

**ASIAN DEVELOPMENT BANK
Independent Evaluation Department**

SPECIAL EVALUATION STUDY

ON

**ASIAN DEVELOPMENT BANK'S SUPPORT TO FRAGILE AND
CONFLICT-AFFECTED SITUATIONS**

In this electronic file, the report is followed by Management's response and the Board of Directors' Development Effectiveness Committee (DEC) Chair's summary of a discussion of the report by DEC.



Evaluation Study

Reference Number: SES: REG 2010-45
Special Evaluation Study
October 2010

Asian Development Bank's Support to Fragile and Conflict-Affected Situations

Independent Evaluation Department

Asian Development Bank

ABBREVIATIONS

ADB	– Asian Development Bank
ADF	– Asian Development Fund
AfDB	– African Development Bank
AusAID	– Australian Agency for International Development
CAPE	– country assistance program evaluation
COBP	– country operations business plan
CPA	– country performance assessment
CPIA	– country policy and institutional assessment
CPS	– country partnership strategy
DFID	– Department for International Development
DMC	– developing member country
FCAS	– fragile and conflict-affected situations
FCC	– fragile and conflict-affected country
FSM	– Federated States of Micronesia
IA	– implementing agency
IDA	– International Development Association
IED	– Independent Evaluation Department
INCAF	– International Network on Conflict and Fragility
Lao PDR	– Lao People’s Democratic Republic
LICUS	– low-income country under stress
MDB	– multilateral development bank
MDGs	– millennium development goals
MTS II	– Medium-Term Strategy II
NGO	– nongovernment organization
OECD	– Organisation for Economic Co-operation and Development
OECD-DAC	– Development Assistance Committee of the Organisation for Economic Co-operation and Development
O&M	– operation and maintenance
PARD	– Pacific Department
PBA	– performance-based allocation
PCPI	– post-conflict performance indicator
PCR	– project completion report
PIU	– project implementation unit
PPTA	– project preparatory technical assistance
QCBS	– quality and cost-based selection
RAMSI	– regional assistance mission to Solomon Islands
R-CDTA	– regional capacity development technical assistance
RBN	– Road Board Nepal
RMI	– Republic of Marshall Islands
SES	– special evaluation study
SPD	– Strategy and Policy Department
SWAp	– sector-wide approach
TA	– technical assistance
UN	– United Nations
US	– United States
USAID	– United States Agency for International Development
WPC	– weakly performing country

NOTES

In this report, "\$" refers to US dollars.

Key Words

adb, fragile and conflict-affected situations, fcas engagement, fragile states, adb activities for fcas, development agency approaches to fcas, fcas approach, fcas in asia pacific region, macroeconomic performance of fcas

Director	H. Hettige, Independent Evaluation Division 2, Independent Evaluation Department
Team Leader	J. Balbosa, Senior Evaluation Specialist, Independent Evaluation Division 2, IED
Team Members	F. De Guzman, Evaluation Officer, Independent Evaluation Division 2, IED R. Isidro-Cajilig, Operations Evaluation Assistant, Independent Evaluation Division 2, IED

Independent Evaluation Department, SS-106

In preparing any evaluation report, or by making any designation of or reference to a particular territory or geographic area in this document, the Independent Evaluation Department does not intend to make any judgments as to the legal or other status of any territory or area.

CONTENTS

	Page
EXECUTIVE SUMMARY	i
I. INTRODUCTION	1
A. Purpose and Approach	1
B. Background	2
C. ADB's Involvement in Fragile and Conflict-Affected Situation Countries	6
II. DEVELOPMENT PERFORMANCE OF COUNTRIES IN FRAGILE AND CONFLICT-AFFECTED SITUATIONS	8
III. ADB'S IMPLEMENTATION OF THE APPROACH TO FRAGILE AND CONFLICT-AFFECTED SITUATIONS	14
IV. EVALUATION OF ADB'S OPERATIONAL PERFORMANCE IN FRAGILE AND CONFLICT-AFFECTED COUNTRIES	23
A. Relevance	25
B. Effectiveness	28
C. Efficiency	31
D. Sustainability	37
V. KEY FINDINGS, LESSONS, AND RECOMMENDATIONS	38
A. Key Findings and Lessons Learned	38
B. Recommendations	42
APPENDIXES	
1. Sample Classification of a Country in the Fragile and Conflict-Affected Situation Category: Kiribati	45
2. Number of Operations Since 2000 for Countries Currently in the Fragile and Conflict-Affected Situation Category	48
3. FCAS Perception Survey Results	49
4. Review of ADB Country Partnership Strategies and Similar Documents	53
5. List of Selected Projects in Current and Exited Fragile and Conflict-Affected Situation Countries	62
6. FCAS SES: Projects Causing Major Delays	66
7. FCAS: Number of Sectors in the CPS Pipeline and Actual Program/Project Approvals	69

SUPPLEMENTARY APPENDIX (available upon request)

A Survey of Literature of Development Engagement in FCAS

Attachments:	Management Response DEC Chair Summary
--------------	--

<p>In accordance with the guidelines formally adopted by the Independent Evaluation Department (IED) to avoid conflict of interest in its independent evaluations, the Director General of IED did not review this report and delegated approval of this evaluation to the Director of Independent Evaluation Division 2. Anthony Vernon Hughes, Solomon Kantha, Rodrigo Lachica Jr., and Elizabeth Lat were the consultants. To the knowledge of the management of IED, there were no conflicts of interest of the persons preparing, reviewing, or approving this report.</p>

EXECUTIVE SUMMARY

Evaluation purpose and scope. This special evaluation study (SES) assesses the support provided by the Asian Development Bank (ADB) to countries in fragile and conflict-affected situations (FCAS). The FCAS approach was introduced in ADB in 2007, and the Independent Evaluation Department was requested to review how this approach had been used in ADB, with the objective of informing future work in this area. Given the short period since the approach was adopted, this SES limits its scope to four basic questions. Is ADB's approach in FCAS countries relevant? Has the approach been properly resourced? How have the countries that have exited FCAS status performed compared with current FCAS countries? And what are the lessons from general implementation performance? The SES includes a broad review of strategy as well as data analysis and specific country-based examples. The study was guided by (i) the contents of the 2007 approach paper, *Achieving Development Effectiveness in Weakly Performing Countries*; (ii) emerging findings and international good practices for FCAS engagement; and (iii) ADB's past and current strategic frameworks, the Long-Term Strategic Framework 2001–2015 and Strategy 2020.

Background. The term “fragile and conflict-affected situations,” or FCAS, has evolved over time. In 2001, the World Bank began referring to nations facing these kinds of conditions as “low-income countries under stress.” ADB had employed the terms “weakly performing countries” and “fragile states” to describe developing member countries (DMCs) in similar circumstances. ADB now applies the phrases “fragile situations” or “fragile and conflict-affected situations” because they focus on operational risks and conditions rather than on the country as a whole. ADB stressed that the classification is not intended to impair the DMC's status as a member of ADB; rather it is to draw attention to the challenges the DMC faces and to improve ADB's effectiveness in its assistance.

Over the period 2007 to 2009, five countries exited FCAS status while four others entered FCAS status. ADB's current list of FCAS countries includes 10 DMCs in the Pacific, the Federated States of Micronesia, Kiribati, Palau, Papua New Guinea, the Republic of Marshall Islands, Nauru, Solomon Islands, Timor-Leste, Tuvalu, and Vanuatu, and one in the Central and West Asia Region, Afghanistan. The Pacific DMCs are in the FCAS group due mainly to their fragile characteristics (i.e., remoteness, natural resource constraints, and small sizes of economies), while Afghanistan is included because it is deemed in post-conflict situation. As such, there are differences in the constraints they face and the solutions and considerations needed to address their respective path to development.

ADB's involvement in FCAS. ADB became involved in the international fragile situations agenda in 2004 with the circulation of its Approach to Weakly Performing Developing Member Countries at the ninth donors' meeting of the Asian Development Fund (ADF) in Lisbon. Intended to serve as a starting point for enhancing ADB engagement and improving aid effectiveness in countries showing limited development progress, the paper (i) proposed initial indicators and factors that underpin weak performance, (ii) outlined country analytical work and strategic partnerships with other donors as the two key pillars for improving assistance efforts in fragile situations, and (iii) requested donor guidance on how to move forward in refining the approach. The ADF IX donors' report in 2004 reaffirmed the need to remain engaged while quickly operationalizing a special approach for working in these country contexts.

The 2007 approach paper for FCAS provides broad ways to differentiate the development context in each DMC and to prepare an appropriate response for those experiencing FCAS. ADB's approach for working in fragile situations is based on two pillars: (i) selectivity and focus; and (ii) strategic partnerships, where ADB collaborates closely with

other development partners to implement its commitments under the Paris Declaration to pursue harmonization, alignment, ownership, and results-based management. These are, in fact, among the basic principles of engagement for ADB in all of its DMCs.

