting proof that an innovation will have scaled-up impact before deciding to scale up, with decisions that have to be made before there is adequate information. It also contains useful checklists for assessing pilot projects.

2.4 What determines the success of scaling-up?

Our review of the literature suggests certain pathways and design features are essential for the successful scaling-up of programmes.

First, **the designers need to have clarity about how scaling-up is to be achieved**, through expanding or replicating a successful pilot or through creating policies and incentives for independent actors to implement activities that reach scale. Sometimes, scaling-up will be opportunistic and use the conditions created by crises (or the end of them) to overcome institutional and political obstacles to change.

Second, **sound design of pilots** is critical for translating ideas into action. Pilots need to be designed at the outset for reaching a large scale, and have motivated and incentivised sponsors who can manage implementation, mobilise resources, overcome obstacles and stay the course.

Third, **invest in institutional development** to build the organisational capacity and leadership to manage going to scale.

Fourth, **learn continuously in real time**, adjusting pilot and programme design in the cold reality of results and generating information needed for decisions on scaling-up. This should be at the heart of a scaling-up programme. Effective learning calls for good M&E, both informal eyes on the ground as well as formal systems, that creates positive feedback loops and does not wait for the project to be completed.

Fifth, **the environment in which scaling-up will take place needs to be prepared and nurtured**. Institutional arrangements obviously will be important in low-capacity fragile situations, particularly the incentives that promote scaling-up, as will the financing arrangements for investment and operations that also determine long-term sustainability.

2.5 Other approaches to development relevant to scaling-up

Scaling-up involves helping countries build institutions that can manage expanded programmes and ensure that these programmes are feasible and have deep country ownership. Recent research on how fragile African countries can build capacity is relevant to scaling-up. Booth (2012a, 2012b) sees overcoming collective action problems

[22] See Zinnes (2010) for an example of a competitive approach to increasing aid effectiveness.

that prevent elites agreeing on actions in their mutual interest as central to the challenges of development, particularly in Africa. International partners need to play more of a facilitation role and decouple capacity-building support from investment financing. Andrews et al. (2010, 2012) and Pritchett et al. (2012) examine the failure of many capacity-building initiatives and recommend a Problem-driven Iterative Adaptation (PDIA) approach to facilitating change, whereby partners listen and learn what problems are of highest concern to the country and facilitate and support solutions to these. Change therefore moves incrementally with continuous learning from implementation. This is in contrast with comprehensive 'master plans' and transfer of 'best international practice' leading to 'isomorphic mimicry', or shells of Potemkin institutions that fail to deliver their objectives. In this report, we combine some of these new approaches to development, and the constraints imposed by fragile situations, with the classic Brookings model for scaling-up.

3 Elements of an AfDB strategy for scaling-up in fragile situations

3.1 Assessing AfDB's readiness for scaling-up in fragile situations

In 2011, AfDB commissioned an independent evaluation of its activities in fragile states between 1999 and 2011 (IOD Parc, 2011). This found AfDB had made significant efforts to develop a more explicit and systematic approach to working in fragile states over the period. Key milestones included the adoption of Post-conflict Assistance Guidelines in 2001, a Post-conflict Country Facility in 2004 and then the Strategy for Enhanced Engagement in Fragile States in 2008 with its associated Fragile States Facility (FSF). With these steps, the Bank both raised the general consciousness of the special needs of fragile states in its activities, and allocated substantial additional financial resources to respond to those needs.

As an aggregate trend, the Bank's commitments to fragile states have risen further and faster than those to non-fragile states since 1999. Volume allocations have been generally relevant and responsive to changing absorptive and financial management capacity in the countries concerned (AfDB, 2012b). In terms of resources, between 2008 and 2011, AfDB provided around $2.5 billion in support to Africa's fragile states across 124 operations, with a particular focus on infrastructure and agriculture (AfDB, 2012c). Disbursement ratios increased, as did the predictability of disbursements, while the average time elapsed between project approval and the first disbursement had decreased to 8 months by 2011, which was better than the average performance of the rest of the portfolio (13 months).

The evaluation also found that the combination of the Bank's regular and dedicated instruments had allowed it to respond flexibly to diverse and changing needs, a key strength in fragile environments. Modalities ranged from arrears clearance operations to projects and programmes through to more recent budget support. These instruments, in turn, allowed for Bank support across a wide range of sectors in the countries concerned, as well as important multi-sector operations.

Nonetheless, in spite of these impressive achievements, the evaluation's findings indicate that AfDB's performance in fragile states falls short across a number of dimensions essential for a successful scaling-up approach. These findings are confirmed in the Bank's own internal report on development effectiveness in fragile states (AfDB, 2012b). AfDB has been able to incorporate diverse elements of a scaling-up approach on an ad hoc basis into individual projects across its fragile states portfolio, as the various case examples cited in this report demonstrate. However, it has not yet systematically devoted sufficient attention or capacity to key building blocks for successful scaling-up, such as analysis of country context, establishment of partnerships with non-state and international partners and establishment of systems to evaluate results and feed back lessons learnt into future programming.

Section 2.4 sets out five pathways and design features essential for successful scaling-up. These pathways need to be anchored in sound analysis of country context, to ensure pilots and programmes are based on institutional models that are sustainable

and adapted to the local situation.[23] However, until the approval of its new strategy to address fragility and build resilience in Africa, holistic analysis of country context has not been a key feature of AfDB's operations in fragile situations. Although its support has been found to be responsive to requests and to urgent needs, in most cases it has not been underpinned by significant analysis of the all-important political context and the drivers of conflict and fragility (AfDB, 2012b). This lack of a fragility lens and 'business as usual' approach is considered to have opened up a significant risk of failure and conceivably wider damage from the Bank's interventions.[24] With some limited exceptions, AfDB's own internal report on development effectiveness in fragile states found no evidence of Bank operations recognising in practice that 'peace, security, and economic and social development issues are intertwined', or situating the Bank's support within an integrated state-building and peace-building approach, as the Strategy pledged. Under its new strategy, this weakness is being addressed and should therefore not constitute a barrier to effective scaling-up.

The literature review in Section 2.3 indicates that scaling-up takes place within a broader environment that can enable it or thwart it. Unless there is space in this environment for ideas and pilots to grow, then scaling-up may not occur. Partnership space is identified as one of the key spaces that need to be nurtured. Effective partnerships with third parties, including other development partners, CSOs and the private sector, are central to a country strategy based on scaling-up. However, to date, while there are scattered examples of advances in AfDB's partnerships in fragile situations, in general the Bank does not develop partnerships consistently and systematically with other state and non-state partners or international partners in fragile situations, even in those cases where other partners are willing and able to work in this direction (IOD Parc, 2011). AfDB staff have been more comfortable engaging with prime interlocutors like ministries of finance or project agencies, even though the Bank is supportive of partnerships with the private sector, civil society and other regional or international partners. Although coordination and joint working are especially essential in fragile situations, the Bank's partnership working has been limited, and operated largely at the project rather than the strategic level. See Box 4 for an example of a project-based partnership in Burundi. The Bank is generally considered to have failed to capitalise on the opportunity to develop the capacity of non-state actors in the state-building and peace-building processes, including civil society and the private sector (AfDB, 2012b). It will need to adopt a significantly more strategic, systematic, consistent and broad-ranging approach to partnerships if it is to enhance its readiness for scaling-up. Learning continuously in real time constitutes one of the five pathways that are essential to the success of scaling-up, and creating learning space supports absorbing lessons as programmes unfold, adapting programme design, welcoming change and learning from failure. Effective M&E is essential to the development of learning space, as it enables knowledge arising from practice to be fed back into full-scale programme rollout, helping ensure interventions are well adapted to local context and have the potential to be sustainable. However, at present, the Bank's M&E systems in fragile situations are not well adapted to fulfilling this function. In most cases, it uses its standard performance management mechanisms, which have acknowledged

Box 4 AfDB Burundi job creation support programme

AfDB's job creation project in Burundi is part of a joint country-wide programme with the World Bank and Belgian Technical Co-operation, amounting to UA 51 million in total. AfDB's contribution amounts to UA 10 million, and focuses support on three populous provinces in the centre north of the country, which are home to a quarter of the country's population. Belgian support is focused in another province, and the World Bank's support is countrywide. All three projects use the same institutional arrangements for project management.

[23] Understanding context is one of the 10 OECD principles for engagement in fragile states (OECD, 2007).

[24] An example of lack of fragility analysis contributing to conflict is the World Bank-financed Mahaweli Development and Irrigation Programme in Sri Lanka (see Muggah, 2008).

shortcomings: they are rigid in nature and largely focused on inputs and throughputs (e.g. disbursement and project completion rates) at a project and programme level only, rather than on results and effects (AfDB, 2012b). Furthermore, there is little evidence to date of monitoring or evaluation results having influenced AfDB programming or operations in fragile situations. Consultations around Country Strategy Papers (CSPs) do not appear to have generated useful lessons about the particular challenges of operating in these countries. 'Lessons learnt' are mainly about implementation and are not always shared with counterparts and/or followed up by AfDB and national authorities (ibid.). More could be done in evaluations to assess the contribution of Bank activities to peace building, state building and general sensitivity to the risks of conflict. The Bank therefore needs to strengthen both its approach to M&E and the way it uses the results generated, in order to develop the knowledge-oriented approach essential for scale-up.

In addition, multi-country evaluations of the Bank's sectoral and thematic performance have not systematically assessed its operations in fragile situations, even though these are a large client segment with characteristics that differ from other low- or middle-income countries. AfDB is now carrying out a significant number of sectoral and thematic area evaluations. We suggest that these evaluations should give particular attention to issues of fragility and barriers to achieving large-scale results. This will focus management attention and strengthen incentives for scaling-up. Furthermore, there is a need for a fragility lens in the annual reviews of portfolio performance and in Independent Development Evaluation (IDEV – previously OPEV) annual reports on its evaluative work. Such differentiation are critical to evaluating the rollout of the new strategy, as well as the effectiveness of scaling-up.

These findings are reinforced by external assessments of the Bank by the Multilateral Organisation Performance Assessment Network (MOPAN, 2012) and the UK Department for International Development (DFID, 2011). Both assess the Bank at the upper end of multilateral aid organisations and recognise its strengths that derive from its African legitimacy and strategic alignment and operational management reforms, even if not all of the results from the reforms are complete. Areas for strengthening include the efficiency of administrative procedures, human resource management, weaknesses in CSPs including lack of theories of change and use of country-specific targets and indicators that link Bank operations to higher-level goals. MOPAN is particularly critical of decentralisation of decision making to the country level, despite the increase in field offices that had taken place since the previous review. The DFID assessment also recommends more decentralisation, reducing high staff vacancy rates, strengthening the results framework and improving transparency. DFID also noted that AfDB's contribution to fragile states was less than that of the Asian Development Bank (AsDB) and UNDP, although it ranked equal with the World Bank.[25]

Evaluations of other MDBs have similar findings to reviews of AfDB. The World Bank (2013b) review of its activities in fragile states found that its country strategies were not well tailored to fragility and drivers of conflict, and that political economy and conflict analysis needed strengthening. It also found that its financial support to fragile states

[25] Some results from the DFID assessment are given in Appendix 2.

did not match the global shift in aid flows to fragile states. Despite higher risks, its fragile states portfolio has had better outcomes than other low-income borrowers have, but its Africa portfolio has taken longer to catch up. CDD programmes have been particularly successful. However, its private sector investments (International Finance Corporation, IFC) have performed worse than those in non-fragile countries, and the World Bank Group has not been effective in job creation in fragile states, its private sector development work has been narrowly focused on investment climate reform and its support to agriculture had not reached the scale commensurate with the role of this sector in food security and employment. The evaluation found that the CPIA was problematic in recognising the drivers of fragility and conflict. Unit costs for project preparation were 9% higher than in non-fragile countries and the costs of implementation support were 18% higher. The number of staff in fragile states country offices increased by 68% from FY06 to a total of 265 professional level staff in FY12, compared with a 34% increase in staff in countries that had never been fragile. The increase in staff and allocation of resources to project preparation and implementation was accompanied by a substantial increase in administrative budgets.

An internal evaluation of the Asian Development Bank (AsDB) work in fragile states showed lack of political economy and conflict analysis and difficulties in working with other policy communities, slow, cumbersome instruments and modalities and difficulties in reconciling its governance work with state building, which was at the edge of its mandate (AsDB, 2007). Its current fragile states strategy calls for more fragile and conflict-sensitive country strategies, strengthening field presence and human resources, enhancing resource allocation for fragile states, differentiating business processes and strengthening country institutional capacity. While the strategy does not explicitly mention scaling up, it does call for greater effectiveness and more financial resources for fragile states (AsDB, 2013).

3.2 Overview of an AfDB strategy for scaling-up in fragile situations

The literature review and theory in Section 2 set out how scaling-up takes place and are intended to provide knowledge to AfDB staff who are facilitating scaling-up in RMCs. Scaling-up has similarities with state building, the process of institutional building that supports the transition from fragility to resilience. Like state building, scaling-up is essentially a home-grown process that partners can only facilitate and support (OECD, 2011a). Organisations such as AfDB can play an enabling role, but scaling up programmes and the results they generate has to be done by the countries themselves. Nevertheless, AfDB's resources, operational rules, instruments and staff skills themselves need to be aligned to enable scaling-up to be effective. The principles for successful scaling-up set out in Section 2.4 are also applicable to AfDB, as well as the RMC. While AfDB has made a lot of progress since 2008, the assessments described in Section 3.1 suggest more needs to be done to scale up the Bank's effectiveness in fragile situations.

We propose that successful scaling-up will require a strengthened response by AfDB when favourable conditions emerge within agencies and sectors in its partner countries. Successful scaling-up will require partners to take the lead in designing, implementing

and evaluating programmes and projects that are capable of being scaled up; AfDB staff to have the knowledge and incentives to facilitate this scaling-up and to mobilise resources to support it; the Bank to have policies and instruments geared to supporting scaling-up; and the Bank to convene and forge partnerships with local and foreign actors that support well-coordinated assistance to produce results on a large scale. These four elements for the Bank to be successful in scaling-up are described below and shown in Figure 2:

1 **Favourable conditions in the country that favour scaling up**, which include visionary and effective leadership responsible for the activity to be scaled up; enabling incentives and accountability arising from the policy and institutional framework in the country; and ideas arising from pilots or experience of other countries. Those leading scaling-up in the country need access to financial resources, political space and an organisational environment conducive to results and learning. Sometimes, internal or external economic shocks, political changes and the end of conflict can catalyse change that improves conditions for scaling-up.

2 **Alignment of AfDB organisational incentives and culture with a corporate goal of scaling-up** results in fragile settings. Many of the conditions for effective scaling-up set out in the Brookings model apply to AfDB itself as it sets out to ramp up its impact in fragile situations. These include communicating a vision of scaled-up development effectiveness by managers based on a sustained engagement at the country level to translate ideas, knowledge and human and financial resources into action on the ground. Incentives need to be in place that encourage staff to have a sustained engagement in the country, aimed at scaling up development results, not just Bank outputs such as loan approvals. It also requires the Bank to monitor its implementation of a scaling-up strategy at the country level and have a learning culture that feeds back the knowledge from experience (and failures) into strengthened results.

3 **The right set of Bank policies and instruments to enable the Bank to respond to opportunities in the country** as it seeks to scale up its development. AfDB staff should be aware of the relevant policies and instruments and proficient in their use, supported by a staff learning programme on engagement in fragile situations and just-in-time mentoring.

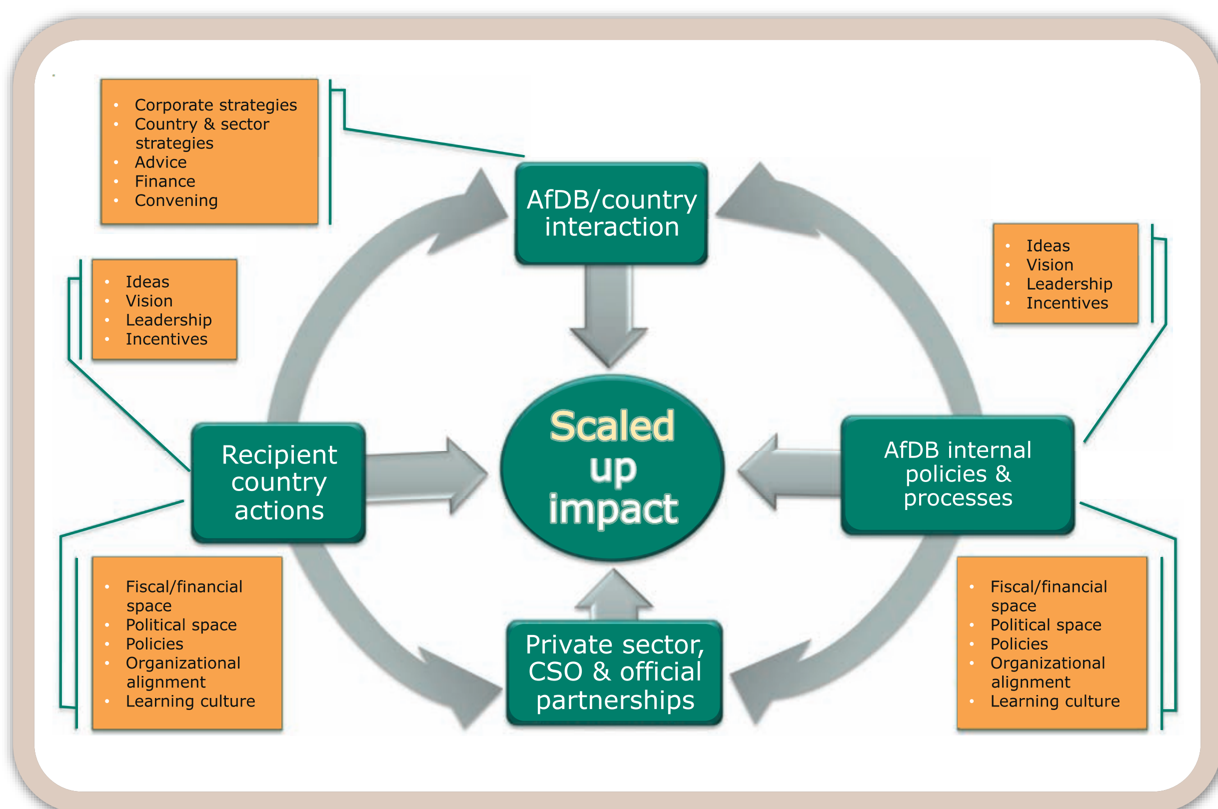
4 **Effective partnerships of the recipient country and Bank with third parties** such as other development partners, CSOs and the local and foreign private sector will be needed to mobilise additional financial, human and organisational resources to enable scaling-up, and to ensure AfDB's activities are part of a coordinated and coherent package of support to the country that is greater than the sum of its parts.