ADB's method for identifying FCAS is similar to that of the World Bank. DMCs are deemed fragile when they are ranked in the fourth and fifth quintiles in country performance assessments (CPA) scores for 2 of the last 3 years or are deemed in conflict or post-conflict situations. This SES takes as a given the determinations made by ADB at various times whether a particular country was fragile or conflict-affected. The SES focuses on understanding the progress ADB has achieved in applying a special approach to address these FCAS. It intends to provide suggestions as to how such an approach can be fine-tuned after 3 years of operation. Sufficient time has, however, not elapsed to analyze how the FCAS approach adopted by ADB in 2007 influenced development effectiveness.

ADB resources for FCAS. ADB resource allocation to FCAS countries follows ADB policies on performance-based allocation (PBA) for ADF-eligible countries. Country-specific resource allocation is based on country allocation shares, which are calculated using a formula that considers the CPA rating, population, and per capita income of the country, and a resource pool. Since 2000, ADB has approved 74 loan and grant operations amounting to \$3.9 billion and 204 technical assistance (TA) projects totaling \$161.2 million in the 11 current FCAS countries. Afghanistan and Papua New Guinea are the two biggest recipients overall, followed by Solomon Islands and Timor-Leste, which have received more TA than loans and grants. Afghanistan also receives resources from the ADF's special allocations.

Key Findings and Lessons Learned

1. Is ADB's approach in fragile and conflict-affected situations relevant?

Overall, the ADB approach to FCAS countries articulated in the 2007 approach paper was needed and ADB has provided substantial timely FCAS assistance, selecting and focusing on key areas needing attention, working with other partners, and providing increased presence on the ground. However, the approach can be fine-tuned by being more flexible in identifying FCAS based on the country context and applying a longer-term framework for capacity development. The characteristics of FCAS countries may also differ whether they are classified as FCAS due to the fragile characteristics or whether they have emerged from a conflict-affected situation.

This SES finds that ADB needs to take a differentiated approach to engaging FCAS countries. Concern is growing in the international development community about their ability to meet most of the Millennium Development Goals. Most standard development approaches do not work in FCAS countries due to fluid political conditions and weakness of the governments. Conditions of low capacity, weak reform commitment, poor governance, disruptions or deficiencies in service delivery, and violent conflict often make resources extremely scarce and place limits on the implementation of certain development activities. To ensure efficient use of resources, engagement therefore needs to be selective and focused. Development partners must enhance strategic partnerships to focus on key reforms together, build on these reforms, and make the best use possible of limited government counterpart capacities for better results and to push the development agenda forward. The findings show that ADB has followed the 2007 approach for working in fragile situations, basing its work on the two pillars, but that challenges remain to be addressed.

ADB's involvement in large infrastructure in the FCAS countries is timely and relevant, given the economic and historical context. These operations are aimed at post-conflict

reconstruction, rehabilitation of key infrastructure, and aligning ADB support with government development agendas. In some cases, a joint diagnostics supporting development of such key public utilities as energy also covered public expenditure issues. ADB also provided innovative approaches, including political risk guarantee mechanisms and private sector lending.

ADB worked with other partners to develop joint strategies. Selectivity and focus were not key features of the country partnership strategies of many FCAS countries but, in practice, approved country programs were much more selective than country strategies. ADB's work in FCAS countries to enhance partnerships, in accordance with the FCAS approach paper and principles of harmonization and aid effectiveness, has been useful. Some of these partnerships in current and exited FCAS countries include (i) preparation of joint needs assessment; (ii) portfolio, procurement, and public expenditure reviews; (iii) leadership in sectoral and thematic working groups in most FCAS countries; and (iv) developing common strategy and project management arrangements.

Project designs at times struggled to balance the need to allow sufficient time for thorough project preparation with the need to respond quickly to urgent needs. In some cases, the preparation of detailed designs was fast-tracked to facilitate construction or project implementation. This often results in poor arrangements for implementation. In some cases, complex environmental or socioeconomic assessments, including economic and financial analysis, were not strictly followed. This hampers longer-term assessment of economic costs and benefits. Designs also suffered from overambition and institutional weaknesses.

The SES argues that while the approach of identifying FCAS can be more flexible based on country context, the principles used in ADB's approach to FCAS has been relevant. For example, a longer-term programmatic approach, in the form of umbrella TA projects and multitranche financing, would be more appropriate to the needs and nature of these DMCs. It takes time to build the capacities and institutions necessary to sustain development outcomes. In addition, flexibility needs to be built into project designs because the fluid conditions in FCAS countries often necessitate changes in scope during implementation.

2. Is ADB's approach to FCAS countries properly resourced?

Resource allocation to FCAS countries follows ADB policies on PBA for ADF-eligible countries. An exception is Afghanistan, which draws from the ADF's special allocations. The amount to be allocated, given the PBA formula and excluding special allocations and subregional earmarks, is divided into two resource pools. One resource pool comprises 4.5% distributed among Pacific DMCs with access to the ADF. The remaining amount is distributed to non-Pacific ADF-eligible DMCs. For the 10 Pacific FCAS countries, the 4.5% set aside provides a premium, estimated at 40%, in resource allocation compared with what could have been allocated using normal PBA allocation. For Afghanistan, the approval of the suspension of the post-conflict assistance phaseout, assures a stable resource flow from ADB in the next 2 years. However, by comparison, other development institutions appeared to have provided more resources to countries they consider to be experiencing fragility and the effects of conflict. The African Development Bank allocated additional resources on top of regular PBAs for debt relief as well as a pool of grant resources for capacity development. The World Bank's International Development Association has doubled its commitments to fragile states in the past 9 years, in addition to allocating their trust fund resources.

There was a noticeable lull in implementation of the FCAS approach after its approval in April 2007. A focal point was appointed 15 months later. It took 2 years for regional capacity development TA to be approved in April 2009 to support implementation. When the appointed

focal point left ADB, the vacancy was not filled for a further 6 months. A new focal point was appointed in December 2009 and progress has been made in 2010 on implementing the approach. The regional TA that supports the activities of the FCAS focal point ends in 2011. Henceforth, the source of funding for the FCAS focal point activities is not clear.

A staff survey conducted by the Independent Evaluation Department with a 42% response showed that 7 of 10 respondents (70%) were aware of ADB's FCAS approach, 43% claimed substantial to high understanding of the approach, while 30% claimed modest understanding. There was strong appreciation of the importance of learning more about the approach (73%).

Some staff shortages exist, with staff presence in FCAS countries constrained by the limited scale of operations and security and cost of living conditions, which are a disincentive to staff relocation. Yet, ADB staff members with the skills and seniority to make decisions on the ground are critically needed in these capacity-constrained DMCs. Recent ADB initiatives to improve staff incentives beginning 2009 and the implementation of the workforce plan for 2010–2012 provide promise.

3. How have the countries that have exited FCAS status performed compared with current FCAS countries?

Most of the former FCAS countries can count on natural resource exports and extraction for major contributions to gross domestic product. This provides a level of protection during economic shocks, making them less vulnerable than Pacific island countries.

In terms of development outcomes, no clear demarcation exists between the exited and the current FCAS countries. Progress toward the Millennium Development Goals and other development indicators vary widely among the past and present FCAS countries and ADF-eligible DMCs in general. So do perceptions of good governance. Even allowing for the quality of data collected and the pitfalls of comparing perception surveys in economies of different sizes, there is no significant positive correlation between CPA rankings and development outcome indicators. These SES findings validate an observation in the 2007 approach paper. It said that the "spectrum of weak performance and fragility" covers a wide range of DMCs and that these conditions will not easily disappear just because a country moves above an arbitrary cut-off score on a performance assessment such as the CPA.

4. What are the lessons from general implementation performance?

Significant implementation adjustments are highly likely during project implementation in FCAS countries and efficiency has suffered as a result. Implementation delays and major changes in scope are common, with a few cases of cancellations. It takes longer to process a project in FCAS countries (i.e., elapse time from approval to first disbursement) compared with ADB-wide average. Reasons vary and include unanticipated security issues in post-conflict DMCs, frequent changes of government counterparts, and nonresponsive executing agencies. Some quick-disbursing emergency response instruments have been extended beyond the intended time period for non-emergency issues. A more programmatic approach would have been more appropriate in these cases.

In most exited FCAS countries, the technical aspects of infrastructure projects overall are doing well. Problems center instead on building capacities and institutions, and effecting policy reforms. In some power and urban services projects assessed, there is clear demonstration of sound delivery of technical components, but reporting, accounting, and monitoring procedures were inadequate. In small Pacific island countries, infrastructure projects

have had to contend with the logistical challenges of bringing equipment to widely dispersed smaller islands and with typhoon cycles. These DMCs also have weak implementation capacities. Pooling of funds through regional TA that benefits a number of Pacific DMCs proved successful and has augmented country specific resources.

Exited FCAS countries are performing slightly better than DMCs remaining in the FCAS category; the latter face greater efficiency problems and difficulties in achieving outcomes. Current FCAS countries' project implementation also takes longer compared with exited FCAS countries. The solution does not lie, however, in relaxing business processes and procedures because this could lead to unintended governance issues. More important than large resource transfers is the need to understand the countries and the counterparts, to produce better, simpler designs, and to commit to work consistently over a longer-term horizon.

Sustainability remains a critical issue due to capacity constraints. Cost recovery is a common problem for public utilities. In policy-based support, complex civil service reforms, privatization of state-owned enterprises, and strengthening of public expenditure and financial management are key areas that need strengthening and greater follow-through by ADB.

Recommendations

The FCAS approach is young in ADB and has not yet taken root. The following recommendations are made to ADB Management to fine-tune the FCAS approach as it comes into full effect, giving consideration to resource implications that are supported by donors. The recommendations may need to be adapted based on whether the country has fragility characteristics or is in a post-conflict-affected situation. Some suggestions on options available are presented in paras. 129–132.

Recommendation	Time Frame
1. Classify FCAS countries at the CPS preparation stage based not only on the CPA rating but also on other fragile and/or conflict characteristics of the country, including those at subnational levels (para. 129).	By the next CPS for each country
2. Develop a step-by-step plan for capacity development based on country context, CPA assessment, and country diagnostics identified through a needs assessment (para. 130).	By end 2011
3. Provide flexibility in the design of FCAS projects to accommodate implementation adjustments and build in longer-term programmatic approaches (para. 131).	By end 2011
4. Identify the external resource gaps and internal resource gaps for working in FCAS countries in consultation with donors and other development partners taking into consideration the country classification, capacity development needs, and pragmatic implementation approaches (para. 132).	By end 2011

CPA = country performance assessment, CPS = country partnership strategy, FCAS = fragile and conflict-affected situations.

H. Hettige
 Director
 Independent Evaluation Division 2
 Independent Evaluation Department

I. INTRODUCTION

A. Purpose and Approach

1. This special evaluation study (SES) assesses the support provided by the Asian Development Bank (ADB) to countries in fragile and conflict-affected situations (FCAS). The SES review of ADB's support in FCAS countries can inform ADB's future work in this area.¹ Attention to what were then termed “fragile states” first began in 2004.² ADB developed an approach to these states in 2007 and identified 11 developing member countries (DMCs) as fragile. DMCs are deemed fragile when they have ranked in the fourth and fifth quintiles in country performance assessments (CPA) scores for 2 of the last 3 years or are considered to be in conflict or post-conflict situations.³

2. The study examined ADB's performance in assisting these countries, identified key lessons learned, drew conclusions, and made recommendations for ADB's future engagement in this area. Given the short period since the approach was adopted, this SES limits its scope to four basic questions. Is ADB's approach in FCAS relevant? Has the approach been properly resourced? How have the countries that have exited the FCAS category performed compared with current FCAS countries? And what are the lessons learned from general implementation performance?

3. The SES included (i) a broad strategy review, data analysis, and an examination of development effectiveness in the FCAS countries to inform ADB's future work in this area; (ii) field work in selected countries; and (iii) specific country-based examples. The SES was guided by (i) the contents of the 2007 approach paper;⁴ (ii) emerging findings and international good practices for FCAS engagement; and (iii) ADB's past and current strategic frameworks, the Long-Term Strategic Framework 2001–2015 and Strategy 2020.⁵ Awareness of FCAS within ADB gained ground only in 2004 within the Asian Development Fund (ADF) context. A formal FCAS framework was adopted in 2007 (para. 12). It is, therefore, too early to evaluate actual project outcomes based on the FCAS approach. The SES focused its assessment instead on the development of the FCAS framework; how the policy has been translated into ADB's country-level engagements; and how ADB has adapted its recommended modalities, business processes, and internal practices to suit the unique requirements of countries in FCAS. The SES also looked at the extent to which lessons are drawn from the experiences of other

¹ The Independent Evaluation Department's (IED's) Work Program for 2009–2011 (13 November 2008) originally scheduled this SES for 2011. In response to the Pacific Department's (PARD's) comment on the work program, this SES was rescheduled as deliverable in 2010.

² ADB. 2004. *ADB's Approach to Weakly Performing Developing Member Countries. Information paper for ADF IX Negotiations*. The terminology applied to these countries and situations has evolved over time. In 2001, the World Bank referred to “low-income countries under stress” (LICUS). In the past, ADB used the terms “weakly performing countries” and “fragile states.” ADB now refers instead to “fragile and conflict-affected situations.” The World Bank now commonly refers to LICUS as fragile and conflict-affected countries, while the Organisation for Economic Co-operation and Development (OECD) refers to them as fragile states. Terms such as failed, failing, or collapsed state also fall under the conceptualization of a fragile situation. The reference to “fragile situations” or “fragile and conflict-affected situations” is generally preferred to “fragile states” or “weakly performing countries,” as it focuses the engagement on operational risks in specific conditions, rather than on a country in general.

³ ADB follows the International Development Association's (IDA's) list of post-conflict countries. In ADF X donor's report (May 2008), there are two DMCs considered in post-conflict: Afghanistan and Timor-Leste. ADB. 2008. *ADF X Donor's Report: Towards an Asia and Pacific Region Free of Poverty*. Manila.

⁴ ADB. 2007. *Achieving Development Effectiveness in Weakly Performing Countries (The Asian Development Bank's Approach to Engaging with Weakly Performing Countries)*. Manila.

⁵ ADB. 2001. *Moving the Poverty Agenda Forward in Asia and the Pacific. The Long-Term Strategic Framework of the Asian Development Bank (2001–2015)*. Manila; and ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008–2020*. Manila.

development partners in engaging in FCAS countries. The study examined how ADB has changed its approach toward FCAS countries before and after the 2007 approach paper.

4. ADB has developed annual lists of countries in fragile situations, based on the ADF IX and X CPA performance. The SES strategy review covered all the countries ADB has classified as FCAS, including those that exited the classification. The selection of country examples for review was based on geographic representation and the size of ADB support. They comprised Papua New Guinea, Solomon Islands, the Lao People's Democratic Republic (Lao PDR), and Nepal. This review contributed to the evaluation of ADB's overall FCAS performance.

B. Background

5. Meeting the needs of countries in FCAS has become a priority of the international development agenda in recent years. Organizations often emphasize different aspects of fragility but low capacity, weak political will, poor governance, disruptions or deficiencies in service delivery, and the presence of violent conflict are common factors in their definitions of fragile situations. Development institutions have not harmonized the identification process in Asia and the Pacific although many of the countries overlap. In Table 1, the World Bank lists 13 fragile and conflict-affected countries in the region, the Organisation for Economic Co-operation and Development (OECD) lists 10 fragile states and situations, the Department for International Development (DFID) has 15 fragile states in their list, while ADB's current FCAS list consist of 11 DMCs. Four of the 22 countries in Table 1 appear in common as current FCAS: Afghanistan, Papua New Guinea, Solomon Islands, and Timor-Leste.

6. ADB's current list includes 10 Pacific DMCs: the Federated States of Micronesia (FSM), Kiribati, Palau, Papua New Guinea, the Republic of Marshall Islands (RMI), Republic of Nauru, Solomon Islands, Timor-Leste, Tuvalu, and Vanuatu; and one in the Central and West Asia Region, Afghanistan (footnote 3). Five countries exited the classification over the period 2007 to 2009 (Table 1). The current FCAS list was based on the 2009 classification. The combined population of DMCs currently or previously in the FCAS category is 116.5 million, or 2.8% of the Asia and Pacific region's overall population.⁶

⁶ Fragility or in conflict situations is not only confined to countries classified as FCAS. There are subnational situations of conflict and high vulnerability to conflict, and thus may need the same special attention as those classified by ADB as FCAS countries. See also footnote 22.

Table 1: Countries Considered in Fragile and Conflict-Affected Situations in the Asia and Pacific Region

Countries	ADB FCAS, 2009	OECD FSS, 2010	World Bank FCC, 2006	DFID FS, 2010	Remarks
1. Afghanistan	✓	✓	✓	✓	ADB FCAS since 2006
2. Azerbaijan	X		✓	✓	ADB FCAS in 2007/08. Exited without CPA rating in 2008
3. Cambodia			✓	✓	
4. Georgia				✓	
5. Kiribati	✓	✓		✓	ADB FCAS since 2006
6. Kyrgyz Republic			✓		
7. Lao PDR	X		✓	✓	ADB FCAS in 2006, exited in 2008
8. RMI	✓				ADB FCAS since 2006
9. FSM	✓				Entered ADB FCAS in 2008
10. Myanmar		✓	✓	✓	
11. Republic of Nauru	✓				Entered ADB FCAS in 2008
12. Nepal	X	✓	✓	✓	Not classified as WB FCC in 2006 report, but considered FCC in WB's 2009 Nepal Interim Strategy Note. ADB FCAS in 2006, exited in 2008
13. Pakistan		✓			
14. Palau	✓				Entered ADB FCAS in 2009
15. Papua New Guinea	✓	✓	✓	✓	ADB FCAS since 2006
16. Solomon Islands	✓	✓	✓	✓	ADB FCAS since 2006
17. Tajikistan	X	✓	✓	✓	ADB FCAS in 2006, exited in 2007
18. Timor-Leste	✓	✓	✓	✓	ADB FCAS since 2006
19. Tonga		✓		✓	
20. Tuvalu	✓				Entered ADB FCAS in 2008
21. Uzbekistan	X		✓	✓	ADB FCAS in 2006, exited in 2009
22. Vanuatu	✓		✓	✓	ADB FCAS since 2006
Total	11	10	13	15	

X = exited ADB's FCAS status, ✓ = current FCAS status, ADB = Asian Development Bank, DFID = Department for International Development, FCAS = fragile and conflict-affected situations, FCC = fragile and conflict-affected countries, FS = fragile states, FSS = fragile states and situations, Lao PDR = Lao People's Democratic Republic, RMI = Republic of Marshall Islands, FSM = Federated States of Micronesia, OECD = Organisation for Economic Co-operation and Development, WB = World Bank.