In order to assess how AfDB might strengthen its activities in these four broad areas, we drew from the review of past Bank experience (e.g. the sluggish response in turnaround countries) and our analysis of the processes and instruments related to country programmes and development finance the Bank can deploy in fragile situations. We also drew from practices and lessons from other MDBs working in fragile situations. Several issues are common to all international assistance to fragile situations and particularly critical for scaling-up. These include level of country presence and how to

attract staff to these states, effective partnerships (including trust fund management) and defining and managing risks.

Pilot projects appear throughout the literature on scaling-up, but what is a 'pilot' in the context of a development bank that typically finances large projects requested by its sovereign members? The essence of a pilot is learning from experiences gained at a smaller scale and then using this knowledge to move to a greater scale. Pilots can involve testing approaches to institutional development as well as physical investment. Helping countries resolve issues of politics, legitimacy and fit with local conditions are essential for scaled-up results, and may even affect the ability to scale up future investment, for example public utility revenue collection. Lessons learnt from investment projects in one area, such as in water supply, electricity distribution and rural services, can be used to expand these services across the country.

Figure 2 Basic model for scaled-up results



Our analysis of how the Bank can be more effective in applying knowledge on how to scale up concrete results on the ground has been clustered around seven sets of recommendations:

1 **Strengthen AfDB response during re-engagement and country turnarounds** so it can respond more rapidly and flexibly to positive changes in fragile situations;
2 **Design country strategies, programmes and projects** that enable scaling-up;

3. **Strengthen Bank instruments for scaling up:** provide more flexibility in TSF operating rules so as to allocate funds for scaling-up and to attract additional finance for scaling-up; design and manage operations with a goal of scaling-up; and develop new instruments (or modify existing ones) to provide additional financing for scaling-up operations;
4. **Enhance the effectiveness of field offices** to manage the scaling-up of operations and engage effectively with the government and other partners;
5. **Scale up impact through partnerships with the international community**;
6. **Deploy the full range of Bank instruments to partner with the private sector** in order to mobilise additional resources, organisational capacity and innovation to scale up development impact; and
7. **Strengthen AfDB's approach to managing the risks inherent in scaling-up**.

The next chapter presents detailed recommendations in each of these areas.

4 Recommendations

4.1 A stronger response during re-engagement or country turnarounds

The end of a civil war, or an abrupt change in governance following elections or the overthrow of a regime that has lost its legitimacy, present countries in fragile situations with an opportunity for a new trajectory towards stability, human security and development. These moments can be difficult for a development organisation with a project-based business model, used to developing institutions over long periods of time and reluctant to engage with other policy communities addressing political and security issues that affect development. Expectations of citizens in the country and of international partners for early development results may be impossibly high. Yet the risk of a return to conflict is as high as 40% during the first decade of peace (Collier et al., 2008), compared with the 9% risk that a low-income country that has been at peace for a long time will experience large-scale conflict over a 10-year period (Collier et al., 2008. As mentioned before, assisting new governments to deliver at least a few results is critical to sustaining peace, even though it is naïve to expect that development support, while necessary, will alone be sufficient to prevent new conflict. Enhanced development effectiveness in fragile situations will require AfDB and its partners not only to facilitate results at scale but also to ensure there is not a time lapse before these results are delivered.

A fast response to a country turnaround depends on a number of actions:

- **Establishing a base of knowledge through a watching brief on the country and preliminary ideas on how the Bank might respond** to changing conditions in the country. This might involve exchanging information with partners and preparing options on how the Bank might commence operations. We understand that the AfDB presently prepares Country Dialogue Notes (CDNs) and Country Briefs in countries where it is not operationally fully engaged.
- **Authorisation to re-engage with the country and approval of an initial operational programme.** This would be through a re-engagement strategy document, which might be preceded by informal contacts with Board members to assess support from the international community for starting Bank operations. At present this seems to be achieved through an Interim Strategy Paper (ISP), which has a three-year timeframe, and the Country Brief, which covers two years. If necessary, the re-engagement strategy should contain a plan for the country to obtain Bank membership and to clear any arrears, and for Bank activities before these actions are complete.
- **Launching Bank operations rapidly in the country**, which might include financing reconstruction and recurrent budget support; economic and sector work (ESW) aimed at addressing immediate problems faced by the government and resolving medium-term issues, for example modalities for service delivery; assisting the government to coordinate international assistance; mobilising funding for the country; and preparing medium-term investments, for example in new infrastructure. Initial operations could include pilots designed with a view to scaling-up. These should be rigorously monitored during implementation,

Box 5 AfDB engagement in South Sudan

The Bank's response to changing conditions in South Sudan illustrates some of the issues in starting operations under changing political conditions. The Comprehensive Peace Agreement (CPA) signed in January 2005 ended several decades of war between North and South Sudan, as a part of which the semi-autonomous Government of Southern Sudan was established for an interim period lasting to 2011. In January 2011, under the terms of the CPA, the Southern Sudanese voted for independence and the separate state of the Republic of South Sudan was established by mutual agreement with the Republic of Sudan in July 2011.

During the nine years since the CPA was signed, the Bank's response was much slower than the country's other partners, even though a cooperation framework agreement with the authorities permitted some operations, despite South Sudan not being a Bank member. According to the Bank's website, only two technical assistance projects financed by TSF Pillar III have been approved to date, totalling UA 11.73 million ($18 million), although these are in critical areas of public financial management and transport pre-investment. The Bank has also completed useful policy studies.

While most other agencies established offices in Juba shortly after the semi-autonomous government was established in South Sudan in 2005, the AfDB office is comparatively recent and still does not have the authorised complement of staff, because of a lack of office space. Processing of membership has been particularly protracted; South Sudan was accepted as a member in May 2012, 10 months after the new state was created – although a separate state was almost certain after the January 2012 referendum, if not before – and ratification was not completed until September 2013, although much of the ratification delay owed to legal and legislative processing in South Sudan.

including evaluating their early results, with a view to modifying project design and taking an early decision to go to scale.

Other actions are also critical to a successful response to a turnaround, in particular setting up a field office with devolved authority and preparation of a country strategy, which are discussed in more detail in subsequent parts of this report. AfDB also needs to deploy viable financing instruments that enable a scaled-up response.

4.1.1 Country Dialogue Notes for countries without operational programmes

The Bank rarely disengages completely from a country, and can prepare CDNs for countries where it has been inactive or which seem very likely to emerge out of existing countries.[26] Such notes should analyse the drivers of conflict, the relations between political and economic power, conflict and development, humanitarian conditions and institutional capacity. They should also set out options for how the Bank might re-engage with the country and be updated at least annually. We understand that the Bank already does maintain some information on countries where it is currently inactive, but could extend its information sources and deepen its analysis of the drivers of current or potential conflict. Preparation of CDNs could involve collecting information from humanitarian organisations active in the country, and, if appropriate, regional and global organisations such as the AU and the UN and future political actors in the country. The notes also would need to draw on knowledge from partners, including those in diplomatic and security policy areas, and from respected NGOs, think-tanks and academics familiar with the country. Occasionally, the need to monitor developments in a country may require 'watching briefs', which might contain information that could be sensitive in terms of the Bank's relations with some shareholders and the incumbent government in the country. Since they do not involve decisions related to Bank operations or use of Bank resources, we suggest they be considered management documents of a deliberative nature that would not routinely be circulated to the Board or other audiences beyond a group of senior staff.

4.1.2 Re-engagement memorandum for rapid response

We recommend that AfDB evaluate whether the current approach to obtaining Board approval for re-engagement after conflicts or turnarounds through a Country Brief or ISP is sufficiently flexible and fast or whether a lighter approach is needed. This could be through a re-engagement memorandum, which would not have a rigid format, or by changing the criteria for a Country Brief, and could cover areas such as:

- Setting out how conditions have changed in the country to justify limited or full re-engagement by the Bank;

[26] While we appreciate the sensitivities surrounding national borders, Eritrea and South Sudan are two African countries that have separated from larger countries by mutual agreement. Other examples might be the mutually agreed separation of the Czech Republic and Slovakia, the dissolution of the former Soviet Union and the breaking-up of former Yugoslavia.

- Analysis of conflict and the security implications for Bank operations;
- An overview of economic and humanitarian conditions and analysis of the current and future roles of humanitarian actors in delivery of public services;
- The new government's strategy and plans, recognising that they may not be fully developed;
- Activities current or planned by development partners and how AfDB operations will work with stabilisation and peace building actors such as the AU and UN;
- Allocation of TSF, non-concessional window (ADB) or trust fund resources;
- An interim AfDB rolling operational plan for the next three years, its justification and the choices of instruments;
- An outline plan for how any arrears or membership issues would be addressed;
- A plan for quickly establishing a field office;
- A plan for preparing a full ISP and/or CSP in the future;
- Administrative budget arrangements to enable the re-engagement to be financed.

A re-engagement strategy would normally involve financing a blend of activities designed to produce some short-term results while laying the ground for longer-term institutional strengthening and infrastructure or other projects that require more preparatory work of scaling up pathways with long-term pay-off. Examples of short-term projects would be repairs to public assets damaged during war or through lack of maintenance, financing urgently needed materials and recurrent budget costs such as salaries and financing service delivery by NGOs and UN agencies while permanent arrangements for service provision are put in place. Such short-term arrangements should be made consistent with a scaling-up strategy that envisages a transition from short-term, humanitarian-oriented service delivery to a development approach that builds the service delivery institutions the country wishes to adopt, which may require a role for non-state actors.

Given that AfDB is required normally to use country systems, particular attention may need to be given to putting in place special arrangements to lower fiduciary risk. Such options include encouraging the government to contract out some fiduciary services and dual signatory arrangements, and may be more efficiently done jointly with other partners also using government public financial management (PFM) systems. Weak government capacity is often a problem in turnarounds and development partners need to avoid promoting 'isomorphic mimicry' – the laws and other institutions and practices that constitute 'best international practice', but that have little chance of being implemented and that divert scarce government political capital and organisational capacity from higher-priority activities.

4.1.3 Identifying viable financing options for rapid response

Financing an effective re-engagement requires funds to be made available to repair the aftermath of conflict, meet the backlog in investment, start to rebuild institutions and generate public confidence in the changes that have taken place in the country. These funds can be from the ADF and TSF windows, trust funds and special arrangements that the Board might approve. Private investors and banks are also a potential source of funding, perhaps not in the very early period after a conflict; we return to private–public partnerships in Section 4.5.2. For countries in good standing

with the Bank, that is, those with full membership and no arrears, the regular ADF and TSF allocation processes could apply. The TSF allocation is intended to respond to the special needs of fragile situations, including those that have moved out of conflict or where a turnaround has occurred. This also compensates them for when they were unable to utilise their ADF allocations, which were essentially allocated to other countries. Special issues arise when a country is not an AfDB member or has inherited arrears incurred by a previous government. Legal processes to establish membership can be lengthy and require the country to process the enabling agreements through its legislature, often at a time when legislative capacity is low and when there is a new constitution and a long list of fundamental laws to be enacted. There was a six-year period during the period of autonomous government in South Sudan before a separate state was formed in July 2011, and it has taken nearly 30 months for the Republic of South Sudan to become a fully ratified AfDB member. South Sudan may be a special case because of complicated politics, but, with hindsight, the outcome of the referendum on independence left few surprised and the preparatory work could have been quietly completed so as to accelerate the process to membership after the new government took office. The World Bank, for example, admitted South Sudan to full membership in April 2012, about nine months after independence. Scaling-up is difficult to start if the country is not an AfDB member. The path to membership needs to be prepared in advance and given close management attention.

Similarly, arrears clearance can also take time, even when there is goodwill by all parties. Arrears are usually a consequence of mistakes by previous governments and in some cases excessively risky or politically motivated lending, such as during the Cold War. However, a new post-conflict or turnaround government may have had no responsibility for arrears, much less the people of the country, who may not have chosen the government that undertook the borrowing. International development finance rests on the principle that countries must honour their debt obligations to the multilateral banks, which lend with thin margins where little risk is factored in or provide highly concessional credits. Once the principles of a plan for clearing arrears has been agreed by the new government and its multilateral creditors, AfDB could consider options for providing development finance for investment.

While each case of arrears and membership issues may be different and there may be legal obstacles to be overcome, options for providing early financing for a scaled-up response to turnaround countries include:

- Capacity-building support from TSF Pillar III, which is possible at present with Board agreement to re-engage with the country;
- Mobilising investment financing through trust funds, which could be created specially for the country. These could be administered by AfDB, or the Bank could prepare activities with the government, which could be financed through a trust fund managed by others;
- The ADB/ADF Boards agreeing to transfer part of the Bank's net income to a fund for financing investment in turnaround countries. This could be a special standalone country fund or a window in the TSF;
- Mobilising donor funds for investment financing through country-preferenced contributions to the TSF or a special fund for the country, like the Darfur trust fund;

- Establishing a rapid response lending instrument for turnaround situations;
- Private sector enclave projects that generate sufficient export revenues to service AfDB financing and to be financially sustainable, which could be ADB finance in an ADF-eligible country, for example in the mining or petroleum sectors.

More on these sources of finance is given in subsequent sections.

4.2 Designing country strategies, programmes and projects to enable scaling-up

Scaling-up requires design choices at two levels – country programme and the operations within them. We consider each of these in turn.

4.2.1 Country programmes that enable scaled-up results

Country programme design is different in fragile situations than elsewhere because of the interrelation between the programme and the risk of armed violence. The impacts of good or bad programme design choices on fragility and conflict are likely to be magnified if programmes and projects are scaled up. Rigorous analysis of the drivers of conflict and how Bank interventions affect the political settlement in the country should underlie both programme and project design. Guidelines on how to carry out conflict analysis are available from a number of sources (e.g. Conflict Sensitivity Consortium, 2012; EC, 2012). Country programme design in fragile settings is also complicated by lack of internal consensus on development priorities, often linked to politics among an elite having factional and personal as well as public interests and that may not face democratic accountability. Consequently, country programmes need to be designed with flexibility so as to test where development traction can take place and to be able to scale up when intermediate results look promising. When there is much uncertainty about what may and may not work, it may be desirable to present country programmes as a series of rolling ISPs rather than put effort into a full CSP that soon gets overtaken by events.

Country programmes in fragile situations should be based on analysis of fragility and the political economy of change. They should think long term and act short term to balance support for institutional transformation with some early results to support the evolving political settlement. Strategies should be sufficiently flexible to be able to respond quickly to new opportunities that arise. This will require changing the requirements of the ISP to enable greater simplicity and flexibility, or allowing for an Engagement Memorandum to seek Board approval for preparing initial operations, including financing, and for strengthening the field office.

The Transition Support Department (ORTS) might wish to prepare guidelines to country teams on preparing country strategies in fragile situations. From a scaling-up perspective, the literature suggests some principles for the design of country strategies that could be included in such guidelines:

- **Lighter, more flexible procedures that enable the Bank to respond promptly to crises and political changes** that often allow governments to overcome political and institutional barriers to scaling up development effectiveness. Such crises could be the result of economic shocks, conflict in a neighbouring country or the aftermath of a natural disaster. Existing country strategies may be irrelevant. Resources may have to be shifted to new priorities and operations that are no longer relevant or effective may need to be restructured or closed. If the ISP/CSP does not have the in-built flexibility to accommodate the changed country context, then Board authorisation for a modified programme may be needed through an addendum to the existing strategy document. While a new strategy document might seem justified and could need to be done, the time taken to prepare this may lead to an opportunity being missed.
- **Designing programmes with selectivity based on institutional capability.** Country programming is about tactics as well as strategy. While it appears rational to set priorities based on national development strategies and plans, what the main country interlocutor wants, analysis of what the country needs or AfDB corporate priorities, these may not lead to scaled-up results. All this may be fine for setting long-term objectives, but, in the short term, especially in a fragile setting, what government agencies can actually implement may be a better guide to scaled-up results. In principle, the Bank ought to respond to requests and channel funds to the highest development priorities. However, a state-centric approach to country programmes may not always be consistent with scaled-up development effectiveness. The interlocutor may not represent the views of the government, especially when it has difficulty arriving at internal consensus, and the government may be balanced towards representing elite interests rather than the people, even if the government was elected.[27] Country strategies should recognise the best may be the enemy of the good, and aim for financing priorities that may be second best but are capable of both being achieved and realising significant development results. In some contexts, both the government and Bank corporate priorities and country needs may point to a particular sector, such as electric power. Programming that is both tactically and strategically sound is a challenge for Country Briefs, ISPs and CSPs. A strategy should allow for learning from operational experience, providing incentives to implementing agencies to deliver results objectives and some shifting of priorities in the light of experience from implementation. If the Board cannot accept lack of precision in the programme, the alternative would be to have frequent revisions of strategy documents or to initiate implementation progress reports.
- **Selectivity based on assessments of leadership.** If leadership of the sector is driven by rent seeking, benefits are allocated to narrow groups and cost recovery is insufficient for maintenance, then investment before reforms may achieve very little scale. Assessing leadership as part of the institutional capacity that can be put in place to implement the programme or project is fundamental to choices about where to scale up. Leadership is ideally a group rather than an individual. Effective leadership can communicate a vision of development,

Box 6 Scaling-up in Afghanistan and Bosnia Herzegovina

In Afghanistan, the government designed an approach to development that achieved scaling-up through a set of priority national programmes developed during its first year in power. It set out a vision for a national ring road system that linked the main cities and formed critical trade and military logistics connections to neighbouring countries. The first highway projects rehabilitated roads that were incorporated into the ring road and developed the capacity of the ministry to manage larger programmes. The government conceived a number of other national programmes in key areas designed to provide services such as health and education to nearly all Afghans within a few years. Health services were delivered through provincial franchises contracted out to NGOs and financed through the budget. The government decided to go to national scale immediately, but had rigorous M&E of inputs, outputs, health outcomes and patient satisfaction to maintain competitive incentives to NGOs and to enable the design of the programme to be adjusted.

The National Solidarity Programme (NSP) was designed to reach all 25-30,000 Afghan villages through a CDD approach (Beath et al., 2013b). Pilot projects were started, and, after they showed promise, the government decided to go to full scale before even intermediate results were in. Donors were willing to support scaling up the NSP through the Afghanistan Multi-donor Trust Fund (MDTF), particularly as subnational government was often more a consequence of security compromises than of choices for development competence. All of these sectors had strong leadership capable of putting in place temporary and permanent institutional arrangements that underpinned development success. Far less was achieved in sectors that did not have capable, development-oriented leadership, even though some of these ministries received very large amounts of technical assistance. Bosnia Herzegovina is another example from a middle-income country: scaling-up was based on reforms that stimulated the small enterprise sector, and other institution-building actions such as cleaning up the financial accounts of corrupt public utilities (Ashdown, 2008).

[27] Collier (2009) makes the distinction between elected governments and democracy.

has the skills to build institutions that can take a programme to scale and can construct coalitions, navigate around opposition and drive implementation. Leaders can be connected to elites or have strong elite commitment, or can build support from the ground up[28] – either way, they obtain the political, policy and organisational space identified by Hartmann and Linn for scaling-up. Leadership is shown in the literature to be key for scaling-up, and our own experience reinforces this. While leadership is key to institutional change and development, it may be more about functioning teams that fit with local context and have the space to innovate, rather than about special individuals.[29]

- **Building programmes on a coherent theory of change** that set out clear pathways for scaling-up. While country programmes will be constrained by what the country seeks in its fragility and development strategies, AfDB capacity and what is possible to achieve, there should be a clear concept for why and how Bank engagements in the country will facilitate change. Since a theory of change is a process as well as a product, it would change the nature of country team discussions towards clarifying country context; agreeing on what long-term changes to seek, who would benefit from them and the sequence of actions that are required for the change to take place; and being realistic about underlying assumptions. Such an approach would define results and design a country programme capable of achieving them. It would be a rigorous, evidence-based process, not a bargaining competition among internal Bank units.[30]
- **Preparing country programmes that are designed from the outset to reach scale.** AfDB too needs a vision of scale that at least matches its counterparts. Reaching scale is not tinkering at the margins but implementing programmes that contribute to transforming the country's prospects for peace and development. Programme components might include large, high-impact investment projects (e.g. in infrastructure) that mobilise additional funding through co-financing or regional windows; programmes of many small investments that reach many people and make a significant dent on poverty (e.g. basic health services, education, rural roads); or pilots of a quasi-experimental nature designed to accumulate knowledge before going to scale. Pilot projects should be testing counterpart commitment and ability to implement, as well as beneficiary demand and technical and organisational designs (Box 7).
- **Organise the Bank's institution-building support around helping country counterparts solve their problems.** Selectivity in programme design along the principles mentioned above may create tension with AfDB's principle of country ownership, which is often interpreted as responding to government requests. We suggest a problem-solving approach is a way of reconciling ownership with scaled-up results. As mentioned before, institutional development is key to the transition from fragility and for sustained development results, and this is inherently a home-grown process. A partner such as AfDB can either carefully target

[28] See World Bank (2013a), particularly the paper by Barma, Huybens and Viñuela, for pathways for developing institutions in fragile situations.
[29] See Andrews et al. (2010).
[30] For more on how theory of change concepts apply to international development, see Vogel (2012).

institution-building support to areas that remove obstacles to progress, as defined by the country itself, or seek to implant international best practice in situations where there is little current demand, or where other conditions for success are not in place. We would recommend a PDIA approach whereby partners help their counterparts solve problems identified by the country and link solutions to pathways for scaling-up, rather than producing master plans and elaborate studies that may be overtaken by changing conditions and be out of date soon after they are completed.[31] The ability of a state affected by issues of fragility to implement major institutional reforms and pass new laws is limited. A partner of the country should seek to support those changes where the impact justifies the needed effort and political capital. Institutional change often proceeds incrementally and non-linearly. For example, supporting independent regulatory agencies may be premature in countries where there is little tradition of independent centres of power. If the central bank and high courts do not have de jure and de facto independence, and the legislature is a rubber stamp, the chances of a public utility regulatory agency acting independently may be slim, and a lot of effort may be put into new laws and organisations that may not work as intended or be a decade too early.

- **Coordinate with partners and lever other resources.** A country strategy for scaling-up needs to fit with the programmes of other partners. Examples might include sharing knowledge of the country, sectors, etc. to design more effective programmes, scaling up activities started by a donor lacking the resources to take the pilot to scale, coordinating investment financing to multiply its impact (e.g. linking an AfDB-financed road to one financed by another partner to multiply traffic and impact) and co-financing that enables investment at a larger scale. As mentioned earlier, in Afghanistan and Bosnia Herzegovina the national programme approach of one government-led sector programme designed to achieve national scale within a few years is a viable approach for mobilising finance from MDBs and bilateral donors through pooled funds.[32]
- **Measure peace building, state building and development success through relevant indicators.** This requires indicators to assess the country's transition out of fragility and development progress, plus indicators that measure the contribution of activities in the AfDB programme to programme and country goals. Most development agencies now have experience in deploying country and sector indicators of development in country programmes and projects, although establishing linkages between project and overall programme goals has proven more difficult, a point noted by MOPAN (2012). There is less experience in measuring fragility and the country's transition to resilience. The CPIA measurement of fragility has been widely criticised for not measuring some of the political processes that underlie fragility. Alternative indicators that are not perception based, do not measure institutions against foreign, usually Western, norms and do distinguish between the robustness of state institutions and the

[31] For more on isomorphic mimicry, see Krause (2013) and Pritchett et al. (2012). On PDIA, see Andrews et al. (2012).
[32] For more on national programmes, see Ghani and Lockhart (2008).

quality of the government administering them are difficult to find. The g7+ group of countries is establishing Peace- and State-building Goals intended to measure their transition out of fragility. In a parallel paper for this study, Hesselbein (2013) suggests objective indicators related to state monopoly of violence (c.f. armed groups challenging state power), state ability to control its territory, state vs. non-state 'taxation' and the extent of state hegemony or the extent to which the state's authority is challenged, which might be high-level indicators for AfDB country strategies. Monitoring indicators will also be needed at the programme level as well as the national level, and possibly also at the subnational level in large countries such as the Democratic Republic of Congo (DRC) and South Sudan.

Designing coherent country strategies that can achieve measurable goals is difficult enough in non-fragile situations; it is even more difficult in fragile settings where the context may be more complex, where objectives involve peace building that is difficult to measure, as well as development, and where theories of change involve shifts in power arrangements and elite politics that Bank staff may be reluctant to address.

4.2.2 Designing projects for scale

Most of the guidance for designing country programmes for scale also applies to project design, particularly selectivity based on leadership and organisational capability; designing for scaling-up at the outset; a problem-solving iterative approach to facilitating development; building on the work of partners; and coordinating financing.

Pilot projects frequently form the basis of programmes designed to be scaled up. Holcombe (2012) proposes a number of questions for those designing projects intended to be scaled up (see Box 7) and, based on case studies, sets out four lessons for scaling up pilot projects:

1. **Scale up from pilots iteratively** – a two-year demonstration project may not produce the information for a decision to go to scale. The first decision to scale up needs to be taken early, but that decision and the outline plan for scaling-up need to be reviewed continuously and adjusted as information comes in from the pilot.
2. **Innovation should be kept simple.** Innovations with the best possibility for scaling-up have clear and testable designs and theories of change, local legitimacy/ownership and capacity to produce benefits. Simplicity means limiting the number of agencies involved, the number of actions and the number of decision points.
3. **Monitor and evaluate** to track whether the innovation is being implemented as predicted and producing the results expected from the theory of change.
4. **Ensure the prerequisites** for the transition from demonstration to scaling-up are in place, for example clarity about which agency will take it to scale and ownership of leaders who will advocate, negotiate and reduce barriers.

These lessons can be broadened to indicate that successful scaling-up is likely to be based on initial projects that are simple and do not overwhelm implementing organisations, have local legitimacy/ownership, have clarity about institutional arrangements (including any policy drivers of success and financial arrangements for scale-up and operation) and use implementing agencies with at least basic competency and leadership. In a fragile situation, scaling up a project needs to consider its impact on violence and stability, particularly through analysis of winners and losers from the project and the link to broader conflict analysis. At worst, the project should do no harm; at best, it should lower the risk of violence while delivering development benefits. Scaling-up needs conceptual rigour, for example a theory of change, that can be evaluated empirically. The decision to scale up needs to be based on data-driven analysis, particularly the results coming in from pilot projects or other precursors. Finally, scaling up projects and programmes is not necessarily synonymous with speed. Project designers need to manage the expectations of project beneficiaries, the government of the country and other stakeholders like their management and the international community.

It is also possible to dispense with a formal pilot by scaling up existing programmes and projects. This could involve replication of successful activities in one or more subnational governments, for example a district feeder road programme, in other regions of the country. It could also expand existing projects that are being successful, for example adding another generating unit at a power station or extending a road project to build more kilometres of roads. The feasibility of quickly expanding existing projects will depend on whether the original project was designed to allow for scaling-up success and the administrative arrangements in government and its partners, particularly with regard to procurement.

Consideration of scaling-up should be built into the design of all projects. This will require staff to step outside the project box and think beyond the project, that is, to address the question, 'What next, if it works?' M&E needs to extend beyond the project, particularly to generate knowledge for scaling up drivers and pathways beyond the project to feed into the design of the next phase. Is the project creating the institutional and policy conditions conducive to going to scale? Are costs being brought in line with local financial resources? Is the programme aligned with local cultural conditions and beneficiaries? Are links being created with local and foreign partners that can enable replication or scale-up? While M&E should probably be kept simple in fragile settings, there have been examples of more sophisticated approaches, for example the randomised control trials used to evaluate Afghanistan's CDD programme (Beath et al., 2012, 2013a).

M&E should allow for the M&E of results during implementation, rather than waiting for the programme to be completed. This enables both mid-course corrections to the programme and for scaling-up results to be accelerated. Bank staff are required to produce Implementation Progress Reports twice a year. These should be an instrument for reporting on intermediate results as the project is implemented. More formal reviews of results and implementation could be built into mid-term reviews or scheduled when scaling-up decisions need to be taken. Real-time results reporting is important to avoid delays and disruptions in the programme development and implementation process. Any requirement that a scaled-up follow-on project, or additional financing for an

existing project, must have a formal, ex-post evaluation will cause long delays and hobble efforts to achieve effective scaling-up.

Thinking through scaling-up beyond the project can also help resolve some of the tensions inherent in support to fragile situations, such as short-term interventions delivered through humanitarian actors or longer-term development and institution-building support; or funding service delivery directly vs. providing funding on budget through country systems. A programme designed for scaling-up can start with use of humanitarian actors and some bypassing of country systems with a clear pathway to a more developmental approach as it grows to scale. The transition along this pathway could be facilitated using a PDIA approach.

Evaluation reports of AfDB have indicated that normal project preparation and monitoring processes are rigid and input based. Scaling-up is inherently about breaking fixed links between inputs and outcomes. It involves strengthening project design along the line suggested above and real-time information on implementation and preliminary results from pilots and other projects that are candidates for scaling-up. We suggest ORTS work with other unit such as the Strategy and Operations Policies Department (COSP) and the Results and Quality Assurance Department (ORQR) to develop guidelines for staff responsible for project design in fragile situations. Because many of these principles are also applicable to non-fragile situations, a joint approach with the Delivery and Performance Management vice-presidency is most likely warranted.

4.2.3 Implementation arrangements for scaling-up

A scaling-up approach to projects can help eliminate the project implementation units (PIUs) that proliferate in fragile situations. Implementation arrangements, as with programme design, should act short term but think long term. To ensure project results in fragile situations, investment in project management capacity is essential. In low-capacity environments, or where civil services are being reconstructed, this may require the establishment of a PIU, rather than working through the normal government structures. Thus, acting short term may require establishment of a PIU. However, this can be done in a way that minimises the establishment of implementation arrangements that work in parallel to government systems and thus support, rather than undermine, the long-term institutional development of government.

National programmes that address the major development challenges of the country need to be designed for scale and should have the clear and simple institutional infrastructure that characterises programmes that achieve scale. PIUs should be embedded in the implementing agency, programme designers should aim for at most one programme support unit and there should be with a plan to absorb it into the permanent organisational framework of the country.

First, PIUs should be aligned with government structures. They should be located in the appropriate part of the responsible government ministry and managed under the leadership of that institution. In this way, they can contribute to the strengthening of that institution, rather than undermining it.

Second, AfDB should seek to form joint units with other development partners, so there is a single PIU in each government ministry.[33] The rationale for this is to provide common programme implementation and coordination management for all donor-funded projects and programmes (Manuel et al., 2012), which should lead to improved sector information and better sector policies, introduce economies of scale for shared functions (such as procurement or M&E) and increase institutional memory and expertise through reducing staff turnover (Versailles, 2012). In Rwanda, the proposal for a Single Project Management Unit (SPIU) was developed through the Government of Rwanda's aid reforms from 1998,[34] which responded to the 'early experience of aid in post-genocide Rwanda [being] one of chaos with many uncoordinated activities funded by a myriad of aid agencies' (Versailles, 2012). The experience of Rwanda demonstrates that a key criterion for the success of a SPIU is the willingness of development partners to use the SPIU structure, and that their establishment can require a lengthy period of transition to phase out separate PIUs for individual projects. There is thus the opportunity for AfDB to play a leadership role in supporting government agencies to establish proposals and procedures for joint SPIUs, and to advocate for other development partners to join with it in forming them. In terms of scaling-up, the establishment of joint programme implementation units, by introducing economies of scale to share common functions between projects, should also make it easier to scale up any individual project.

Third, there should be a clear plan for transitioning programme and project implementation to the full use of country systems. There are two options for doing this. First, set clear benchmarks that country systems would have to meet to be used for programme/project implementation, so that measurable improvements in country systems translate into changed modalities for delivering programmes and projects – so the SPIU would effectively be disbanded. Focusing on transition to the use of country systems should also facilitate more rapid scaling-up of projects. Second, set out a plan on how to absorb the SPIU into the permanent organisational structure of the agency.[35]

4.2.4 Scaling up large infrastructure

Most approaches to scaling-up in the infrastructure sectors have been based on increasing funding to generate greater outputs,[36] while reducing financing gaps in public finance through technological change (e.g. combined cycle power generation), through economies of scale (e.g. developing large-scale hydropower generation), by making existing capacity go further through demand management (e.g. pricing reforms), reducing inefficiencies (e.g. reducing electric power distribution losses and theft) or attracting private investment.[37] These approaches can be valid, especially when there

[33] A commitment to 'substantially reduce programme implementation units per institution' is part of the New Deal TRUST commitments. The recommendation for a single PIU is made in Manuel et al. (2012: 52), and also by the New Deal Capacity Development Working Group (2012).

[34] Establishment of the Central Bureau for Public Investments and External Funding in 1998, the Development Partners Coordination Group in 2002, the External Finance Unit within the Ministry of Finance in 2005, the Rwanda Aid Policy in 2006 and the Aid Procedures in 2008 (revised 2011).

[35] See McKechnie (2011) on how this was done in Afghanistan.

[36] An example of the investment gap approach where scaling-up is through more financing can be found in the World Bank hydropower scaling-up report (World Bank, 2009).

are economies of scale and network economies, and when investment is inherently lumpy. However, many of the principles for scaling-up in the social and rural development sectors are applicable also to scaling-up in those infrastructure sectors where investments consist of many small investments, for example rural electrification, feeder roads and rural water supply. CDD programmes are often multi-sectoral in any case, and can finance infrastructure investment.

More radical approaches to scaling-up in the infrastructure sectors have questioned basic models for service delivery, for example use of mobile phones rather than a public switched network, or local power production by consumers using renewable technologies like solar home systems, rather than service delivery via public utilities, which are rarely well managed in low-income countries.[38] Such approaches disrupt prevailing service delivery orthodoxy and usually involve new actors, particularly the private sector or empowered communities. These innovations are typically oriented to outcomes – communications connectivity – rather than outputs – wired connections – in the case of telephones. Some sectors, such as highways and large-scale power generation and transmission, are difficult to scale up in other than through a package of more financing supplemented by efficiency improvements and demand management. In the case of roads, an outcome-based approach might look at provision of transport services as measured in travel times and vehicle user costs. Since road maintenance is expensive if delayed and diverts funds to rebuilding existing roads rather than building new roads, packaging road construction and maintenance into a performance-based contract might actually scale up the provision of transport outcomes.