Sources: World Bank Fact Sheet: Impact of the Global Financial and Economic Crisis on Fragile and Conflict-Affected Countries (<http://siteresources.worldbank.org/INTLICUS/Resources/ImpactofFinancialCrisisFactSheetSept28.pdf>); World Bank Interim Strategy Note for Nepal July 2009–June 2011; The World Bank. 2006. Engaging With Fragile States: An IEG Review of World Bank Support to Low-Income Countries under Stress; Organisation for Economic Co-operation and Development. 2010. Ensuring Fragile States are not Left Behind (www.oecd.org/dac/incaf); DFID. 2010. Synthesis of Country Programme Evaluations Conducted in Fragile States. Evaluation Report EV 709 February 2010; ADB FCAS focal point.

7. **World Bank and OECD.** The World Bank took the first steps toward applying a formal differentiated approach to fragile states assistance in 2001, with the establishment of the low-income countries under stress (LICUS) task force and its approach paper for improving donor engagement in fragile states.⁷ The LICUS initiative was launched in October 2002.⁸ The LICUS approach was rearticulated in 2005 to prioritize (i) building state capacity and accountability, (ii) pursuit of an interlinked strategy between peace-building and development objectives, (iii) development of strong international partnerships, and (iv) adoption of a strong and flexible

⁷ World Bank. 2002. *World Bank Group Work in Low-Income Countries Under Stress: A Task Force Report*. Washington, DC. A review of the literature on the approaches of various development partners on FCAS is provided as supplemental appendix.

⁸ World Bank. 2006. *Engaging with Fragile States: An IEG Review of World Bank Support to Low-Income Countries Under Stress*. Washington, DC.

institutional response.⁹ This updated directive emphasized stronger efforts for state-building, peace-building, and capacity development than seen in the 2002 document.

8. The Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD-DAC) established its fragile states group in 2003 to facilitate and coordinate effective development partner activities in fragile settings. The group oversaw the drafting of the Principles for Good International Engagement in Fragile States¹⁰ in 2005, which aimed to minimize unintentional harm and maximize positive impact of donor activities by engaging stakeholders, supporting existing dialogue, and enhancing partnership efforts. The 12 principles outlined in Table 2 provide a concise yet practical guide to development work in FCAS. A closer look at those principles shows that they serve as a practical guide to any development work, whether a country is in the FCAS category or not.¹¹

Table 2: OECD-DAC'S 12 Principles for Good International Engagement in Fragile and Conflict-Affected Situations

1. Take context as the starting point.	7. Agree on practical coordination among international actors.
2. Move from reaction to prevention.	8. Do no harm.
3. Focus on state building as the central objective.	9. Mix and sequence aid instruments to fit the context.
4. Align with local priorities and/or systems.	10. Act fast . . .
5. Recognize the political-security-development nexus.	11. . . . but stay engaged long enough to give success a chance.
6. Promote coherence between donor government agencies.	12. Avoid pockets of exclusion.

FCAS = fragile and conflict-affected situations, OECD-DAC = Development Assistance Committee of the Organisation for Economic Co-operation and Development.

Source: OECD-DAC. 2005. *Principles for Good International Engagement in Fragile States*. Paris.

9. **Bilateral agency engagement.** Bilateral development partners also began adopting differentiated approaches to countries experiencing fragility and conflict. Their themes and key focuses were similar to those of the World Bank and the OECD-DAC but modified to reflect individual agency priorities (Table 3).

⁹ World Bank. 2005. *Fragile States—Good Practice in Country Assistance Strategies. Operations Policy and Country Services*. Washington, DC.

¹⁰ OECD-DAC. 2005. *Principles for Good International Engagement in Fragile States*. Paris.

¹¹ A recent initiative of OECD-DAC is the establishment in 2009 of the International Network on Conflict and Fragility (INCAF). INCAF is a decision-making forum, which brings together diverse stakeholders to support development outcomes in the world's most challenging situations. It brings together and engage multiple policy communities and partner countries (see INCAF Fact Sheet, http://www.oecd.org/document/57/0,3343,en_2649_33693550_42113657_1_1_1_1,00.html).

Table 3: Summary of Select Development Agency Approaches to Fragile and Conflict-Affected Situations

Organization	ADB	World Bank	OECD-DAC	AfDB	DFID	AusAID	USAID
Terminology	Fragile and conflict-affected situations; fragile situations ^a	Low-income countries under stress; fragile states; fragile and conflict-affected countries	Fragile states and situations	Fragile states	Fragile states	Fragile states	Fragile states
Objective for Engagement	Improve aid effectiveness	State-building, peace-building, and capacity development	State-building	State- and peace-building	State- and peace-building	Address development, economic, security, and political issues in a comprehensive and sequenced way	Strengthen US national security, improve development outcomes, and enhance aid effectiveness
Year Recognized	2007	2002	2005	2008	2005	2006	2005

ADB = Asian Development Bank, AfDB = African Development Bank, AusAID = Australian Agency for International Development, DFID = Department for International Development, FCAS = fragile and conflict-affected situation, OECD-DAC = Development Assistance Committee of the Organization for Economic Cooperation and Development, US = United States, USAID = United States Agency for International Development.

^a Per 2008 Steering Committee on Fragile Situations decision.

Source: Compiled by the special evaluation study team.

10. **High-Level Forum for Aid Effectiveness.** Following through the principles adopted at the Paris Declaration for Aid Effectiveness in March 2005, a high-level forum in Accra, Ghana was held in September 2008. With relevance to the fragile states agenda, the participants of the Accra forum agreed that the Paris Declaration principles of effective aid apply also to fragile situations, but they need to be adapted to environments of weak ownership and capacity. To improve aid effectiveness in these environments, the representatives adopted the following actions designed at country level intervention: (i) donors will jointly conduct and share country-specific assessments of governance and capacity and examine the causes of conflict, fragility, and insecurity; (ii) donors and developing countries will agree and work to a set of realistic peace- and state-building objectives; (iii) donors will provide demand-driven, tailored, and coordinated capacity development support (preferably locally or regionally recruited) for core state functions; and for early and sustained recovery, measures should be appropriately sequenced and lead to sustainable capacities of local institutions; and (iv) donors will work on flexible and rapid funding modalities on a pooled basis where appropriate.¹²

11. In April 2010, the International Dialogue on Peacebuilding and Statebuilding in Dili, Timor-Leste, followed through discussions at the Accra forum. The Dili Declaration stressed the need to recognize that priorities to achieve development goals in FCAS countries will be different for each country; and that the development agenda should be owned and set at the country level through a process that engages all stakeholders, especially women and civil society groups. Representatives of FCAS countries also stressed that their countries be given a reasonable time frame for the transition process to reinforce capabilities and systems and “not have complex and slow procedural requirements and conditions imposed” upon them. Progress

¹² Accra Agenda for Action (Draft report, 27 June 2008), <http://www.oecd.org/dataoecd/10/27/40932758.pdf>. The high-level forum on harmonization and aid effectiveness is composed of representatives from developing countries.

in achieving shared objectives agreed in the Dili Declaration will be discussed in November 2011 at the 4th high level forum in the Republic of Korea.¹³

C. ADB's Involvement in Fragile and Conflict-Affected Situation Countries

12. **Rationale for engagement and differentiation.** ADB became more involved in the international fragile situations agenda in 2004 with the circulation of its Approach to Weakly Performing Developing Member Countries paper at the ninth donors' meeting of the ADF in Lisbon.¹⁴ Intended to serve as a starting point for enhancing ADB engagement and improving aid effectiveness in countries showing limited development progress, the paper (i) proposed initial indicators and factors that underpin weak performance, (ii) outlined country analytical work and strategic partnerships with other donors as the two key pillars for improving assistance efforts in fragile situations, and (iii) requested donor guidance on how to refine the approach. The ADF IX donors' report reaffirmed the need to remain engaged and quickly operationalize a special approach for working in such countries.¹⁵

13. ADB's Medium-Term Strategy II (MTS II, 2006), the 2007 approach paper for FCAS, and Strategy 2020 in 2008 argued for a differentiated approach to fragile situations, based on the premise that FCAS countries, or some parts of their territories, need special attention because normal operations may no longer be effective.

14. The 2007 approach paper for FCAS articulated ADB's recommended implementation engagement in DMCs that show signs of vulnerability and fragility (footnote 4). It identified five key factors that highlight fragility: (i) weakness in policy, policy formulation, and management capacities; (ii) small isolated market conditions; (iii) physical and social disruption linked to violent conflict; (iv) meager public sector resources; and (v) volatility and unpredictability of aid. Because the nature of the governance and political economy will vary between countries, the 2007 approach notes the importance of determining which of these factors are most prevalent in any given setting before engagement. Three categories of governance are therefore outlined, based on willingness to reform: (i) key leaders are committed, (ii) commitment is less advanced, and (iii) no commitment exists. ADB used the World Bank's LICUS typology as a reference point but modified it for possible differing models of engagement as follows: (i) countries in prolonged political crisis, (ii) countries in post-conflict or political transition, (iii) countries with deteriorating governance or rising conflict risk, and (iv) countries undergoing a gradual reform process.

15. ADB's approach to working in fragile situations has two pillars: (i) selectivity and focus; and (ii) strategic partnerships, where ADB collaborates closely with other development partners to implement its commitments under the Paris Declaration to harmonization, alignment, ownership, and results-based management. The approach also highlights the need for flexible institutional responses and modalities; for working with parallel institutions such as civil society groups; and for adjusting staffing levels, including the use of incentives to enhance staff motivation to work and locate in FCAS countries. These are, in fact, among the basic principles of engagement for ADB in all of its DMCs.

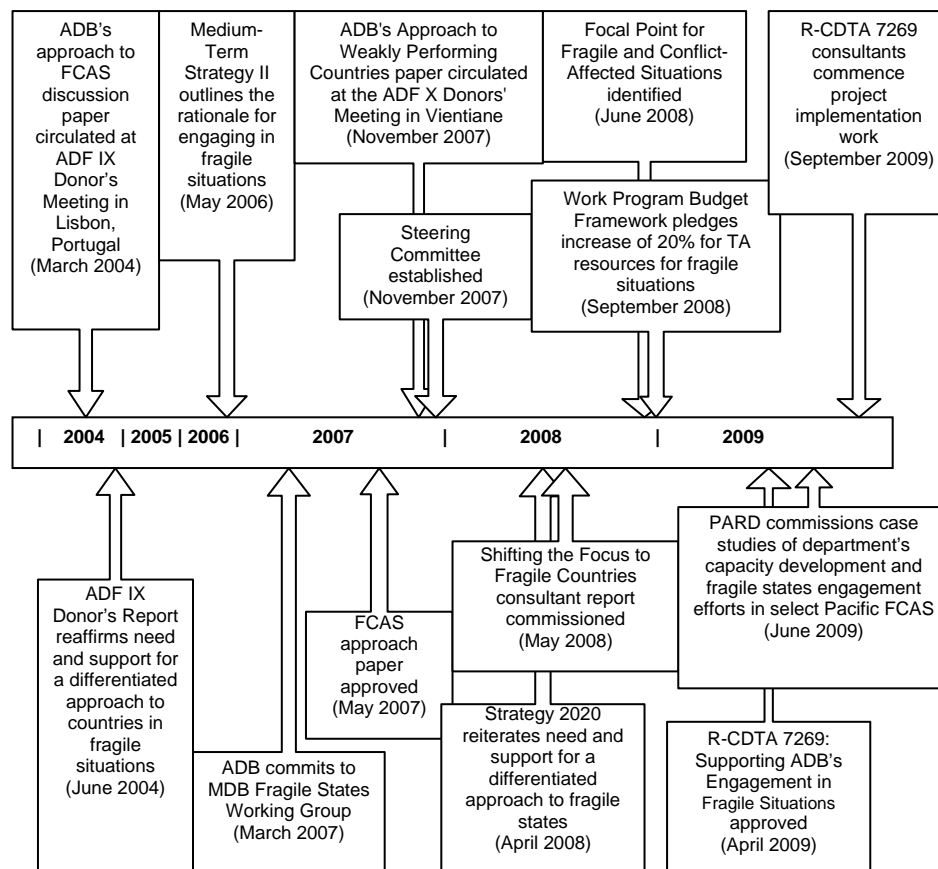
16. Figure 1 summarizes the evolution of ADB approach relating to FCAS countries.

¹³ International Dialogue on Peacebuilding and Statebuilding (April 2010). Dili Declaration: A New Vision for Peacebuilding and Statebuilding. ADB attended this forum (http://www.oecd.org/document/58/0,3343,en_1571361_43407692_43413434_1_1_1_1,00.html#).

¹⁴ ADB. 2004. *ADB's Approach to Weakly Performing Developing Member Countries: A Discussion Paper*. Manila.

¹⁵ ADB. 2004. *ADF IX: Development Effectiveness for Poverty Reduction*. Manila.

Figure 1: Timeline of ADB Activities for Engagement in Fragile and Conflict-Affected Situation Countries, 2004–2009



ADB = Asian Development Bank, ADF = Asian Development Fund, FCAS = fragile and conflict-affected situations, MDB = multilateral development bank, PARD = Pacific Department, R-CDTA = regional capacity development technical assistance.

Source: Compiled by the special evaluation study team.

17. Strategy 2020 stressed the need for ADB to seek to align its development assistance with that of other funding agencies at strategic and project levels and to encourage more flexible and longer-term engagement in capacity enhancement, institutional development, and as a knowledge bank in contributing to change. Use of the full range of concessional resources to support development (i.e., ADF, grants, technical assistance [TA] projects, and trust funds) is emphasized and so, in some cases, is selective use of ordinary capital resources (OCR) for public economic infrastructure and private sector operations.

18. **Identifying FCAS countries.** ADB's classification method for identifying FCAS countries is similar to the World Bank's. Countries ranked in the fourth or fifth quintiles on CPA scores for 2 out of the last 3 years or those that are in conflict or post-conflict situations are deemed fragile. Table 4 compares ADB's system with that of the World Bank.

Table 4: Comparison of World Bank and ADB Methods in Determining Fragile and Conflict-Affected Situations

World Bank^a	Asian Development Bank^b
Utilizes annual country score on country policy and institutional assessment (CPIA) as basis for identifying state fragility/LICUS status.	Uses recent country performance on country performance assessment (CPA) rating as basis for determining fragility.
CPIA consists of rating country performance against 16 criteria that are grouped into four clusters: (i) economic management, (ii) structural policies, (iii) policies for social inclusion/equity, and (iv) public sector management and institutions.	For countries in conflict or post-conflict situations, ADB follows IDA definition. ^c CPA process uses the World Bank's CPIA questionnaire, criteria, and clusters.
Severe LICUS have an overall and governance CPIA of 2.5 or less, core LICUS have an overall and governance CPIA of 2.6–3.0, and marginal LICUS have an overall and governance CPIA of 3.2.	Fragility determined by a country's relative recent performance: a ranking in the fourth or fifth quintile for 2 out of the last 3 years results in a state being classified as fragile. ^d

ADB = Asian Development Bank, CPIA = country policy and institutional assessment, IDA = International Development Association, LICUS = low-income countries under stress.

^a World Bank. 2009. *Country Policy and Institutional Assessment: Frequently Asked Questions*. Washington, DC. <http://go.worldbank.org/EEAIU81ZG0> (accessed 4 December). World Bank. 2005. *Fragile States – Good Practice in Country Assistance Strategies. Operations Policy and Country Services*. Washington, DC.

^b ADB. 2007. *Achieving Development Effectiveness in Weakly Performing Countries (The Asian Development Bank's Approach to Engaging with Weakly Performing Countries)*. Manila; ADB. 2009. *Fact Sheet on ADB's Performance-Based Allocation Policy*. <http://www.adb.org/ADF/PBA/fact-sheet.asp> (accessed 4 December).

^c In the Asian Development Fund X donor's report (May 2008), there are two developing member countries considered in post-conflict: Afghanistan and Timor-Leste. ADB. 2008. *ADF X Donor's Report: Towards an Asia and Pacific Region Free of Poverty*. Manila.

^d For sample computation of how a country is classified as weakly performing, see Appendix 1.

Sources: World Bank and ADB. 2007. *Achieving Development Effectiveness in Weakly Performing Countries (The Asian Development Bank's Approach to Engaging with Weakly Performing Countries)*. Manila..

II. DEVELOPMENT PERFORMANCE OF COUNTRIES IN FRAGILE AND CONFLICT-AFFECTED SITUATIONS

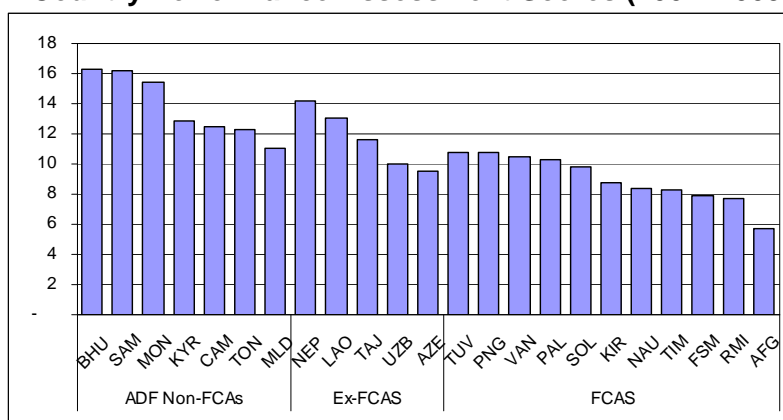
19. This section examines the development performance of FCAS countries, current and exited, using outcome indicators of growth, the Millennium Development Goals (MDGs), and good governance perception. This review group ADF-eligible countries into three: (i) countries currently classified as FCAS, (ii) countries that exited the FCAS list prior to 2009, and (iii) countries considered category A (ADF only DMCs) but has never been classified as FCAS.¹⁶ The third group is included for comparison and to illustrate the diversity of development performance across a wider group of ADF-eligible DMCs. The SES notes that the quality and timeliness of economic data across these DMCs varies widely, this has implications on the robustness and consistency of cross-country comparisons and conclusions.