4.2.5 Regional approaches to scaling-up

In sectors such as energy and transport, there may be large economies through taking a regional approach to investment, particularly in Africa, where many countries are small and land locked. These can lower costs and free up resources for additional investment. There are numerous examples, including a country gaining domestic benefits from transit infrastructure, for example energy connections between large countries that pass through a smaller country that can connect its own facilities to power lines and pipelines designed for transit and off-take in another part of the country. Similar local use is possible from road and rail connections between neighbours that pass through the country. In the case of electric power, there are substantial other economies from countries with system peak demand at different times, fuel savings through coordinated operations and pooling of the reserve-generating capacity needed to prevent the power system shutting down in event of equipment failure.

Regional integration enables a state in a fragile situation to lower costs through economies of scale, for example through large-scale hydroelectric power. Importing services such as electricity from regional facilities can also offset organisational capacity

[37] Many of the MDB strategies for infrastructure sectors in the 1980s demonstrated a gap between supply and demand and recommended financing for investment to fill it. In the 1990s, more attention was given to demand management and private investment. However, all these strategies have neglected the political economy of infrastructure, particularly the distribution of value from services and rents in patrimonial political systems.

[38] See IFC (2012) for an example of new business models for scaling up energy access.

constraints in the state. Importing power is operationally easier than having to staff and manage a thermal power station; a regional railway company or port can mean the state does not have to manage these organisations itself. A regional project can scale up resources available to the country above its Performance-based Allocation (PBA), where one unit of PBA through TSF Pillar I can lever an additional two units from the ADF regional integration window.[39] In addition, the country gains from investment in neighbouring countries. These benefits can be considerable for a land-locked country, or a country seeking to lower the cost of and diversify its energy supply. The Bank needs to ensure it is well organised to scale up the impacts from regional integration. Staff should not work in country and regional silos, and regional and country-level work should be well connected, which currently is not always the case.

4.2.6 Scaling up private sector development

Working with and financing the private sector is important in fragile situations because, first, the private sector is the main source of sustainable jobs; second, private firms have a potentially large role in providing public services, often in partnership with the state; and third, private capital and finance can fill the financing gap as official development assistance (ODA) stagnates or declines.

Two approaches have been taken to scaling up private sector investment in fragile situations. The first involves novel, often disruptive, business models as investors respond to those incentives that exist in what is usually an inferior business environment compared with that in more resilient states, for example in mobile phones. The other approach to scaling up private investment in fragile situations is through public–private partnerships involving private and complementary public financing, especially in infrastructure.[40]

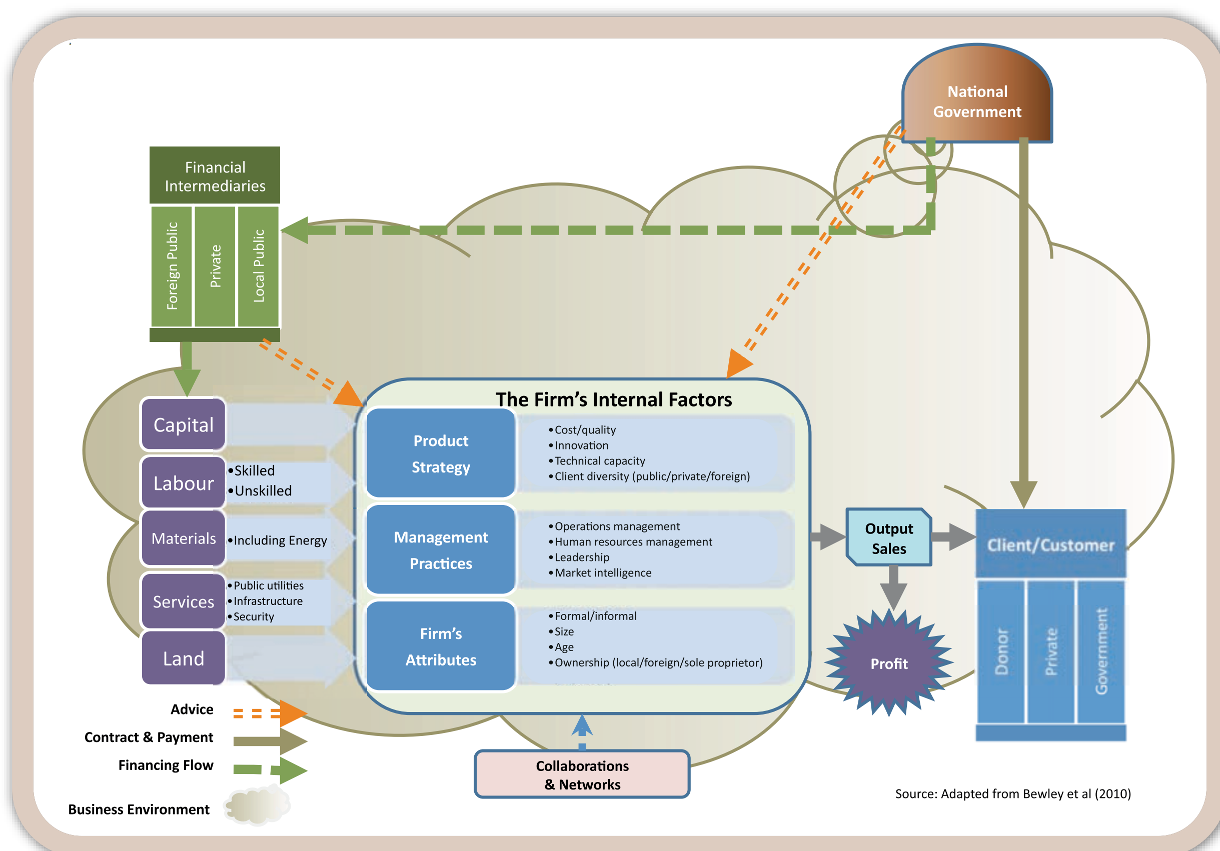
The regulatory environment in fragile situations is often weak, most of the complementary factors that enable business success are of low quality or unavailable and local firms lack the management skills and other attributes that contribute to productivity. Conditions for a conducive business environment are complex (see Figure 3), and many of these are not present or are of inadequate quality in fragile situations, for example land with clear ownership rights, infrastructure, security, skilled labour, financial services, etc. The number of conditions that are needed to be right for successful private sector development and the difficulties of implementing reforms in the face of elite and incumbent firm interests show why scaling up private sector investment has proven so difficult in fragile settings.

The Bank's private sector development strategy sets out priority areas for its work, including reforming policies and critical institutions, especially in fragile situations; financial sector development, provision of infrastructure including public–private

[39] The normal ratio is 1.5 units from the regional integration window for 1 unit of PBA.

[40] Collier (2013) shows that private investment in fragile states is constrained by their isolation, lack of information for pioneer investors and insecurity. What is likely to be successful is not known until the results from the first investor are revealed. Isolation can be addressed by private, public and joint investment in transport infrastructure. To address information constraints, he calls for subsidising capital and political risk guarantees, particularly through the non-sovereign instruments of the MDBs and donor–business partnerships. He sees security being established by an African regional club similar to the North Atlantic Treaty Organization (NATO) and greater transparency around natural resource revenue flows.

Figure 3 Determinants of firm investment and productivity



Box 8 Afghanistan microfinance – from boom to bust to consolidation

When the Taliban government fell in 2001, the financial sector in Afghanistan was non-existent, apart from the hawala system of informal money transfer agents. In 2003, an apex public sector institution was created as an intermediary to eventually 16 microfinance partners, including the Bangladeshi microfinance organisation, BRAC. Funding was provided from the MDTF and the World Bank.

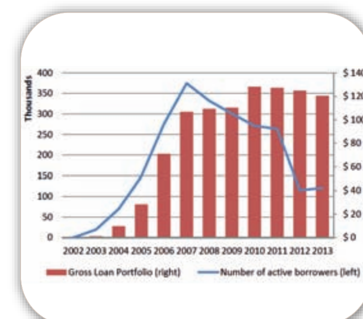
By 2008, the growth of the microfinance sector was steady, with 373,000 active borrowers and 450,000 clients, and it had disbursed a cumulative $204 million in loans to clients. However, this very rapid growth led to lower quality due diligence and, with worsening security and cost inflation, there was substantial deterioration in portfolio quality. Some microfinance institutions exited the sector, and there was a series of mergers so that, in 2013, there were only four left; one of these was owned by the government apex organisation (see figure p.56).

partnerships; enterprise development, nurturing of local entrepreneurship; and promotion of value chain development and regional and global trade (AfDB, 2013a). Addressing the business climate in fragile situations requires prioritising support to reduce the greatest impediments to scaling up where it is possible for the government to mobilise political support. The list of potential areas for Bank intervention is long and not easy: the legal and regulatory framework; deficiencies in factor markets, infrastructure and post-primary education; targeting sectors like construction, infrastructure and agribusiness that create jobs; shaping Bank procurement packages to enable local firms to bid; strengthening the capacity of local firms; and neutralising the effects of fragility, for example through industrial parks. Since not everything can be done at once, we would recommend using a scaling-up lens to target the areas for ESW support and where reforms can be supported through financing operations.

While improving the conditions for doing business in a fragile situation will lead to increased investment and firm productivity, policy and regulatory reforms and complementary investment to produce business inputs will take many years. What, then, can be done to scale up private investment in fragile situations in the meantime? There have been some successful programmes that have scaled up private sector engagement to reduce poverty in fragile situations. Microfinance programmes have been successful in fragile situations in supporting micro enterprises that reduce poverty and do not clash with elite private sector interests. These represent a new, disruptive model of finance aimed at direct poverty reduction. Microfinance requires government institutional and financial support. The Afghanistan case study (see Box 8) shows that

investment in local leadership and institutional development, supplemented by advice from World Bank staff located in the country office, was critical to the early success of the programme.

Evolution of Afghan microfinance sector, 2003-2013



The World Bank, which is continuing to finance microfinance in Afghanistan, expects the portfolio of microfinance institutions to grow by 8% during the next five years, during which Afghanistan will face political and security transitions.

The early success in scaling up microfinance in Afghanistan owed to creating and effective, well-led national apex organisation and establishing partnerships with international NGOs, which assisted the apex and provided retail microfinance to clients. World Bank staff also provided continuous guidance to the apex organisation from the country office in Kabul. This case study also demonstrates that capacity building needs to extend downwards to the non-state actors providing retail lending, particularly to promote financial prudence.

Source: World Bank (2013b).

4.2.7 Community-driven development

CDD involves communities such as villages or local clusters of villages taking responsibility for setting their own development priorities and implementing projects to realise them. Such projects are typically financed through block grants from the government managed by the communities themselves. The concept builds on communal decision-making traditions prevalent in village-based societies, adapting them in some cases.[41] CDD projects have been successful in delivering development results at a large scale with minimal financial leakage in fragile and sometimes conflicted affected settings such as Afghanistan and Indonesia (e.g. Aceh). Such programmes typically start slowly, as their institutional infrastructure is built in government and implementing partners, often NGOs on contract to government, as the social mobilisation of communities takes place and as communities agree their priorities for using their block grant among themselves. Once this infrastructure is in place, investment can grow exponentially, particularly as new communities see the advantages of participating and others can absorb follow-on grants.

CDD programmes can also produce social, peace-building and economic benefits beyond the projects they finance. However, the evidence from programmes in Afghanistan, eastern DRC, Indonesia, Liberia and the Philippines of broader benefits is mixed. Multi-year randomised control trials that sample communities with and without CDD programmes provide the most convincing evidence of programme benefits. Such methodologies should be built into the M&E framework of CDD programmes and used to fine-tune design and scaling-up decisions.[42] An issue with CDD programmes is their linkages with the formal system of government, which may not function at the local level. They have the potential to create democratic governance from the ground up, but development agencies have been reluctant to engage in what might be considered a political matter, and those other agencies supporting political governance have tended to promote top-down models of democracy based on Western practices.

4.3 Strengthening AfDB instruments for scaling-up in fragile situations

As set out in Section 3, the Bank must have the right set of instruments and procedures to allow it to scale up its impact. As discussed in Section 4.2.2, most projects should be designed for later scaling-up, be associated with institutional development (including novel approaches), be simple and be able to be implemented quickly. This will require ORTS to work with the operational policies and procurement/fiduciary departments

[41] Afghanistan's NSP built on local traditions of the jirga (literally circle) and shura (council) to create village development committees elected by secret ballot in more than 22,000 villages with participation by both women and men.

[42] Beath et al. (2013b) present the findings of randomised control trials of Afghanistan's NSP and survey other evaluations of CDD programmes in other countries. More information is on the NSP evaluation website: http://www.nsp-ie.org

to streamline lending, fiduciary, environmental and land acquisition policies, to prepare guidance for staff and to ensure staff learning in scaling-up takes place.

This section sets out three areas to improve the financing of operations in fragile situations. First, more use should be made of the potential of the TSF to attract additional donor funds for scaling-up. Second, the TSF needs to be made more flexible to allow direct funds to opportunities for scaling-up. Third, the AfDB needs to have the right instruments in place to provide supplementary financing to projects with the potential to be scaled up, and specific consideration is made of a results-based financing instrument, and of a rapid response lending instrument for turnaround situations.

4.3.1 Attracting additional resources for scaling-up

In the 2008 Strategy for Enhanced Engagement in Fragile States, which established the TSF, it was envisaged that the latter could attract additional resources both from ADF members and from other, non-ADF, donors.[43] The TSF thus already stands as a facility that can be utilised to mobilise additional financial resources that can fund scaling up in fragile situations. The TSF could thus be used as AfDB's primary instrument for attracting, coordinating and aligning donor funds for scaling up country programmes. The additional resources contributed to the TSF can be preferenced (earmarked) for a specific country and can be used to support activities under any of the windows of the TSF under existing TSF rules.[44]

These features of the TSF would allow it to act as a mechanism for quickly mobilising additional donor funds without the complexities of establishing new trust funds, allowing for the quick allocation of additional funds for investment financing in turnaround situations, as set out in Section 4.1.3. The most effective way to do this may be through 'soft earmarking'[45] for countries and sectors.

Use of the TSF to channel additional donor funds for fragile situations would also contribute to reducing the transactions costs of donor engagement for government, which can often carry a high burden in the low-capacity environments that often characterise fragile situations.

However, to be able to attract additional donor financing, AfDB must be able to demonstrate success in responsively and efficiently meeting the needs of fragile situations and effectively managing risks. Doing this critically depends on having the correct instruments for scaling up results in fragile situations, as discussed further in

[43] 'The funding provided under ADF-11 may be supplemented by additional voluntary contributions from ADF donors beyond basic ADF-11 commitments and direct contributions from non-traditional sources, including non-ADF-members, particularly to finance any additional countries as may become eligible' (AfDB, 2008a: 15).

[44] 'Such contributions could be earmarked for a specific country and use (e.g., arrears clearance, supplemental funding or targeted support) or could be used to support activities under any of the three windows of the FSF' (AfDB, 2008b: 2).

[45] Soft earmarking is where a donor can express a preference, which the fund administrator is not legally compelled to honour, and where all funds are comingled. The fund manager typically would accept earmarked contributions that add up to less than the cost of preferenced item in the financing operations of the fund. Strict earmarking would require AfDB to track explicitly donor funds from when it received them until they were spent and have documentation to show this.

this section, but also on having effective county offices that can manage the scaling-up of operations and engage effectively with the government and other partners, as discussed in the next section.

If the TSF attracts additional contributions, especially if these come from beyond ADF donors, the impact of this on TSF governance arrangements needs to be considered. At present, the Board approves Pillar I and II operations. Pillar III operations are approved by management, or, when they have a value greater than UA 2 million, by the Board on a Lapse-of-Time basis. Consideration might be given to delegating more approvals for Pillars I and III operations to management, with the Board being informed, or sending operations to the Board for approval on a no-objection basis. To maintain the confidence of donors not directly represented on the Board (the AfDB Board has broad constituencies), there would need to be regular reporting to donors and at least an annual meeting of TSF donors, perhaps to coincide with the annual AfDB meetings. Such meetings would be to discuss the strategic direction of the TSF and policies unique to the TSF and to ensure accountability for donor funds by giving donors an opportunity to provide feedback to management. They would not be designed to supersede AfDB management processes, for example on the allocation of TSF funds. The semi-annual information notes that ORTS provides to the Board could be strengthened for reporting to donors.

4.3.2 Making the TSF more responsive for scaling-up

Attracting additional financing to the TSF can provide greater resources for scaling-up, but the TSF must also have the flexibility to direct these resources where they will have the most impact. Flexibility has to be balanced against predictability of ADF and TSF funds – predictability is a goal of both the Paris Declaration and the Accra Agenda for Action – as well as avoiding locking unused funds into rigid allocations when the funds could be used to generate results elsewhere. ADF deputies have tried to reconcile these goals in each ADF replenishment.

However, for financing to be available for scaling-up, TSF needs more flexibility in its allocation policies to channel funds towards opportunities for scaling-up. At present, Pillar I is essentially a top-up to ADF allocations to eligible states. Within the UA 10 million floor and the UA 60 million cap, all eligible states get essentially the same percentage increase in their basic PBAs. As a consequence, TSF Pillar I has all the limitations of PBA, including slowness to respond to changes in the country and neglect of the opportunities that exist in otherwise unpromising environments. We suggest that TSF allocations be aimed at the results that TSF finance generates, not at high-level country performance. Pillar I resources are programmed by regional departments in the same way as ADF allocations, and financing operations usually include both regular ADF and Pillar I resources. Nevertheless, ADF13 enables 10% of Pillar I funds to remain unallocated to allow for emerging needs and unforeseen changes until the ADF13 mid-term review, which takes place 18 months after the start of the new cycle. Part of the 10% is also available for arrears clearance if the need arises. The unallocated 10% in Pillar I is intended to make at least some funds available to countries undergoing a turnaround, even though it may be insufficient, especially in a large country. However,

this is only available to support scaling-up if there are no other claims on the funds, and it may be insufficient if the Bank seriously commits to implementing scaling-up. Providing funds that are not allocated to a country programme creates incentives for countries to scale up and increase Bank flexibility to respond to new opportunities for scaling-up, both by providing additional resources to successful projects that can be scaled up, as set out in Sections 4.3.3 and 4.3.4 below, and by responding to changed conditions in countries by scaling up operations where new circumstances allow this, as set out in Section 4.3.5. All countries should have a minimum allocation to support capacity development, to finance some investment such as pilot activities, and to allow engagement at times of crisis. The issue is whether more funding should be available to enable scaling-up success, or for islands of opportunity. Recently concluded ADF13 negotiations appear to have set parameters for some flexible, unallocated funds for the next three years. The next paragraphs set out options for consideration during preparation of the next ADF replenishment.