20. **CPA scores.** Exited FCAS countries generally have higher average CPA scores than those currently considered FCAS countries. The Lao PDR and Nepal's current average is even higher than some non-FCAS ADF countries (Figure 2). The scores for Azerbaijan, Palau, and Afghanistan are not directly comparable. Azerbaijan had no CPA scores for 2008 and 2009 because it opted out of ADF borrowing. Palau had no score for 2009. Afghanistan utilized the

¹⁶ ADB. 2008. Classification and Graduation of Developing Member Countries. *Operations Manual*. OM A1/BP. Manila.

post-conflict performance indicator developed by the World Bank, which has a different scale from the CPA.¹⁷

Figure 2: Country Performance Assessment Scores (2007–2009 average)



ADF = Asian Development Fund, AFG = Afghanistan, AZE = Azerbaijan, BHU = Bhutan, CAM = Cambodia, FCAS = fragile and conflict-affected situations, KIR = Kiribati, KGZ = Kyrgyz Republic, LAO = Lao People's Democratic Republic, MLD = Maldives, RMI = Republic of Marshall Islands, FSM = Federated States of Micronesia, MON = Mongolia, NAU = Nauru, NEP = Nepal, PAL = Palau, PNG = Papua New Guinea, SAM = Samoa, SOL = Solomon Islands, TAJ = Tajikistan, TIM = Timor-Leste, TON = Tonga, TUV = Tuvalu, UZB = Uzbekistan, VAN = Vanuatu.

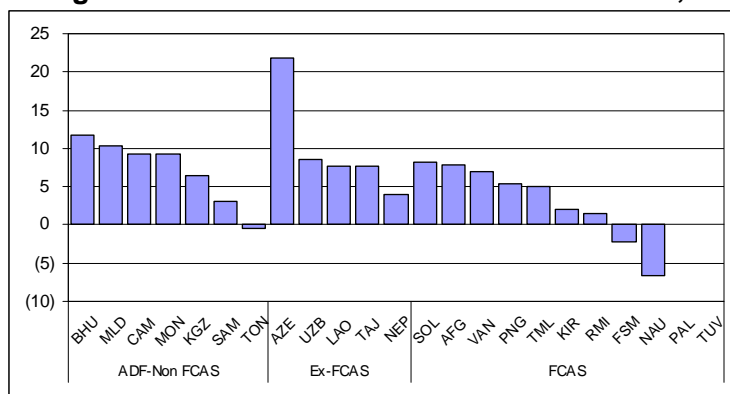
Notes: The score for Azerbaijan is for 2007 only and that for Palau an average for 2008 and 2009. Afghanistan uses the World Bank's post-conflict performance indicators, not the country performance assessment.

Sources: Strategy and Policy Department and FCAS focal point.

21. **Growth performance.** Exited FCAS countries also showed better average growth performance for 2006–2008 than those currently listed (except for Nepal), based on the latest data available in most countries. They have the same average growth rate as non-FCAS countries, except for the Kyrgyz Republic, Samoa, and Tonga (Figure 3). Azerbaijan is an outlier due to strong revenue from its mineral resources. What drives growth in most of exited FCAS countries is natural resource export and extraction.¹⁸ Uzbekistan has natural gas, coal, copper, oil, and is one of the largest gold producers in the world. It is one of the largest cotton producers as well, as is Tajikistan, which also exports aluminum. The Lao PDR has benefited from exporting electricity from its Mekong River hydropower resources.

¹⁷ Afghanistan's rating was based on the post-conflict performance indicator in 2007 only. For 2008 and 2009, ADB utilized comparable CPA rating. See also footnote 3.

¹⁸ A study by Collier and Hoeffler (2005) on the relationships between democracy and natural resource rents indicates that resource rich countries tend to be more autocratic, and tend to use their natural resource wealth badly. Using a political economy model in cross-country data, in certain conditions, politicians find it more effective to compete by providing private patronage than by providing public goods. Collier and Hoeffler. 2005. *Democracy and Resource Rents*. Department of Economics, University of Oxford. United Kingdom.

Figure 3: Average Growth Rate of Gross Domestic Product, 2006–2008 (%)

ADF = Asian Development Fund, AFG = Afghanistan, AZE = Azerbaijan, BHU = Bhutan, CAM = Cambodia, FCAS = fragile and conflict-affected situations, KIR = Kiribati, KGZ = Kyrgyz Republic, LAO = Lao People's Democratic Republic, MLD = Maldives, RMI = Republic of Marshall Islands, FSM = Federated States of Micronesia, MON = Mongolia, NAU = Nauru, NEP = Nepal, PAL = Palau, PNG = Papua New Guinea, SAM = Samoa, SOL = Solomon Islands, TAJ = Tajikistan, TIM = Timor-Leste, TON = Tonga, TUV = Tuvalu, UZB = Uzbekistan, VAN = Vanuatu.

Source: International Monetary Fund statistical database (<http://www.imf.org/external/data.htm>), World Economic Outlook Database October 2009. Data for PAL and TUV are not available.

22. **Development constraints.** The geographic and topographic characteristics in small Pacific island FCAS countries constrain their ability to achieve sustained inclusive growth. Limited institutional capacities greatly complicate the role of external assistance in their development process.¹⁹ Remoteness, isolation, internal dispersion, and physical obstacles to trade and investment can exclude them from the financial and material flows of regional economic integration. Their small size means that the critical mass needed for domestic capital accumulation and development of markets is absent. The pool of human resources required to boost productivity in both the private and public sectors is also limited. Yet not all Pacific island DMCs are in fragile and conflict-affected situations. Cook Islands, the Fiji Islands, Samoa, and Tonga have performed much better than other Pacific DMCs and exhibit a capacity for self-sustained growth. They share one common characteristic: good governance, which has led to structural reforms and more efficient use of their resources in agriculture, fisheries, and in support of tourism activities.²⁰

23. In large land mass countries, rugged terrain and challenging topography leave parts of their population isolated in remote locations. Examples include Timor-Leste and Papua New Guinea. In addition to these challenges, some DMCs are also landlocked and have no direct access to seaports except through their neighboring countries. This includes the Lao PDR, Nepal, and countries in central and west Asia region, Afghanistan, Tajikistan, and Uzbekistan.

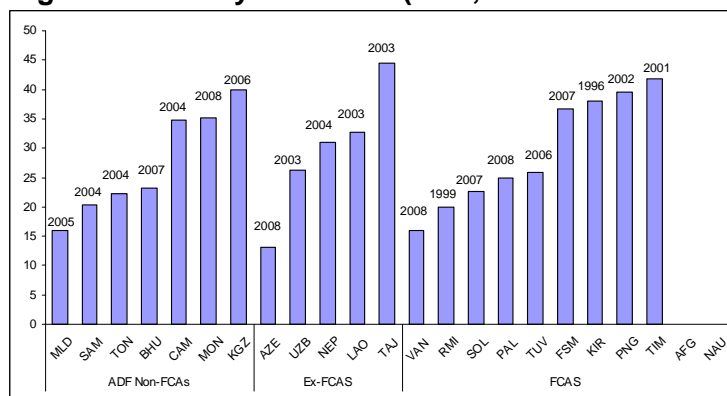
24. **MDG performance.** While countries that have excited FCAS status appear to have better growth performance than current FCAS countries, their performance in achieving the MDGs appear mixed. Among current FCAS DMCs, national poverty estimates vary from an incidence of 16% in Vanuatu to 42% in Timor-Leste, which is actually better than the worst performer among the former

¹⁹ For example, the proliferation of donors and projects constitute a substantial burden for the small number of qualified public officials, who spend much if not all of their time attending to donor concerns rather than promoting the development of their country and building their institutions. What aggravates this is when these competent civil servants move on to work for better wages in donor and nongovernment organizations. Moreover, aid volatility and project proliferation affects predictability of planning and budgeting in government. Most aid is not integrated into national budgets, thus posing real sustainability issues. T. Moss, et. al. 2006. *An Aid-Institution Paradox? A Review Essay on Aid Dependency and State Building in Sub-Saharan Africa*. Working Paper No. 74. Center for Global Development. Washington, DC.

²⁰ ADB. 2009. *ADB's Pacific Approach 2010–2014*. Manila.

FCAS DMCs—Tajikistan, with its incidence of 44.4%. Azerbaijan, at 13%, is the best performer in this group, slightly better than the lowest estimate among non-FCAS ADF countries, the Maldives, at 16%. Among these DMCs, the Kyrgyz Republic ranks the highest, at 40%. High poverty levels are a shared concern across all DMCs. The non-FCAS countries of Cambodia, Mongolia, and the Kyrgyz Republic have a higher incidence of poverty than most Pacific island countries and all of the past FCAS DMCs except Tajikistan (Figure 4).