There are three options for increasing TSF unallocated funds. First, there could be less prior allocation of TSF Pillar I countries to enable resources to be available for opportunities for scaling-up. Second, TSF resources could be reallocated from countries that are not able either to utilise them or to achieve results. Third, Pillar II could be redesigned as a scaling-up window after arrears clearance is no longer required.

Option 1 Keeping a portion of Pillar I resources unallocated

As mentioned, under ADF13 there was an agreement to keep 10% of Pillar I funds unallocated (AfDB, 2013c: 8).This proposal is to be welcomed in providing additional flexibility to TSF allocations. However, in the current drafting, it would seem to restrict any additional financing for scaling-up projects demonstrating success in TSF-eligible countries until at least 18 months into the ADF cycle. This could leave projects capable of being scaled up without finance for one to two years. To ensure that this flexibility allows responsiveness to changed circumstances in countries, and to provide access to funding for projects to be scaled up, it is worth considering if funds can be made available for this earlier in the ADF cycle. For example, it could allow a maximum of half of the funds (5%) to be accessed for this purpose in the first two years of the ADF cycle, with any remaining funds opened up in the final year as the proposal suggests. AfDB should review the experience with the more flexible allocations now allowed at the ADF13 mid-term review and consider whether flexibility should be increased above 10% to permit more rapid financing of scaling-up. This would probably imply reducing PBAs for all ADF countries, but would result in scaled-up development results if the flexibility is well managed.

Option 2 Reallocating uncommitted Pillar I funds

To ensure TSF Pillar I funds have maximum impact, funds could be reallocated from countries or activities that were not able either to utilise them or to achieve results to those that could. This is the approach the World Bank takes under its existing International Development Association (IDA) post-conflict and re-engagement regimes,

and that it proposes to continue under a reformed exceptional turnaround regime (which would subsume the regimes) in IDA17. Resources allocated under the exceptional turnaround regime but not committed will be reallocated in an exercise undertaken in the last year of a replenishment period. In the case of the World Bank, reallocation decisions are informed by policy and institutional considerations as well as by portfolio performance (World Bank, 2013d).

This approach could be replicated in the TSF, so that any funds that become uncommitted, such because of country conditions, could be reallocated. These funds could be put together with any funds remaining from the portion of funds that are already kept unallocated, to allow for a single reallocation exercise after the ADF mid-term review or in the final year of the ADF cycle. It may be difficult to predict the availability of funds at the end of an ADF cycle, as countries and country teams have a tendency to commit much of the apparently available funds as the ADF cycle ends. However, there is a risk that operations unready for implementation or of low quality would crowd out opportunities for scaling-up. This would indicate that commitment of unused ADF funds would need to be managed tightly[46] at the end of the cycle as end-of-year, end-of-cycle 'bunching' can overwhelm quality assurance processes by management and the Board. As with using any unallocated portion of Pillar I resources, this could leave projects capable of being scaled up without finance for one or two years. However, it might become apparent earlier that some countries would be unable to utilise their allocation. Allowing, say, half these uncommitted funds to be reallocated to finance scaling-up could support greater aggregate development effectiveness from ADF funds. Countries that had been unable to utilise their allocations would be eligible for special consideration on turnaround, and further adjustments could be made in the next ADF cycle. However, 'taking away' part of the TSF allocation to a particular country might create relationship problems for AfDB, although it would strengthen incentives to use ADF funds effectively. For this reason, we would suggest it is better to set aside unallocated resources for scaling-up as set out in Option 1 above, and reallocate the original allocations set at the beginning of the ADF cycle only when it is abundantly clear the country will be unable to utilise them.

To summarise, to keep allocation channels for scaling-up simple, it may be best to propose to the deputies during the ADF14 replenishment to:

- Keep some resources unallocated in Pillar I for scaling-up and other emerging needs, such as country turnarounds;
- Lower PBA allocations in Pillar I;
- Create a pool of unallocated resources in Pillar I available to finance scaling up; and
- Roll over unused resources to the next ADF cycle.

The Pillar I allocation system would therefore be a combination of county-based PBA allocations and project-based principles.

[46] Examples of how this could be done include readiness for implementation filters and setting cut-off dates for new projects to enter the current ADF cycle; in other words, they would be delayed to the next cycle, which could start with a strong pipeline of prepared projects.

Option 3 Reforming Pillar II into a results-based financing window

Pillar II of the TSF provides resources for arrears clearance. By 2013, only three countries remain in arrears: Somalia, Sudan and Zimbabwe. It is expected, but not certain, that the arrears of these countries will be completed in the forthcoming ADF13 cycle, after which this pillar would not be used. Therefore, by ADF14, this pillar will lapse into non-use in its current form. An alternative would be to reform it into a supplemental results-based scaling-up window.

The introduction of the TSF reflects the tensions between providing additional resources to countries affected by issues of fragility on the basis of need (hence TSF Pillar I providing additional resources above the standard ADF PBA allocation) and retaining the link to performance (hence the Pillar I allocation is based on countries' previous PBA). One way of trying to mitigate this is to link financing to project performance and results rather than to overall country performance on the CPIA and average performance of the country portfolio, which determine the PBA.[47]

This would allow further supplementing of eligible states' standard ADF PBA allocation, on the basis of need, but would also provide strong incentives to focus on results. It would allow projects that are 'islands of excellence' to emerge in otherwise unpromising environments, and so allow scaling-up where it can have most impact.

The key principles for a results-based allocation (RBA) would be as follows:

- The Pillar II RBA would be a separate supplement to the standard Pillar I supplementary financing, with commitments and disbursements monitored separately.
- The Pillar II RBA would be set as a percentage allocation of the Pillar I supplementary allocation. Over time, this would allow AfDB to vary the mix of additional allocations given to eligible states.
- The RBA would provide additional funding for scaling up projects whose upfront costs would be met from the ADF and Pillar I allocations. Disbursements from the RBA would be based on well-monitored outputs agreed in the country programme and project designs.

Operationalising these RBAs allocations could be reinforced if AfDB developed a results-based instrument along the lines of the World Bank's Program for Results instrument.[48] The detail of such an instrument is set out in Section 4.3.4. This instrument could be developed independently of this proposal for reforming Pillar II. Transforming Pillar II into a scaling-up window would work only if Pillar II is no longer needed for clearing arrears of the current three countries, and if no more countries go into arrears that TSF would be used to clear.

[47] This section is based on a proposal by the Center for Global Development for IDA allocations to fragile states (Gelb, 2013).

[48] This has eight approved operations, and a further sixteen proposed. Only one of these operations is in a fragile state, the Nepal Results-based Bridges Improvement and Maintenance Project http://go.worldbank.org/RF52JYXF30, accessed 10 December 2013.

4.3.3 New financing instruments for scaling-up

In order for the increased flexibility in resource allocation for scaling-up outlined above to be operationalised, the Bank will need to develop new lending instruments and procedures or modify existing ones to provide supplementary financing for existing projects that demonstrate success. The Bank might consider creating a special additional financing instrument to achieve this.

Financing scaling-up is inherently programmatic. A pilot project leads to one or more larger projects, a successful project is replicated elsewhere in the country or the number of its sub-projects is increased. What distinguishes scaling-up from a new project is that the nature of the project objectives and outcomes is unchanged but their quantities are increased. Implementation arrangements are not usually changed fundamentally, and, while risks exposure may increase in line with greater project activities, the nature of the risks themselves do not change much.[49] At present, only Programme-based Operations (PBOs) can be programmatic in the sense that each operation in a series does not need to be reappraised and a subsequent operation can be put in place before the prior operation is completed. PBOs provide funds directly to the government budget and certain criteria need to be met (see Section 4.3.5). PBOs have been used to finance regional integration investment projects.

Unless the country and programme are suitable for a PBO, for example PFM is adequate, conventional investment instruments have to be used. At present, providing additional investment finance to a successful project or programme requires a new project to be prepared and approved by the Board. The new project cannot be appraised until a project completion report is prepared for the previous project. All the steps needed for a new operation would need to be prepared in advance of presentation to the Board, including appraisal of the project and the implementing agency; economic, financial, environmental and social analysis; and preparation and negotiation of new legal documents. Once a new credit has been approved by the Board, conditions for effectiveness could create additional delays before funds are available, as this may require approval by the borrower's legislature.

However, this approach of treating financing operations aimed at scaling-up as standalone projects may be inefficient. The difference between the original and the scaled-up project may be quantitative rather than qualitative, and better information obtained from earlier operations may even substantially lower the risk that project outcomes would not be achieved. A more effective approach to financing scaling-up requires the Bank to have a set of financing instruments that can provide funding quickly and efficiently when needed, while balancing the Bank's accountability to its stakeholders and the oversight role of its Board. This may be best done through a shift in the balance of oversight from approvals towards implementation and results.

A new additional finance instrument for investment projects could be made available when all project funds are committed, for example in contracts, and more finance is needed for scaling-up even if the project has not closed. This new instrument would

[49] Section 4.6.1 of this report assesses the changes in risk exposure from scaling-up in more detail.

apply when the original project's results framework or theory of change and objectives still hold, apart from differences in scale. Implementation arrangements would remain the same. Intermediate results, as measured by the project's performance indicators, would indicate that the project was likely to be successful. Implementation progress by the borrower would need to be satisfactory. This instrument would not apply when the design of the original project would substantially change, or if there were significant social or environmental issues, especially if these were to raise the risks of conflict. There are at least two options for an additional finance instrument: 1) a standalone instrument designed to provide additional finance; and 2) modifications to existing operational policies governing investment lending to enable additional financing.[50] The choice depends on whether the changes to an existing policy would make the policy too complicated or not able to accommodate the breadth of change required, and the signalling to staff and borrowers that a new policy would create. Since AfDB is in the process of consolidating some operational policies, we leave this question open.

A second issue is when to evaluate the approach and to take the decision to scale up. AfDB's current approach seems to be to wait until the end of the first project and then carry out an evaluation. As Section 4.2.2 highlighted, this can delay scaling-up and lead to gaps in programme support. It would likely be better to have an evaluation midway into implementation, for example as part of mid-term review, basing decisions on scaling-up on this.

A third issue is whether additional financing would require formal Board approval or approval by the Board on a no-objection basis, or whether approval could be delegated to management. If the project were essentially the same as one previously approved apart from the level of financing, it could be argued that a formal Board discussion on the project is not necessary. Whether approval could be delegated to management depends on how the Board sees its future role in relation to its prerogatives and what precedents this might create.

4.3.4 Results-based financing instrument for scaling-up

A further option for financing scaling-up would be to introduce an instrument that would finance outputs or results rather than project inputs.

Since the result of scaling-up is to enable results at a higher level, the question arises of why not finance results directly? Conventional investment loans that finance goods, works and services may be appropriate when ring-fencing is needed to manage fiduciary risk and the risks of project completion, for example implementation capacity, technology and construction risks. Budget support operations involve unallocated transfers to the national budget in support of policy and institutional reforms. AfDB's Sector Budget Support (SBS) instrument supports sector reforms but finances the budget in general, not investments or other activities in the sector, and therefore finances results provision by sector agencies only indirectly insofar as policy and institutional reforms lead agencies to deliver better results.

[50] The World Bank has tried both options, with a standalone instrument later being incorporated into a major revision of its investment lending policy, as part of a simplification of its operational policies.

Results-based lending would fit between SBS and investment lending. It would support scaling-up of a government programme using the country's own systems, ensuring funding is available to the sector, particularly when capacity of country systems is an issue. SBS might involve unacceptable programme delivery and fiduciary risks when there are capacity-related issues related to project management in the implementing agency, M&E, fiduciary risk management and addressing conflict-related, social and environmental aspects of the project or programme. In these situations, close engagement by Bank staff may be required, similar to in traditional investment lending, but with a new instrument that finances results rather than inputs. A results-based instrument would disburse to the government budget based on achievement of results measured by performance indicators. It would finance scaling-up by transferring funds to the budget as the programme delivers incremental results.[51] While this might not be suitable for financing an initial pilot project where learning is an objective, it might be useful for scaling up programmes where there is a good foundation to build on.

4.3.5 Rapid response lending instruments for turnaround situations

As set out in Section 4.1.3, consideration is needed of whether a new instrument to rapidly respond to country turnarounds is needed. AfDB's main instrument for providing finance rapidly has been through PBOs. These fall into two categories: 1) budget support operations, which have general and sector budget support and crisis response budget support instruments; and 2) balance of payments support, with an import support instrument usually deployed exceptionally in conjunction with an International Monetary Fund (IMF) programme. The Crisis Budget Support instrument is a fast-disbursing loan or grant usually used to finance a fiscal deficit in response to a crisis that may owe to political events leading to social unrest, external economic shocks or problems of a humanitarian nature brought about by a natural or non-natural disaster. Bank policy on PBOs in fragile states is as follows:

> The Bank Group will seek to exploit its comparative advantage of delivering PBOs in fragile states. The Bank Group will use PBOs in fragile states in coordination with other donors to: (a) help rebuild core systems and institutions for economic and financial management, (b) mitigate persistent vulnerabilities that threaten recovery, (c) build the capacity to effect reforms, and (c) support countries that demonstrate a commitment to reform and the potential for progress. In this way, PBOs can yield great benefits in fragile states by contributing to state building. However PBOs could also carry considerable risks in situations of fragility. As such, the decision to use PBOs in fragile states will be preceded by analysis of risks (fiduciary, political, operational and reputational) and consideration of potential benefits. Fragile states will be subjected to the normal PBO eligibility criteria outlined above. Where one or more of the eligibility criteria cannot be met, the Bank Group will consider waiving such criteria and allow PBOs to promote state-building where, as a minimum: (i) the government

[51] See the World Bank (2011b) policy paper on program for results financing for more information results based and other financing instruments. AfDB (2012a) describes the features of its SBS instrument.

> demonstrates strong leadership and commitment to reform; and if possible (ii) there is satisfactory up-front assessment of the fiduciary environment or credible reforms in progress which can be assisted by the PBO itself. PBOs will be accompanied by complementary capacity-building projects and technical assistance targeting areas of fiduciary risk. PBOs provided through the Bank Group's Fragile States Facility (FSF) window financing will also be subject to the relevant rules of the FSF, including the use of fiduciary safeguards (AfDB, 2012a: 13).

Bank policy recognises the fiduciary risks in providing PBOs and requires an assessment showing PFM is either satisfactory or improving, and requires a 'positive trajectory' indicating country commitment to reform, rather than insisting on minimum PFM standards. CSPs provide the basis and strategic context for a PBO, and are intended to establish that eligibility criteria of government commitment to poverty reduction, macroeconomic stability, political stability and donor harmonisation have been met. The policy does, however, permit exceptions to these criteria and permits one-off PBOs in fragile states in crisis, conflict and post-conflict situations. These can be 'unprogrammed' – that is, not included in the CSP.

The February 2012 PBO policy allows for flexibility in the application of procedures and willingness to rebalance fiduciary risk in the interests of institutional development and state building. At a time when the aid programmes of most OECD donor countries are under fiscal stress, AfDB is exposed to reputational risks if PBOs become associated with fraud, corruption or non-development-related expenditures by recipients, which could jeopardise the instrument and affect replenishment of the ADF. AfDB management may not be willing to use PBOs in turnaround situations where information on PFM is lacking and where government ability to implement reform is uncertain. Furthermore, it may take a year or more before a PBO can be processed in a turnaround situation. Where a PBO cannot be put in place quickly, the alternative is to rely on the TSF to finance institutional development and studies and to apply traditional investment financing instruments to utilize ADB and TSF Pillar I funds.

The Bank may wish to consider a rapid results financing instrument that has some of the flexibility of the PBO and the risk management advantages of investment loans, without their relatively cumbersome procedures. AfDB does not have a financing instrument for rapid financing of investments such as reconstruction, supplies and materials and recurrent costs using, if necessary, non-state actors such as NGOs, UN agencies and private firms to deliver urgent services until the government puts permanent arrangements in place. AfDB shareholders have been sensitive to 'mission creep', and this financing instrument would be applied only to development activities, not to humanitarian action (unless the Board specifically requires this in, say, an extraordinary catastrophe). The Bank does have a small solidarity facility to assist countries recovering from emergencies. Given that fragile situations are often disaster prone, this facility could be absorbed into the TSF, with clear rules for deciding when and how to use these funds.

Such a rapid results financing instrument could be used for ADB-, TSF- and trust fund-financed operations and might have features that include:

- Ability to finance materials, imports (possibly based on a positive list) and recurrent costs (wages, salaries, operating and maintenance costs), as well as investments;
- With government agreement, ability to finance non-state providers of services directly, for example NGOs and UN agencies, while permanent service delivery arrangements are put in place;
- Much-reduced preparation requirements that shift preapproval work, such as design of some project components, environmental analysis and institutional arrangements for implementation, etc., to the implementation phase;
- Retaining the investment loan feature of ring-fencing project management, including fiduciary safeguards, with monitoring and advice by the Bank or its agent;
- Simplification of procurement, for example to allow restricted competition or sole sourcing, and relaxation of requirements for bidders such as on provision of bonds and experience. Relaxing procurement conditions could involve greater risk of non-performance by local contractors against a background of lack of interest or very high bid prices from international or regional firms. Mitigating the risk of local contractor non-performance could require parallel support to develop the local contracting industry.[52]
- Simplification of internal processing, for example not requiring an ISP/CSP, eliminating stages of review and approvals, shorter time standards for processing steps and greater delegation of decision making to managers;
- Possibly delegating approval of operations under a ceiling, particularly of a pilot or learning nature,.to senior management with the Board being informed.

Several of these features are held in common with the initial proposal for Pillar III of the TSF, notably that it not only would finance capacity building but also could finance grants to non-sovereigns for service delivery. Consideration should thus be given to utilising Pillar III of the TSF for rapid response lending. This has the advantage that Pillar III can be accessed by a larger number of countries, both moving into and out of fragility, than can access the other two pillars. Currently, Pillar III is a relatively small proportion of total TSF funds (around 5%), so the funds available for this in Pillar III may be insufficient. As noted above, additional donor funds can be provided to any part of the TSF, so additional funds could be provided through this source. Alternatively, as proposed in Section 4.1.3, the Bank could also request the ADB/ADF Board to transfer part of the Bank's net income to Pillar III to provide financing for such operations.

4.3.6 Private sector operations in fragile situations

AfDB's non-sovereign lending in fragile situations has been constrained by country exposure limits, which reduce loans to only around $10-15 million, as well the high cost of small transactions and inexperienced project sponsors, who often cannot raise sufficient equity or manage AfDB'S environmental and social safeguards. The constraint to scaling up private investment in fragile situations is not lack of financing instruments, as AfDB has a broad range. The issue is whether the Bank has the right staff skills and incentives in place to identify private sector investment opportunities, to be able to

[52] See Glennie et al. (2013), particularly Chapters 4 and 6, for more on how the local private sector can utilise development assistance.

draw on resources to assist the parties to develop these project concepts to a point where they can be financed and to apply the right financing instruments to bring the project to financial closure. It may be more tempting to staff to process a simple public sector project using familiar instruments than to pursue private sector options that may be more complicated and costly to prepare, but that are likely to be implemented faster and generate results on a larger scale. Staff in units specialising in private transactions may perceive incentives to process transactions in non-fragile situations that are larger and easier to develop.

While many risks of private investment in fragile situations are correlated – the risk of conflict affects nearly all investment – the possibility exists of excellent low-risk projects in otherwise risky environments. An example might be a power-generating plant that lowers substantially the cost of electricity and reduces risks of expropriation or creeping nationalisation.[53] This suggests AfDB should allow for increases in country exposure limits for projects that are well insulated against country risk and have a risk analysis methodology that nuances risk.

Our conversations with sponsors in African states in fragile situations indicate that there is also a shortage of funds to translate ideas into bankable projects. Small amounts of money are needed for project preparation on a venture capital basis where a few significant successes would outweigh the costs of multiple failures. An issue is whether the TSF should put funds aside for this purpose, possibly contributed by a donor to Pillar I. Such a fund might need to be managed by an outside company, given the gulf in organisational culture between venture capital and the operational modalities of development finance institutions like AfDB.

The Bank's private sector development strategy recognises the need for public–private partnerships (AfDB, 2013a: 6). It acknowledges the high risks for investors in these environments and seeks to mitigate them through risk-sharing financial instruments. Risk sharing involves unbundling risks and allocating them to the party best able to bear them. Typically, the investors carry the risks of project completion and commercial risks related to the market. Government may bear the political risks related to meeting its contractual obligations and the risks of regulatory change, or of its agents disrupting project implementation. Risk management instruments include partial risk guarantees and political risk insurance, or other financial instruments such as publicly provided sovereign debt that may be subordinate to loans from investment banks. Partial risk guarantees are attractive to countries since only 25% of the guaranteed amount is required from the country's PBA resources.

The recent ADF13 replenishment contains provision for extending the range of private sector financing instruments available to fragile situations:

[53] The 450MW Meghnaghat and 360MW Haripur power plants in Bangladesh are a good example of such projects. AES Power, a US company, was successful in winning the bids for both plants in a competitive bidding process on the basis of the price of electrical energy produced. The bid prices of around $0.03/kWh were roughly half the cost of power production in public sector plants. The project sponsor was also able to complete them in less than 36 months. This project was so favourable to Bangladesh there was no resistance to the projects from the powerful public sector trade unions or politicians in a country with divisive party politics. The Asian Development Bank (ADB) and the World Bank assisted with the transparent bidding process and financing through partial risk guarantees and subordinate debt.

- ADF Partial Credit Guarantees (PCGs) will enable the Bank to guarantee interest and principle amortisation payments on commercial debt. They will cover both commercial and political risk. The ADF guarantee will cost the country's PBA/TSF allocation only 25% of the guarantee amount, and the guarantee is expected to leverage twice the guarantee amount. So UA 10 million of PBA could catalyse a UA 40 million PCG and UA 80 million of commercial debt. The guarantees will be available only for countries with low risks of debt distress and adequate debt management capacity, which might exclude many fragile situations (AfDB, 2013f).
- The Private Sector Facility (PSF) is designed for credit enhancement that will effectively increase the Bank's headroom in low-income states and fragile situations. It will be implemented through a legally separate and autonomous facility that will guarantee a portion of the losses on a default on ADB financing, additional to its other financing, to a private sector entity. These guarantees will be backed by a reserve pool financed by ADF seed money, country PBA and top-ups and bilateral contributions. The PSF is expected to catalyse four times its value in additional ADB financing, such that combine leverage could be five times as much private financing as the amount contributed by ADB. The potential pipeline of PSF guarantees contains a high proportion of projects in fragile situations (AfDB, 2013e).

These new instruments are additional to existing AfDB products for financing private investment in fragile situations, which include:

- Conventional ADF sovereign guaranteed loans, which can be on-lent from government to private investor in a public–private partnership and would probably be subordinate to the claims of other lenders;
- Non-sovereign guaranteed loans to private companies from the ADB (non-concessional) window;
- Syndicated ADB loans where AfDB can take the role as lead arranger or contribute to a syndication led by others;
- ADF Partial Risk Guarantees (PRGs), which involve unbundling risks and allocating them to the party best able to bear them. Typically, the investors carry the risks of project completion and commercial risks related to the market. Government may bear the political risks related to meeting its contractual obligations and the risks of regulatory change, or of its agents disrupting project implementation. In the case of an unresolved breach by government of the contracts, ADF would reimburse the claimants and make a counter-claim against the government. PRGs increase the availability of commercial debt to the country and improve the terms of private sector financing, which could, for example, lead to lower costs of service provision to the country. Only 25% of the guaranteed amount is required from the country's PBA resources;[54]
- ADB enclave financing for projects in fragile situations that generate sufficient foreign exchange to cover debt service and returns to investors. Project risk and commercial financing terms would depend on project cash flows rather than

[54] See AfDB (2011b2011c) for a fuller description of PRGs.

[55] At the time this report was finalised, it appears that the sponsors of this project may have decided on alternative sources of donor government-backed finance. Nevertheless, the project proposal (see AfDB, 2013b, 2013e) is an interesting example of how the Bank could finance large-scale infrastructure in a fragile environment.

economic conditions in the country, although the risks related to expropriation and conflict still remain. ADB could have a catalytic effect in mobilising finance, and its relations with the government and regional organisations could be mobilised when a breach of contractual arrangements seemed imminent. Such projects are typically in the mining and petroleum sectors, where it might be difficult for the Bank to demonstrate additionality, although possibilities might exist in other sectors, such as agriculture-related business.

Supporting private investment in large-scale infrastructure is likely to require the Bank to draw the most appropriate instruments from its array of financing and risk mitigation tools, as well as seeking to share the financing burden and risks among other international partners and the government itself, as the Bank proposal to finance the South Sudan hydropower case suggests.[56] Financing such a project would require the Bank to deploy sovereign and non-sovereign debt instruments and possibly also guarantees in one financing package. In some fragile settings, governments and legislatures may not have the capacity to manage the contingent liabilities inherent in risk mitigation instruments, so that use of the PSF, subordinate debt or government equity might be better options in the first public–private partnerships, as is happening in South Sudan. Not managing public–private partnerships well can bring a country to the brink of default and damage its reputation with investors, as demonstrated by the private power experience in Pakistan in the 1990s.

AfDB is not lacking in instruments to facilitate private investment in fragile situations. It also has staff with the right skills and an organisational structure that facilitates blending sovereign and non-sovereign instruments in fragile situations. The challenges of scaling up private sector engagement in fragile situations will require the Bank to deploy the full range of Bank instruments, as scaling-up private investment in fragile situations is inherently difficult, because many of the needed preconditions are typically not present. This will call for well-targeted and well-coordinated interventions to support improvements in the conditions for doing business, plus using the full range of AfDB non-sovereign and sovereign financing instruments to support private investment and management contracting.

Private sector options should be seriously considered in both country programmes and projects. Since most Bank operations in fragile situations have been state-centric, the Bank might wish to consider whether staff capacity and incentives are well aligned for a strategy of scaling-up by mobilising more private sector finance in fragile situations. First, staff may not see opportunities for private investment in fragile situations, particularly if the government too is unaware of the possibilities. Second, such operations can be complicated in terms of their financing and contractual arrangements and involve partnerships with private sector companies with which staff are not used to dealing.

[56] One might observe that the Bank does not have an equity risk insurance facility like the World Bank Group's Multilateral Investment Guarantee Agency (MIGA), although MIGA insurance is possible as part of the financing of AfDB-led project financing. There may also be possibilities for the Bank to increase its risk headroom by securitising loans and selling them in packages, particularly when underlying projects are completed and the project is demonstrating strong benefits to the country, broad political ownership and a good payments record. Loans to fragile states would be easier to sell if they were packaged with loans from non-fragile states. While market receptivity in the short term may be dominated by the US subprime mortgage defaults that triggered the 2008 global financial crisis; securitised loans sold by AfDB would be small in relation to international financial markets.

Third, such operations can be time consuming and expensive to prepare, even though they can be easier and cheaper to monitor when they are implemented. Internal incentives can have a bias towards a conventional public sector approach when a private sector approach may be in the interests of the country and the Bank. Managers of staff who specialise in private sector transactions need to create the space that gives time and resources to process small and difficult, but high-development impact, financing opportunities.

We suggest private sector development be included in the training programmes of staff working on fragile situations, particularly for resident representatives and senior staff engaged in country relations and country and sector programming. The first operations in a country or department are likely to take longer and cost more than follow-on operations, as both the country and Bank gain knowledge and experience. This is investment, not additional costs, and the administrative budget and human resources systems should acknowledge this. ORTS has a catalytic role in ensuring private sector finance for scaling-up is considered in country operations and in connecting the Bank's private sector staff with country teams where this is not happening spontaneously.

4.4 Enhancing effectiveness of country teams and field offices

A strong field presence is essential in fragile situations, for the effective management of analysis, strategies and projects needed to allow scaling-up but also for the formation of effective partnerships that enable the Bank to play its leadership and convening roles. In implementing its Decentralisation Roadmap, the Bank has established field offices in 15 states particularly affected by issues of fragility, has one customised liaison office in Guinea-Bissau (although the staff member is located temporarily outside the country for security reasons) and plans liaison offices in the Eritrea, Libya and the Republic of Congo. Regional offices cover two other countries (Comoros and Somalia), on account of security and size. Before the Roadmap was implemented, there were only about five field offices in fragile states. The basic presence on the ground has been largely established. The challenge now is more about numbers of staff, staff skills and the functions of these offices.

Recent ODI research suggests collective action problems are a productive lens through which to view development challenges, and notes that the implication this has for development assistance is to call for more local knowledge:

> Addressing collective action problems is more challenging, because such problems are specific to each situation and generic remedies will not work. What is needed is detailed knowledge not only of the actors and settings involved, but also of the extent to which solutions may need to be practical hybrid institutions that borrow from local cultural repertoires. Undoubtedly, getting engaged in these kinds of ways is difficult for actors that are not thoroughly embedded in the relevant situations (Booth, 2012a: 4).

Similarly, the Problem-driven Iterative Adaptation (PDIA) approach (Andrews et al., 2012), which focuses on partners helping their counterparts nominate and articulate

concrete problems to be solved, rather than on externally nominated problems with 'best practice' solutions, also requires detailed local knowledge and close working with government counterparts. As with helping countries resolve collective action problems, a PDIA approach requires a Bank presence on the ground, with good facilitation skills and with the delegated authority to agree tailored support to the country that is not micromanaged from headquarters.

Field offices must therefore have the calibre of staffing to develop this sort of local knowledge to inform programming. A strong field office is also essential to build effective partnerships, not just with the recipient country government but also with third parties such as other development partners, CSOs and the local and foreign private sector. External and internal coordination is critical to the success of the international community in fragile situations. AfDB resident representatives play a critical role in ensuring the Bank responds to the country, coordinating AfDB activities in the country, ensuring the Bank delivers what it promises and cementing strong, productive partnerships.

However, there are concerns as to whether the Bank's field offices can currently fill this role. First, in staffing, although progress has been made on decentralisation, it has been slower than for other MDBs. In the World Bank, between FY09 and FY11, higher-level staff (including both locally and internationally recruited staff) in field offices in fragile situations increased by 38% (World Bank, 2013e: 5). By comparison, the targets in the Decentralisation Roadmap were for AfDB to increase staff in all field offices by 21% (from 409 to 496) over the same period (AfDB, 2011b: 13).

Second, in terms of authority of field offices to act, the MOPAN (2012) assessment of AfDB rated it inadequate in its performance on delegating authority: 'The Bank has increased its country presence significantly in recent years through the establishment of additional field offices, but its delegation of decision making authority to the country level remains a work in progress' (p.12). MOPAN acknowledges steps to improve this, such as the Decentralisation Roadmap, the establishment of new field offices and Regional Resource Centres and the revision of the Delegation of Authority Matrices (DAMs), but notes that, 'While this suggests its country presence is improving, perceptions about the extent to which key decisions can be taken locally remain the same' (p.6).[57]

This suggests the Bank faces a key challenge in institutionalising the decentralisation reforms it is trying to implement, particularly ensuring that the de jure changes in the DAM, with its aspiration to be 'a strong foundation for a Decentralized Bank by empowering the staff in field offices to make the necessary decisions on Bank operations' (AfDB, 2012d: Foreword) become a de facto mandate on the ground.

For this to happen, the Bank needs to align its policies, incentives and organisational culture with a corporate goal of scaling up results in fragile settings. This requires communicating a vision of scaled-up development effectiveness by all managers that involves a sustained engagement at the country level to translate ideas, knowledge

[57] Bank staff have argued the DAM will lead to more delegation to field offices, but this does not appear to be either fully implemented or accompanied by the change in Bank culture that the DAM requires.

and human and financial resources into action on the ground. Achieving these objectives will require having strong county offices with the right mix of skills to effectively scale up impact and to engage effectively with both the recipient county and other partners. One should not underestimate the magnitude of changes required, which involve not only increasing numbers of staff in field offices, but also ensuring staff have the right skills and experience and autonomy from headquarters. This would involve a transformation of field offices and their relations with the country and headquarters. The remainder of this section focuses on some of the key areas required to achieve these goals. First, clarifying the functions of resident representatives and country programme officers to lead the strategic and operational aspects of field offices, respectively, to ensure the Bank is effectively decentralised and can form the strong partnerships required to perform effectively in fragile situations. Second, ensuring field offices have access to high-quality sector advice to complement the resident representative and programme officers. Third, ensuring high-quality staffing in the often-challenging environments of fragile situations by improving staff incentives to locate there, and staff incentives to focus on scaling-up. And fourth, taking into account the higher costs associated with operating in fragile situations in the financing of field offices.

4.4.1 Role of the resident representative[58]

If the Bank is to be effective in scaling up results in fragile situations, then resident representatives will be key to this, especially in ensuring high-quality programme design and implementation and in exercising the Bank's convening power.

As indicated in the decentralisation plans of the current Permanent Committee on the Review and Implementation of the Decentralisation of AfDB Activities (PECOD), the resident representative, reporting to the regional director, should be responsible for overall strategic leadership of the field office, for leading the country team and for the formulation and implementation of the country strategy and the operations that implement it. The resident representative would also be accountable for important administrative tasks, including managing the administrative budget allocated to the country programme and office, management of the field office and its facilities, security of the office and AfDB staff in the country and approval of visiting missions. Other Bank units, such as Corporate Services and Programming and Budget, would have accountability for providing the support needed to the resident representative to allow her to carry out her responsibilities. The resident representative would be responsible for relations with the government and its partners (including in areas outside Bank operations). She must be able to lead dialogue with the government on priorities for AfDB assistance and participate in dialogue between governments and development partners at a high level. Where a regional director is not able to visit the country frequently, the resident representative must be able to act as her representative in dealings with

[58] Currently, both the terms 'resident representative' and 'country manager' are used in AfDB documentation. According to the DAMs, the former should be phased out. This accurately reflects the change in the nature of the job in a more decentralised Bank. If the Bank does not want to use the term 'country manager' to describe the new role, then it should use another term, as the role proposed in this report is not one of a representative. For example, the European Union uses the term 'delegate'.

the recipient government and with partners. As such, in fragile situations with active programmes, one might expect resident representatives to be high fliers capable of being promoted to director in their next or next but one assignment.

It is important that the broader team complements the skills of the resident representative. For example, where a resident representative is an economist, she could be expected to bring good strategic skills but may lack knowledge and experience in project financing and implementation or detailed sectoral knowledge. It is essential in these cases that the resident representative is backed up by an experience and efficient country programme officer, who can provide effective leadership and support on these issues. The resident representative and the country programme officer, together with the country economist, make up the core, and minimum, international staff in a country office, so they have the essential roles in strengthening field offices to allow a greater focus on scaling-up.