Figure 4: Poverty Incidence (in %, National estimate)



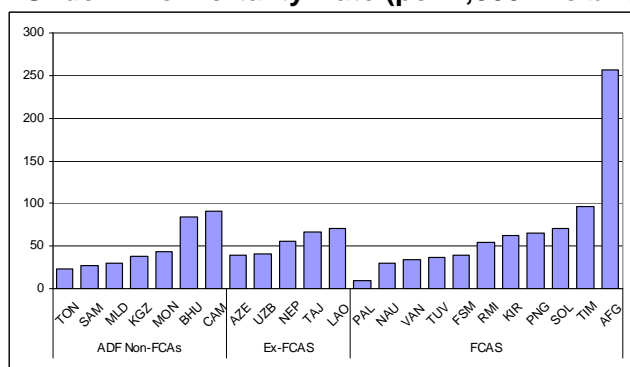
ADF = Asian Development Bank, AFG = Afghanistan, AZE = Azerbaijan, BHU = Bhutan, CAM = Cambodia, FCAS = fragile and conflict-affected situations, KIR = Kiribati, KGZ = Kyrgyz Republic, LAO = Lao People's Democratic Republic, FSM = Federated States of Micronesia, MLD = Maldives, RMI = Republic of Marshall Islands, MON = Mongolia, NAU = Nauru, NEP = Nepal, PAL = Palau, PNG = Papua New Guinea, SAM = Samoa, SOL = Solomon Islands, TAJ = Tajikistan, TIM = Timor-Leste, TON = Tonga, TUV = Tuvalu, UZB = Uzbekistan, VAN = Vanuatu.

Note: Data not available for Nauru and Afghanistan. Year estimated in bar labels.

Sources: Millennium Indicators Database Online (UNSD 2009), Pacific Regional Information System (SPC), country sources.

25. Another MDG indicator shows that the violent conflict in Afghanistan has taken its toll on children, giving it a high under-five mortality rate (Figure 5). Interestingly, the island economies of Palau, Nauru, Vanuatu, Tuvalu, and the FSM appeared to perform better on this indicator than former FCAS DMCs Nepal, Tajikistan, and the Lao PDR, and non-FCAS ADF countries Bhutan and Cambodia. Larger populations and urbanization may influence the results in these countries.

Figure 5: Under Five Mortality Rate (per 1,000 live births, 2007)

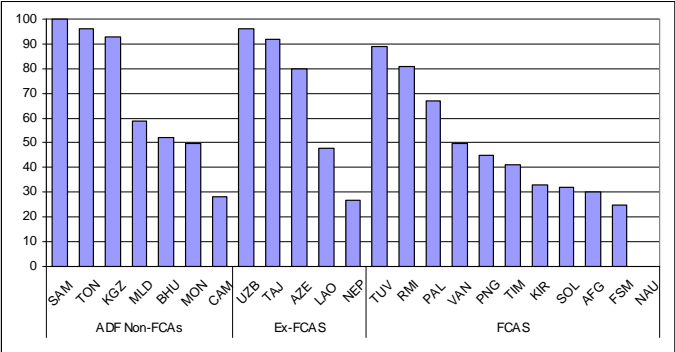


ADF = Asian Development Fund, AFG = Afghanistan, AZE = Azerbaijan, BHU = Bhutan, CAM = Cambodia, FCAS = fragile and conflict-affected situations, KIR = Kiribati, KGZ = Kyrgyz Republic, LAO = Lao People's Democratic Republic, FSM = Federated States of Micronesia, MLD = Maldives, RMI = Republic of Marshall Islands, MON = Mongolia, NAU = Nauru, NEP = Nepal, PAL = Palau, PNG = Papua New Guinea, SAM = Samoa, SOL = Solomon Islands, TAJ = Tajikistan, TIM = Timor-Leste, TON = Tonga, TUV = Tuvalu, UZB = Uzbekistan, VAN = Vanuatu.

Sources: Millennium Indicators Database Online (UNSD 2009), Pacific Regional Information System (SPC), country sources.

26. Although the proportion of Afghanistan's population that is using improved sanitation is also one of the lowest overall, it is slightly higher than that of Nepal, which has exited FCAS status, and Cambodia, a non-FCAS ADF country. Performance again varies widely within and across the three country groups (Figure 6).

Figure 6: Population Using Improved Sanitation Facilities (% of Population, 2006)

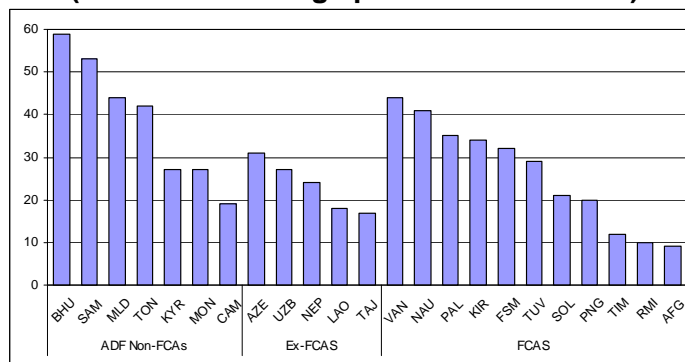


ADF = Asian Development Fund, AFG = Afghanistan, AZE = Azerbaijan, BHU = Bhutan, CAM = Cambodia, FCAS = fragile and conflict-affected situations, KIR = Kiribati, KGZ = Kyrgyz Republic, LAO = Lao People's Democratic Republic, FSM = Federated States of Micronesia, MLD = Maldives, RMI = Republic of Marshall Islands, MON = Mongolia, NAU = Nauru, NEP = Nepal, PAL = Palau, PNG = Papua New Guinea, SAM = Samoa, SOL = Solomon Islands, TAJ = Tajikistan, TIM = Timor-Leste, TON = Tonga, TUV = Tuvalu, UZB = Uzbekistan, VAN = Vanuatu.
 Sources: Millennium Indicators Database Online (UNSD 2009), Pacific Regional Information System (SPC), country sources. Data not available for Nauru.

27. **Governance performance.** The same mixed results are evident in the World Bank indicators on the perception of government effectiveness and control of corruption (Figures 7 and 8). Those countries that rank poorly in government effectiveness have similar results in control of corruption (e.g., the Lao PDR, Tajikistan, Cambodia, and Nepal). This study notes however that the historical, political, and cultural settings in these countries vary greatly, making cross-country comparison difficult. Understanding of the governance performance in each DMC should be anchored on a sound assessment of the DMC's historical and political economy context.²¹

²¹ There are many references to the nature of the political and cultural settings in countries showing fragility and weak governance, see for example, J.J. Wallis and Douglas North. 2010. *Defining the State. Working Paper No. 10–26 June 2010.* Mercatus Center, George Mason University. In the case of Pacific DMCs, see Saldanha and Knapman. 1999. *Reforms in the Pacific: An Assessment of the Asian Development Bank's Assistance for Reform Programs in the Pacific.* Manila; ADB. 2009. *ADB Support for Public Sector Reforms in the Pacific: Enhance Results through Ownership, Capacity, and Continuity.* Manila.

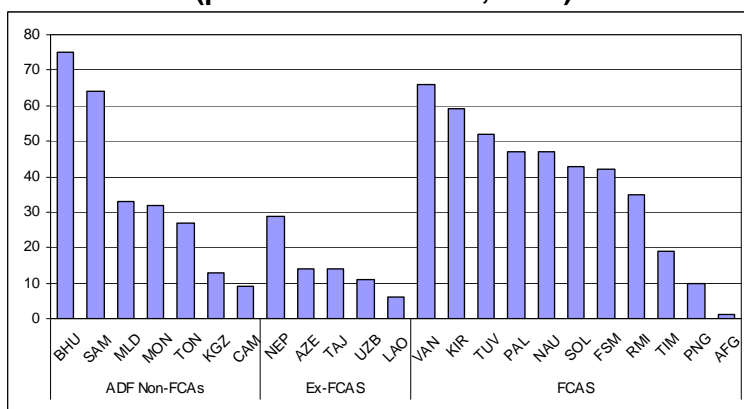
**Figure 7: World Bank Governance Indicator: Government Effectiveness
(2006–2008 average percentile rank in %)**



ADF = Asian Development Fund, AFG = Afghanistan, AZE = Azerbaijan, BHU = Bhutan, CAM = Cambodia, FCAS = fragile and conflict-affected situations, KIR = Kiribati, KGZ = Kyrgyz Republic, LAO = Lao People's Democratic Republic, FSM = Federated States of Micronesia, MLD = Maldives, RMI = Republic of Marshall Islands, MON = Mongolia, NAU = Nauru, NEP = Nepal, PAL = Palau, PNG = Papua New Guinea, SAM = Samoa, SOL = Solomon Islands, TAJ = Tajikistan, TIM = Timor-Leste, TON = Tonga, TUV = Tuvalu, UZB = Uzbekistan, VAN = Vanuatu.

Sources: Worldwide Governance Indicators (<http://info.worldbank.org/governance/wgi/index.asp>). SPD for basic data; World Bank's Post Conflict Performance Indicator for Afghanistan.