4.4.2 Role of country programme officers

Country programme officers are responsible for portfolio management and for leadership on operational aspects of the country programme. It is essential that this not been seen in a narrow reporting sense. The country programme officer should be the focal point for knowledge of project design and implementation in the country team, be instrumental in ensuring project designs fit with the context of the country and advise the resident representative on operational matters, particularly when the manager does not have an operational background.

The key functions the country programme officer would undertake would be to review the design of new operations (particularly with respect to their potential for scaling-up); ensure the portfolio is being implemented successfully; follow up on sector issues and provide sectors with advice; support implementation through involvement in project missions; assist government with agreed actions after missions and in implementation generally (especially where there is no resident sector task manager); mentor staff implementing the country programme; and generally serve as a trouble-shooter, addressing the implementation issues that are especially likely to arise in fragile situations, where government capacity to address them is likely to be weak. A key implementation challenge often faced in fragile situations is procurement delays. A key role for the country programme officer will therefore be to ensure the flexibilities available for procurement in fragile situations from the revisions in the AfDB 2013 Rules and Procedures for Procurement of Goods, Works and Non-consulting Services are utilised where needed.[59]

To be able to fill this role, the country programme officer should be a senior technical staff member experienced in Bank financing operations.

[59] For example, these include allowing procurement from UN agencies in post-conflict situations.

4.4.3 Access to sector knowledge

Ideally, a field office in a fragile situation should have resident sector task managers to ensure sufficient sectoral/thematic knowledge on the ground for the design and implementation, and troubleshooting, of operations, and the assessment of success. However, given financial and human resource constraints, this will not always be possible. To substitute for this, staff in the newly established Regional Resource Centres (especially in Nairobi to support fragile situations in East Africa) and the headquarters as it moves back to Abidjan should spend significant amounts of time both supporting operations and in country engaging with the government.

The experience of the World Bank, with more established regional offices, could be valuable to draw on. The World Bank has found regional offices close to fragile situations have played an increasingly important role in contributing senior staff time to preparing and supervising projects. In Africa, staff time contributed by regional offices (Abidjan, Accra, Addis Ababa, Dakar and Nairobi) to preparing projects in fragile states increased from 10% in FY07 to 17% in FY11. In the East Asia and Pacific region, staff time contributed by the Sydney office to preparing projects in fragile states in the region increased from 12% in FY07 to 32% in FY11 (World Bank, 2013e: 5).

In addition, the World Bank is starting to monitor the 'face time' that staff based in country offices and regional centres and those travelling from the Washington, DC, headquarters spend with fragile state recipient countries in order to monitor the professional support each fragile state government receives.[60] Whether or not it is practical for AfDB to institute a similar monitoring system, the principle of focusing on the amount of time Bank staff are spending providing support to the recipient country government is a valid one. AfDB should seek to develop ways of ensuring operations and recipient governments in states in fragile situations receive sufficient support from sector experts.

4.4.4 Staff incentives for working in fragile situations

To attract a high calibre of staff to work in field offices in fragile situations (especially in the resident representative and country programme manager roles) and to move more sectoral staff into country offices, the Bank must ensure there are sufficient incentives to do so. There is also a need for incentives that reward staff who promote scaling-up and embody needed behaviours, for example forging partnerships; participating in decision making in other policy communities (e.g. peace building); developing the Bank's knowledge of the country; and facilitating policy and institutional change. This is partially about financial incentives, but equally about recognition of experience in fragile situations in relation to career development and promotion prospects, and creating an organisational culture that values and rewards experience of work on the ground in fragile situations. It may also involve a shift away from rewarding project approvals towards scaling up results. It involves recognition that sometimes lending

[60] Word Bank (2013e). Furthermore, it states, 'Analysis suggests that face time is an important driver of portfolio quality' (p.12).

operations, while difficult in the short term, may be among the fruit that blossom from seeds planted in what may seem at the time an unsuccessful tour of duty in a difficult environment.

Discussions at the 2012 Decentralisation Retreat 'noted that staff compensation, particularly in Fragile States, is a constraint and that new HR policies are expected to address this [and] recommended that the Bank review the benefits package of staff assigned to field offices in Fragile States to better align with other donor practices in order to increase the Bank's capacity to retain high-quality staff in these offices' (AfDB, 2012f: 5 and 7).

The benefits package available to staff working in fragile situations is not just about financial incentives (such as a hardship allowance).[61] Housing allowances need to take account of the often extremely high cost of housing in fragile situations, where conflict has damaged the housing stock and a post-war influx of returning citizens and the international community can create high demand. In countries where the real estate market is seriously distorted or where there are security issues, it might be more efficient for the Bank to provide staff accommodation, rather than having staff new to the country trying to negotiate with rapacious landlords. In addition, special considerations are needed for non-family posts, or where medical facilities, schools and accommodation of an acceptable standard are unavailable.[62] Leave policies should take account of the need for rest and recuperation, especially for family visits, as most states in fragile situations can be expected to be unaccompanied posts.[63] Leave policy should also allow for medical leave, as anything but the most basic treatment may require travel outside the country. We suggest the Bank designate a number of field offices as 'hardship posts' for which a package of special benefits applies.

Career development could also be structured to reward experience working in fragile situations. This needs to be a formal part of the talent management process to ensure it is institutionalised, rather than going through informal communications. For example, the World Bank faces similar challenges and is attempting to strengthen incentives for working in fragile states by making experience working in a fragile state a strongly desired skill for promotion to senior jobs (World Bank, 2013e: 12) and prioritising placement of staff working in fragile states in their next posts by automatically short-listing them for the first three positions at the same level to they apply (World Bank, 2013e: 40). Bilateral aid agencies also manage the return of staff from fragile states

[61] The internal AfDB Compensation Guide for Field Office International Staff states that international staff in most offices in fragile states receive a hardship allowance in the range of 12.5-15% (p.14), yet in interviews with field staff in fragile states the lack of any such allowance beyond standard housing and cost of living allowances was a complaint. For comparison, the World Bank provides the following benefits for staff working in fragile states: 1) an Assignment Premium Bonus (lump sum when assignment is completed); 2) a Fragile States Premium; and 3) Rest and Recuperation Benefits of 10 leave days with pay plus cash value of full economy round-trip fare from host duty station to headquarters every 42 to 90 days for specified fragile states as determined by management (World Bank, 2013e: Annex 2).

[62] The seven offices where family members are not allowed currently are Central African Republic (CAR), Chad, DRC, Liberia, Mali, South Sudan and Sudan. Staff assigned to these countries may have to maintain two residences, the cost of which may not always be reflected in the benefit package.

[63] According to the Compensation Guide for Field Office International Staff, additional family leave in locations where the family cannot be present is five days per annum. The equivalent for the World Bank, stated above is 10 days every 42-90 days.

offices so as to reward work in these locations, which is easier in organisations using a foreign ministry model of managed career transfers.

Given the need to strengthen the incentives for staff to work in fragile situations, the commitment in the Draft Implementation Programme for the AfDB People Strategy 2013-2017 to introduce a 'flexible Total Compensation Framework for 2014-2016 that balances the constraints within which the Bank operates, and providing foundations for longer term development of an integrated performance, reward and recognition strategy and incentives for working in fragile states' (AfDB, 2013d: Annex 1) is welcome. ORTS should work with the Human Resources Management Department (CHRM) to ensure this Framework takes account of the financial, non-financial and career development issues in providing incentives for staff to work in fragile states raised above. In addition, ORTS leadership should consider whether it needs to be present during decisions on career management to ensure experience in field offices in states in fragile situations is adequately rewarded.

4.4.5 Staff incentives for scaling up development effectiveness in fragile situations

Incentives in aid agencies provided by formal promotion criteria, recognition by professional streams, merit-based salary increases, career development processes and the informal recognition of what constitutes good performance are rarely are supportive of scaling-up. Staff may see rewards in managing many small projects, in getting project approvals from the Board and in moving to the next assignment before deficiencies in implementation become apparent. Technically innovative projects that represent the state of the art or international best practice may receive kudos even if they are inappropriate or unwanted by the country.

The persistent effort needed to help borrowers implement projects and overcome problems, especially needed in fragile situations, may be scarcely rewarded, even if the longer-term results are greater. Linn (2013) gives examples from the European Bank for Reconstruction and Development (EBRD) and IFAD where staff incentives did not support scaling-up. We would endorse his recommendation for aid agencies to systematically review their incentives and processes to determine their alignment with their policies for scaling-up. We suggest ORTS and CHRM assess the incentives provided by the current career reward system in support of a strategy for scaling-up as part of the review of human resource incentives for work in fragile situations generally. ORTS might also wish to consider annual awards, perhaps presented by the president, to teams that have been particularly successful in scaling-up, and recording these in staff career records.

4.4.6 Financing field offices in fragile situations

Effective field offices in fragile situations will need to allocate administrative budgets with realism about higher costs in fragile settings. As noted above, one reason for these higher costs is that rent in a post-conflict situation is often high owing to the destruction of the building stock.

Currently, administrative budgets for field offices are driven by the size of the country portfolio adjusted with a standard coefficient. This means there is no explicit recognition of the higher costs of doing business in fragile situations, nor of the desirability of a higher staff complement to provide more intensive support to the recipient government and to project implementation. It also means that, if the country portfolio is small, then the staff complement and budget are small, even if there is potential for scale-up.

In contrast, in FY11, the World Bank administrative budgets for fragile states were nearly three times as high per dollar of IDA lending in fragile states as they were in non-fragile states (World Bank, 2013e: 5).[64] Reasons cited for this difference are higher supervision budgets for projects to help address implementation challenges in low-capacity environments and higher security costs in fragile states. Income from managing trust funds also allows for substantially higher administrative budgets in a few countries. AfDB should thus consider adjusting the allocation formula for setting administrative budgets for fragile situations to allow for the higher costs of doing business in fragile situations and the need for more intensive supervision of projects in the low-capacity environment that is characteristic of many fragile states.

4.5 Scaled-up partnerships with the public and private sectors

4.5.1 Public sector partnerships for scaling-up

Partnerships with other development partners can be configured in several ways. AfDB already has experience of co-financing development programmes in fragile situations with other donors. It has also demonstrated its willingness to provide financing in support of one or more components of a country-led transition and recovery plan. However, such partnerships have not been established systematically, as a major component of AfDB's engagement in fragile situations, and they have tended to focus at the project level rather than at the strategic level. Furthermore, current staff incentives do not recognise the value to the RMC and the Bank of building more effective partnerships with regional and global counterparts.

In order to develop its scaling-up agenda, AfDB should revise its approach, and consider operating in partnership with other development partners as its default in fragile situations, seeking opportunities to develop joint country analysis and programme development wherever possible, as well as knowledge sharing based on results. It should also explore innovative ways in which it could co-finance interventions with other donor partners. A bilateral donor, for example, might have developed a successful project and lack the resources to take it to scale. AfDB could finance the expansion of this project without the time and cost needed to put the implementation organisation in place. In a country where the Bank has little presence or expertise in a particular sector, it could expand a successful programme financed by another MDB, piggybacking on the implementation arrangements already in place, for example for a community development programme. This could involve expansion into new regions of the country where AfDB could demonstrate its own results to its stakeholders as part of the wider

[64] The budget per dollar of IDA lending in fragile states increased by approximately 20% between FY07 and FY11.

programme (although, on branding, we would argue that state-building requires that the government be seen to be providing services to its people, not international agencies). Co-financing contributed by AfDB could also enable it to provide financial resources promptly in support of a country turnaround, particularly if the Bank were delayed in establishing a field office and launching its own programme.

AfDB should also consider how to engage in more strategic and systematic ways with pooled funding mechanisms, which are increasingly being used as a major instrument for partnership in fragile situations, and to influence their development in line with a scaling-up approach. Recent research (Commins et al., 2013) has shown that pooled funds rarely dominate aid flows at country level, but they often have an importance beyond their scale. They may be at the centre of collaboration among donors and with governments, and have a number of potential advantages, including coordination and harmonisation among donors, enabling operation on a larger scale and with lower transaction costs and allowing participating donors to pool the risks of operating in fragile contexts. They can also provide a framework for dialogue with the government along with direct support to capacity development and service delivery. However, there are reputational risks for the Bank if a pooled fund is not well managed (see Section 4.6.2).

AfDB has a number of potential roles in the design and delivery of pooled funding mechanisms in fragile situations. These include as a financial contributor or co-financier, as a fund administrator, as an implementing partner or as a non-contributing stakeholder.[65] There is a risk that, in situations where AfDB is neither a contributor to a fund nor an administrator, it may consider further engagement to be of limited value. However, in the context of a scaling-up agenda, this is not necessarily the case. The roles of implementing partner or non-contributing stakeholder still hold significant potential value.

For example, in terms of acting as an implementing partner, the Bank would be providing its expertise in preparing bankable projects capable of timely implementation that generate results. These could be projects with finance only from the MDTF, or projects that already have financing from the ADF and the TSF and need co-financing to scale up. In some cases, it may be faster to obtain MDTF resources for AfDB projects than to use existing ADF processes. AfDB would essentially be using its convening power to secure additional resources from MDTFs or other pooled funding arrangements for a fragile situation, even if these are administered by others. However, the Bank's ability to develop and implement projects financed by MDTFs will depend on its reputation for quality delivery, which in turn is linked to its field presence and its reputation in fiduciary management. Even if some management of the fund is contracted out to the private sector, as in the Zimbabwe Trust Fund, such firms need to be closely managed to ensure the Bank carries out its trustee role and that reputational risks are satisfactorily mitigated.

AfDB's deep understanding of African countries is useful for risk management, and its close relations with its member states could make it a leading candidate to manage pooled funds. However, again, the Bank's potential role as an administrator of pooled

[65] Many pooled funds invite major non-contributing development partners to be observer members of their governance committees, to help ensure coordination with other development initiatives.

funds is linked to its field presence and donor confidence in its ability to manage risks. It is very difficult to manage a pooled fund from headquarters or a regional office when most of the fund donors are located in the country and a constant dialogue with government and donors is needed on a range of issues, from funding to implementation.

Direct engagement of fund contributors in at least the oversight arrangements of the fund (as opposed to an indirect involvement of ADF donors insulated from the country team by Financial Resources Mobilisation and External Finance, FRMB) can also complicate fund management. The fund administrator has to manage the expectation of both governments and partners, who may have conflicting views on priorities and risk management. Fund donors, which are likely to be from industrialised countries, may have a lower appetite for fiduciary risk than the ADF Board, where voting power is split 50/50 between RMCs and contributing states from outside the region. Donors may also have unrealistic expectations about the speed at which activities financed by the fund can be implemented. Balancing these expectations with those of a government with low institutional capacity at the end of a crisis can be difficult, as the mixed results from World Bank management of trust funds in Africa show. Managing successful pooled funds is not easy, as they contain most of the features of multilateral development banking in microcosm; a recent ODI study lists more than 20 indicators of a successful pooled fund (Coppin et al., 2011).

The Zimbabwe MDTF is the only AfDB-administered single country trust fund in a fragile situation that we are aware of. This is a case where AfDB was able to manage risks related to compliance with international sanctions that World Bank senior management were unwilling to accept. AfDB will need to consider whether to offer to administer pooled funds on a case-by-case basis depending on its assessment of government and donor preferences and its capacity in country. Administrators have been appointed to recent trust funds, such as the South Sudan Partnership Fund, through competitive proposals from organisations such as UNDP and the World Bank, and AfDB would need to be prepared to participate in such a selection.

If AfDB wishes to consider pooled fund administration cautiously, it does have the option of expanding the TSF through donor contributions, making the TSF the multi-country, multi-donor pooled fund it was originally intended to be. Both the UN and the World Bank have similar multi-country, multi-donor trust funds designed to support peace and state building.[66]

Even in situations where AfDB has a limited potential role in fund implementation, there are benefits to be realised from participating in a fund as a non-contributing stakeholder, in order to engage with discussions on its design and strategic direction, enabling orientation to scale up where possible. In some situations, multi-donor funds have achieved impressive results, such as the range of high-impact programmes funded through the Afghanistan Reconstruction Trust Fund, which was successfully linked to a policy framework and performance assessment matrix. However, many empirical

[66] The Peace-building Fund managed by the UN Peace-building Support Office, http://www.unpbf.org/, and the State and Peace-building Fund managed by the World Bank's Center on Conflict, Security and Development, http://go.worldbank.org/YQGXDDCWS0

case studies find that trust funds have generated disappointing results. This failure to translate theoretical advantages into practical success is caused by a number of factors, including poor design, a lack of flexibility by donors and fund administrators, poor contextual understanding and a failure to generate proper ownership (Walton, 2011). Given the role pooled funds can play in piloting innovative development approaches in fragile situations, it is in AfDB's interest to engage with their design processes and learn lessons from their implementation, to help maximise their chances of success and benefit from synergies with its own scale-up programming.

4.5.2 Partnerships with the private sector

The Bank's private sector development strategy recognises the need for public–private partnerships (AfDB, 2013a: 6). It acknowledges the high risks for investors in these environments and seeks to mitigate them through risk-sharing financial instruments. Risk sharing involves unbundling risks and allocating them to the party best able to bear them.[67]

Public–private partnerships are likely to become of greater significance in fragile situations for two reasons. First, ODA is unlikely to grow in the future and may actually shrink because of fiscal problems in the traditional aid donors and public doubts about the effectiveness of foreign aid. There simply will be insufficient ODA and MDB resources to finance the basic infrastructure that most states in fragile situations lack. Second, states in fragile situations that are natural resource exporters, governments with constrained capacity to implement projects may need the project design and implementation skills of the private sector to transform natural resource wealth into assets such as infrastructure. Scaling up private investment in fragile situations, particularly for infrastructure, will also require public sector financing by governments and their partners like AfDB through public–private partnerships and complementary public investment.[68] Securing private finance for states in fragile situations in sectors like infrastructure is likely to be difficult without deploying the Bank's general support and use of its risk mitigation instruments. However, guarantees create contingent liabilities for countries that governments, legislatures and judiciaries may not fully understand. Not managing public–private partnerships well can bring a country to the brink of default and damage its reputation with investors, as demonstrated by the private power experience in Pakistan in the 1990s.[69]

Scaling up private sector investment requires AfDB to select investors that have the leadership able to develop business models and the organisation that can achieve scale. General lessons from studies of scaling up private investment are:[70]

[67] For more on AfDB risk mitigation instruments, see Section 4.3.6 of this report.

[68] Collier (2013) shows that private investment in fragile states is constrained by their isolation, lack of information for pioneer investors and insecurity. What is likely to be successful is not known until the results from the first investor are revealed. Isolation can be addressed by private, public and joint investment in transport infrastructure. To address information constraints, he calls for subsidising capital and political risk guarantees, particularly through the non-sovereign instruments of the MDBs and donor–business partnerships. He sees security being established by an African regional club similar to NATO and greater transparency around natural resource revenue flows.

[69] See Fraser (2005) and World Bank (2006) for a description of the crisis involving the private power programme in Pakistan.

[70] See Kubzansky (2013) and West (2013), and in the IFC study on scaling up energy access (IFC, 2012).

- Disruptive business plans that pioneer new business-based solutions to old problems. This requires international partners like AfDB to act like angel investors in the business world who take risks and deploy early advice and capital as entrepreneurs test and develop their business models;
- Selecting only quality private sector partners wholly committed to the project, have demonstrated prior business acumen and are willing to comply with the principles of the external investor or financing agency;
- Business plans that lead to financial viability and are market based and can reach scale without dependence on external financing, but recognising that scaling-up is not necessarily linear;
- Building organisational capacity that can take the project to scale.

Promoting private sector engagement on a large scale need not always involve private investment. The Liberia power management contract is an example whereby a foreign private company provides needed organisational capacity and management expertise to improve the quality of service and the financial performance of the power utility. This enables electricity supply to be greatly expanded as new, lower-cost electricity generation options become available from hydropower and imports. In addition to risk-sharing financing, AfDB can organise to provide support including standardising contractual arrangements (e.g. power purchase agreements), helping establish multilateral dispute resolution boards, re-bundling African (and fragile situation) investments into funds that blend their higher risks with lower-risk investments and using AfDB convening power to challenge financial regulations in industrial countries that effectively prohibit African investments in the portfolios of OECD country pension funds.[71]

An additional issue in fragile situations is that some of the private sector financial resources may have been accumulated through illegal or questionable activities during periods of conflict. Most local firms are typically informal, in the sense that they are not registered for tax purposes or do not reach minimum standards of corporate governance. On the one hand, it is desirable that this money is invested in productive investments in the country rather than spirited abroad; on the other hand, the Bank is exposed to reputational and other risks if it partners with business of ill-repute or that has an unhealthy relationship with the authorities. Some OECD country firms have also accumulated funds through unethical or illegal activities in the distant past. The issue is how firms can put the past behind them and commit to responsible business practices in the future, for example through business registration requirements or through truth and reconciliation processes that might involve reparations, corporate social responsibility activities or payments of past taxes, with the AfDB potentially playing a facilitation role in regularising these firms. This could substantially increase the scale of the local, formal, private sector.

International assistance has tended to disregard the local private sector in low-income countries. Yet engaging with the local private sector on aid-funded projects tends to create jobs, generate national income through multiplier effects and produce government tax revenues, and is less likely to distort local labour markets than aid provided directly to international companies.[72] Governments and their partners have tended to assume

[71] See Collier (2013b) for more on reasons for lack of private investment in infrastructure in fragile states.
[72] See Glennie et al. (2013).

the private sector will develop spontaneously in response to a better business climate. However, reforms to improve the business environment, like other economic reforms, occur slowly in most fragile situations, and a more proactive approach to local business development is needed. There are several ways in which AfDB could assist entrepreneurs in fragile situations, so that scaling-up in the public sector also achieves scaling-up in the capacity of firms in the local private sector:[73]

- AfDB procurement influences the market for publicly procured goods and service in the country. Well-designed AfDB (and other donor) financed procurement can create market opportunities for local firms. This involves designing appropriately sized bid packages with technical and financial requirements that allow local firms to compete, simplifying procedures so they are understandable to local firms and giving preferences to local firms during bid evaluation.
- Support capacity development in the local private sector through providing funding for pre-investment studies and access to services that strengthen capacity, particularly in areas such as management, accounting, IT, business planning and project management.
- Support development of key sectors that provide inputs needed for scaling-up, such as construction and building materials. This would target training and complementary actions to improve local firms' competitiveness and productivity, including financial services such as performance bonds, equipment leasing, workforce skills training and access to materials. It might also involve non-sovereign financing of enterprises providing materials in short supply or of high cost due to transport constraints, e.g. cement, reinforcing steel.
- Generate data to guide policy. Since so little is known about the impact of aid on local private sector capacity and the priority given by the Bank to private sector development, project M&E should assess how the project has affected private sector productivity and capacity. The Bank should also encourage governments and partners carrying out enterprise surveys to collect data that would enable the effects of public procurement on firms to be determined.

Without AfDB management giving special priority to private investment in African fragile situations, an area of comparative advantage to the Bank, it is unlikely that staff resources and administrative budgets will be committed to fragile situations, particularly as there is at least the perception that lower risk opportunities are elsewhere. The Bank should set targets for private sector investment and other private sector support to fragile situations and monitor and report on their implementation.

4.6 Managing the risks inherent in scaling-up

4.6.1 Risk in fragile situations[74]

States in fragile situations are often perceived as risky environments for development assistance and private investment. 'Risk' is the potential or probability of a future

[73] For more on how international partners can support development of the local private sector, see Glennie et al. (2013).
[74] This section is based on McKechnie and Davies (2013) and OECD (2011b).

unwanted event – a 'risk outcome' – occurring. 'Risk impacts' are the costs (or benefits) of a risk outcome. These distinctions matter because a scaled-up programme based on evidence from pilots may have lower risks than a much smaller programme, but the risk impact from failure at a greater scale may be higher. The difference in expected risk impact per unit of development result will depend on the probabilities of failure and the costs of failing on a large or small scale.

There are four broad categories of risk relevant to development assistance in fragile situations:

- **Programmatic** risks relate to risks in programme design, implementation or operations such that foreign support fails to achieve its objectives or contributes to the other three categories of risk. Within the category of programmatic risk, design risks include development of a project that is inappropriate to the context, and overestimating the capacities of the implementing agency and suppliers. Implementation risks include a lack of qualified bidders, slow implementation, inadequate monitoring and poor contractor performance. Operational risks consist of inability of counterparts to operate and maintain the project and fund these activities, lack of complementary inputs and the risks that the project is not used or that counterpart institutions are not strengthened.
- **Contextual** risks relate to broader, non-project objectives of aid and can be divided into developmental and strategic risks. Developmental risks include failure to achieve broader outcomes from the aid intervention, such as poverty and growth targets, increased inequality, lack of overall institutional development and declining public revenues and governance. Strategic risks, sometimes referred to as political risks, are linked to declining state credibility, increased violence and trafficking, deteriorating foreign relations for the recipient country and lack of improved coherence and coordination in international assistance.
- **Institutional** risks for the donor can involve deteriorating relations with the recipient country, loss of credibility with the donor's authorizing environment, a shift of resources from longer-term development to shorter-term humanitarian instruments and inability to operate in the country for reasons such as deteriorating security. Reputational risks also affect the institutional standing of the donor and can be a consequence of risk outcomes from all types of risk. They depend on how the donor identifies and manages these risks and responds to risk outcomes.
- **Fiduciary** risks relate to money and resources going astray during their transfer or the implementation of a donor-funded intervention.

The county receiving foreign assistance or loans also faces risks:

- **Sovereignty** risks related to the government not being aware of donor-funded activities (unlikely to be an issue with AfDB finance), support being provided with conditionality and allocative distortions in public spending caused by externally driven priorities;
- **Capacity risks** that involve weakened public institutions if financing is provided in a way that does not build sustainable national capacity, for example creation of PIUs, poaching of borrower staff;
- **Sustainability risks** related to chronic dependency on donors if assistance does

not build national capacity or address medium-term funding issues. It is also related to a lack of medium-term predictability of external finance. Changes in donor policies, reduced donor financial resources or donor responses to political events in the recipient country can lead to abrupt changes in financing;

- **Economic** risks attributable to macroeconomic imbalances when activities in the country of foreign partners drive up the prices of non-tradeable goods and wages, and the private sector is crowded out owing to lack of finance and labour market distortions.

There is often a trade-off among different types of risk and other objectives such as value for money. Donors that have very low tolerance for fiduciary risk may put excessive bureaucratic controls in place that make achievement of development or strategic goals difficult – that is, programmatic and contextual risks go up – and reduce value for money. Another donor with humanitarian objectives might give priority to short-term development objectives – aversion to programmatic risk – but may run risks with money going astray and be indifferent to value for money.

AfDB seems to have managed these trade-offs reasonably well, according to evaluations by MOPAN and DFID,[75] scoring well on fiduciary risk management, value for money and alignment for poverty and strategic goals, although it is relatively weak compared with other multilaterals on achievement of results and on fragile situations (see Appendix 2).

4.6.2 Managing the risks associated with scaling-up

AfDB will need to manage the risks associated with scaling-up. Since scaling-up in fragile situations will by definition expand results in these countries, it will address some of the issues found in the DFID review and lower reputational risk. Greater selectivity through concentrating resources on programmes with an evidence base for success may also lower risk. Reducing fragmentation in country programmes can shift the Bank's effort away from activities with high risk of programme failure or misuse of funds. Successful scaling-up results can thus lower the programmatic and contextual risks of the Bank as a whole failing to deliver development or other objectives (Chandy and Linn. 2011). However, scaling-up that does not work could expose the Bank to greater and more visible risk outcomes at the country level, particularly if projects fail and countries do not transition out of fragility, or if funds are misused, and country-level shortcomings could affect the overall reputation of the Bank. The World Bank's problems in managing the South Sudan MDTF have created lasting reputational damage to its activities in Africa.

Options do exist for mitigating the risks of scaling-up in fragile situations, including careful selection of country partner agencies; investing in understanding the peace-building, social and political context; maintaining a focus of capacity development in

[75] We have disregarded the contribution of the multilateral organisations to particular UK aid objectives shown in Figure 3, as this is not relevant to this study.

scaling-up operations; buying in capacity to implement the project while national institutions are being built; keeping project designs simple; testing concepts, implementation capacity and partner commitment in pilot projects; and putting additional fiduciary capacity and controls in place in high-risk situations, like the dual signatory arrangements, the contracting-out of fiduciary services and the use of monitoring agents as envisaged under the New Deal. Scaling-up itself can mitigate risk by focusing resources on activities where evidence from pilots suggest Bank-supported interventions will be successful. Risk management should be an integral part of the design of scaling-up programmes.

What are the implications of scaling-up for the risk incurred by the Bank and its partners? Table 1 sets out the possible outcomes of scaling-up programmes and projects for each of the risk categories set out in the previous section, before any measures are put in place to mitigate negative risk. The risks of scaling-up also need to be set against risks associate with the alternative. A programme of smaller projects may actually add up to more risk, in contrast with a scaled-up programme that is built around a stronger evidence base of what works, better knowledge of the capabilities of implementing organisations and development of their capacity (Chandy and Linn, 2011: 7).

For most of the risk categories, the risks from scaling-up programmes to the Bank are mixed, with some risks higher and others lower. Fiduciary risks before mitigation are probably higher in cases where there is more money to go astray and financial control capacity of implementing agencies is more likely to be stretched. On the other hand, larger-scale programmes that are well designed mean more development and peace-building outcomes, which is a benefit to the borrower as well as the Bank. Risks to the borrower tend to be mainly mixed, although larger programmes are likely to increase the pressure on financing operating costs in fragile settings. In addition, large infrastructure projects could create future issues when the government repays debt or if it were to default on its obligations to private investors. These risks may be small, but their consequences can be large.[76] Since the Bank's exposure to risks can be higher as well as lower with scaled up programmes, and most risks can be mitigated, the Bank should carry out analysis of risk when designing both country programmes and projects and set out clearly how it balance and mitigated each risk.

AfDB's comparative advantage in delivering PBOs in fragile situations set out in its policy document (AfDB, 2012a: Para. 6.2.5) indicates its capacity to bear fiduciary risk is probably higher than that of other MDBs, and this most likely applies to other Bank financing instruments as well. As AfDB scales up its activities in fragile situations, fiduciary risks could rise owing to increasing numbers of projects and a larger volume of financing, but this could be offset by its deeper knowledge of African countries and understanding of the underlying forces that influence risk compared with other donors.

[76] The case of the near-default on private power in Pakistan is mentioned in Section 4.5.2.

Table 1 Analysis of the risks of scaling-up

RISK	SOME POSSIBLE RISK OUTCOMES FROM SCALING-UP
RISKS TO THE BANK FROM SCALING-UP	
Programmatic Mixed risk outcomes	• Larger scale and more selectivity should mean greater development results and better programme outcomes.
	• Pilot project could fail and no scaling-up occurs, but cost would be less than a full-scale project that fails.
	• Scaling-up could be beyond capacity of implementing agency and be delayed or even fail.
	• Counterparts may be unable to operate a large-scale project.
	• Insufficient inputs may be available for a scaled-up project, e.g. skilled labour, materials.
	• Incremental project beneficiaries may be poorer and unable to pay for the service.
Contextual Mainly lower risks	• Larger scale should mean greater contribution to broader agenda, e.g. national-level poverty reduction or reduction in risk of conflict, but only if the project is well designed.
	• A scaled-up programme could serve as a platform to attract co-financing from other donors and to improve overall aid coordination.
	• Larger scale could generate greater income or horizontal inequalities that lead to increased crime or political instability or violence.
	• There is a risk that the sector or theme chosen for scaling-up may not be very relevant to the broader challenges facing the country.
Institutional Mixed risk outcomes	• Reputation for facilitating scaling-up successfully in fragile situations would help in ADF replenishment since fragile states are a donor priority.
	• Failure to scale up programmes in fragile situations could make the Bank look a marginal player or even irrelevant.
	• Scale-ups that fail financed by non-sovereign debt or guarantee instruments could affect the Bank's finances.
	• Corruption scandals may be more visible with larger programmes, leading to reputational damage that affects ADF replenishment.
Fiduciary Probably higher-risk outcomes	• Scaling-up may mean the risk of funds going astray are higher than with small, ring-fenced projects, and with larger programmes with multiple actors.
	• Scaling-up is likely to avoid agencies where money is likely to get diverted if these are not capable of delivering scaled-up programmes, so that fiduciary risk would be lower.
RISKS TO THE BORROWER FROM SCALING-UP	
Sovereignty Mixed and probably lower risk	• AfDB corporate strategic priorities and country programmes are usually well aligned with borrower priorities – sovereignty risks are higher with bilateral assistance from OECD countries.
	• Scaling-up programmes with donor co-financing would dilute donor encroachment on sovereignty.
	• Scaling-up with non-marginal programmes or projects might lead to policy conditionality related to organisational arrangements, financing of operating costs, etc.
Capacity Mixed	• Ensuring capacity is put in place is a characteristic of well-designed scale ups.
	• Bank staff might promote implementation arrangements that bypass government and its systems in order to accelerate scaling-up.
Sustainability Higher risks	• Larger programmes and projects could magnify any issues in financing, cost recovery, staffing, etc. than small conventional approaches might.
	• There is a risk that the Bank might scale back funding before the scale-up is fully completed owing to staff changes or changing priorities.
	• Large private sector projects could face financial difficulties that require the government or Bank to restructure their balance sheets, e.g. related to debt service, if there were external shocks.
Economic Small but costly risks	• Government default on private sector project contracts could trigger a default on non-sovereign debt or calls on guarantees.
	• Government could pledge natural resources revenues or take excessive debt, finance scaling up, particularly in infrastructure sectors.

Source: McKechnie and Davies (2013), authors' analysis.

Greater tolerance for risk may enable the Bank to be more flexible and responsive, but greater risk exposure could lead to risk events that have a reputational cost to the Bank unless these are well managed. Despite its tolerance for risk, AfDB benchmarks well against other MDBs in fiduciary management, being only slightly lower than the World Bank and slightly higher than the Asian Development Bank (ADB) (see Table 2). Fiduciary risks in fragile situations with governance problems may be acceptable to their partners if these risks are mitigated, including with some of the special risk management tools agreed under the New Deal (McKechnie and Davies, 2013). A study by AfDB and the World Bank (2011) show that direct budget support has manageable risks in fragile situations. The OECD (2011b) has called for a new approach to managing risks in fragile states that balances fiduciary risks with the risk that programme goals might not be achieved. Failure to manage fiduciary risks in fragile situations has led to projects that are outside the budget framework or ring-fenced. Such project-based approaches are difficult to grow to scale, have a mixed record in helping countries build institutions and can perpetuate aid dependency.

Table 2 Fiduciary management indicators of multilateral development banks

	World Bank 2012	AsDB 2010	AfDB 2012	UNDP 2012
Overall financial accountability	4.68	4.35	4.42	4.53
Country-level financial audits	4.79	4.29	4.61	4.74
Anti-corruption policy	Very strong		Very strong	Strong
Systems for when irregularities found	4.79	4.62	4.33	4.54
Effective procurement and contract management	4.41	4.08	4.09	4.38
Strategy for risk management	4.50	4.46	4.39	4.12

Note: Rankings are on a scale of 0-6 based on surveys of clients and peers.
Source: MOPAN (2012).

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