**Figure 8: World Bank Governance Indicator: Control of Corruption
(percentile rank in %, 2008)**



ADF = Asian Development Fund, AFG = Afghanistan, AZE = Azerbaijan, BHU = Bhutan, CAM = Cambodia, FCAS = fragile and conflict-affected situations, KIR = Kiribati, KGZ = Kyrgyz Republic, LAO = Lao People's Democratic Republic, FSM = Federated States of Micronesia, MLD = Maldives, RMI = Republic of Marshall Islands, MON = Mongolia, NAU = Nauru, NEP = Nepal, PAL = Palau, PNG = Papua New Guinea, SAM = Samoa, SOL = Solomon Islands, TAJ = Tajikistan, TIM = Timor-Leste, TON = Tonga, TUV = Tuvalu, UZB = Uzbekistan, VAN = Vanuatu.

Source: Worldwide Governance Indicators (<http://info.worldbank.org/governance/wgi/index.asp>).

28. The SES findings in this section validate an observation in the 2007 approach paper. It said that the "spectrum of weak performance and fragility" covers a wide range of DMCs and that these conditions will not easily disappear just because a country moves above an arbitrary cut-off score on a performance assessment such as the CPA. There are several weaknesses regarding just relying on CPA scores. First, the identification relies on a relative ranking which means which quintile it falls is determined by its relative ranking and not only on its own

performance.²² Second, fragility can result from economic vulnerability, exogenous shocks, factors such as climate change, as well as subnational issues; but these may be omitted if a narrow view of differentiation is based only on the CPA process. Therefore, CPA should not be the only basis for FCAS identification. Aided by adequate analysis and diagnostics of the development context, country teams should decide whether countries, or any of their subnational parts, are in FCAS status during country partnership strategy (CPS) preparation.²³

III. ADB'S IMPLEMENTATION OF THE APPROACH TO FRAGILE AND CONFLICT-AFFECTED SITUATIONS

29. **FCAS focal point.** Although implementation of the FCAS approach picked up pace in 2010, approval of ADB's approach paper in April 2007 was followed by a long lull in activity. It took more than a year for an FCAS focal point to be appointed (June 2008), and 2 years for the approval of the regional capacity development TA to support implementation (April 2009). An FCAS steering committee was formed in October 2007 to guide implementation.²⁴ Initially, the FCAS focal point mainly gathered knowledge on international best practices, doing little on the operations side. The position fell vacant from June 2009 to November 2009 after the focal point left ADB, leading to more inactivity. In December 2009, ADB appointed a new FCAS focal point and its team of two consultants began implementing the TA.

30. Based in the Pacific Department (PARD), the focal point reports to both the chair of the Steering Committee (Director General, Strategy and Policy Department [SPD]) and the Director General of PARP and is tasked with ADB-wide implementation of the 2007 approach under the guidance of the FCAS Steering Committee. The position's work load is divided as follows: half of the focal point's time is allocated to PARP operations support and the other half devoted to other functions, including ADB-wide accountability and reporting, institutional partnerships, knowledge management, and non-PARD operations support.²⁵

31. **TA for FCAS countries.** The TA of \$750,000 approved in April 2009 has the following objectives: (i) implement various operational approaches to situations of fragility or post-conflict in ADB operations, (ii) pilot country initiatives that localize particular elements of ADB's approach to FCAS countries, and (iii) develop and disseminate tools and knowledge to facilitate ADB's engagement in fragile situations.²⁶ In implementing the 2007 approach paper, the focal point draws mainly from this TA; with implementation period from July 2009 to December 2011. The services of two consultants to support the focal point, the peace-building advisor in Nepal, and ADB's in-country representative in Vanuatu are also drawn from the TA's resources. The TA that supports the operation of the FCAS focal point ends in 2011. This makes the medium-term support for the FCAS focal point unclear.

²² The recent evaluation report of the World Bank's Independent Evaluation Group on the CPIA finds that it is difficult to establish an empirical link between the CPIA and economic growth outcomes, although CPIA ratings are found to be positively associated with aid effectiveness. World Bank. 2010. *The World Bank's Country Policy and Institutional Assessment*. Washington, DC.

²³ The World Development Report 2011 Background Paper and Case Studies proposed to examine challenges posed by subnational conflicts, its effect on the authority and legitimacy of the central government, on non-combatants and ultimately, economic growth. Case studies on subnational conflict are prepared for Aceh, Indonesia, Mindanao, Philippines, and Northern Ireland (World Bank. 2010. *World Development Report 2011 Conflict, Security and Development, Background Papers and Case Studies*. Washington, DC).

²⁴ The steering committee, chaired by the Strategy and Policy Department (SPD), is composed of representatives from the five regional departments; the Office of General Counsel; the Regional and Sustainable Development Department; the Budget, Personnel, and Management Systems Department; the Office of Cofinancing Operations; and the Central Operations Services Office.

²⁵ ADB. *Briefing Note for Consideration of the Steering Committee on Fragile Situations*. Manila.

²⁶ ADB. 2009. *Technical Assistance for Supporting ADB's Engagement in Fragile Situations*. Manila.

32. **Resource allocation.** ADB resource allocation to FCAS countries follows ADB policies on performance-based allocation (PBA) for all ADF-eligible countries. Allocation by country is determined by country allocation shares, which are calculated using a formula that factors in CPA rating, population, per capita income, and the size of a resource pool.²⁷ (Afghanistan, which can draw from the ADF's special allocations, is an exception.) The amount to be allocated based on PBA, excluding special allocations and subregional earmarks, is divided into two resource pools; one for the 4.5% "set aside" or allocated to Pacific DMCs with access to ADF, and the second comprising the remaining amount for distribution to non-Pacific ADF-eligible DMCs. Since 2000, ADB has approved 74 loans and grants amounting to \$3.9 billion and 204 TA projects totaling \$161.2 million for the 11 current FCAS countries. Afghanistan and Papua New Guinea are the two largest overall recipients, followed by Solomon Islands and Timor-Leste, which have received more TA than loans or grants (Appendix 2).²⁸

33. Table 5 shows FCAS countries' approved loans, grants, and TA from 2005 to 2010. Figures were clustered into two time periods (2005–2007 and 2008–2010) to examine changes in resource allocations, given the approval of the FCAS approach paper in 2007. In current FCAS countries, there was almost no change in overall ADB assistance (0.7% increase only). A large decline in TA (–62%) and loan approvals (–41%). Grant resource transfers compensated with an increase of 40%. The table included data on PARD regional TA approvals (increase of 167%), since they provide substantial support for Pacific FCAS countries, especially in areas of private sector development and regional cooperation and integration.²⁹ While not exclusive to a particular Pacific FCAS country, they nonetheless augment declining TA resources in these countries.

Table 5: Summary of ADB Assistance to FCAS Countries (2005–2010)

Item	Approval Basis		Change (in %)
	2005–2007 (\$ million)	2008–2010 (\$ million)	
Current FCAS			
Loans	388	229	(41.0)
Grants	509	714	40.0
TAs	63	24	(62.0)
Total Current FCAS	960	967	(0.7)
Exited FCAS			
Loans	756	2,271	200.0
Grants	328	827	152.0
TAs	48	38	(21.0)
Total Exited FCAS	1,132	3,136	177.0
PARD RETA	6	16	167.0

ADB = Asian Development Bank, FCAS = fragile and conflict-affected situations, PARD = Pacific Department, RETA = regional technical assistance, TA = technical assistance.

Sources: ADB database on loan, TA, grant, and equity approvals; ADB Project Processing Information System, as of end August 2010.

34. In exited FCAS countries, there have been significant resource transfers in the form of loans (200%) and grants (152%), while TA approvals declined by 21%, but not as much as current FCAS countries. Better absorptive capacities could be the reason for their increased resource

²⁷ ADB. 2008. *Performance-Based Allocation of Asian Development Fund Resources. Operations Manual*. Manila.

²⁸ At the 40th Pacific Islands Forum in Cairns, Australia, 5 August 2009, ADB President Haruhiko Kuroda reported a 56% increase in ADF resources for Pacific DMCs to \$203 million in 2009–2010 from \$130 million in 2007–2008.

²⁹ PARD's Private Sector Development Initiative, cofinanced with the Australian Agency for International Development provides a good example of a Pacific-wide initiative that includes FCAS countries. See ADB. 2008. *Pacific Private Sector Development Initiative: Annual Progress Report 2008*. Manila.

allocations. In both groups, however, grant resources have increased in size and provides a significant share of overall ADB assistance. An Independent Evaluation Department (IED) special evaluation study on ADF VIII and IX operations (2007) pointed out that the main rationale for grants is for relief from debt distress; however, this could also have an impact on possible perverse incentives not to pursue hard reforms resulting in aid dependency.³⁰

35. SPD simulations show that the 10 FCAS countries in the Pacific benefit from higher allocations as a result of the 4.5% set-aside resources. Table 6 illustrates an allocation of \$162 million over the 2009–2010 ADF X period, as opposed to a hypothetical allocation of \$116 million over the same period in the absence of the set-aside. Hence, these countries benefit from a 40% higher allocation. More recently, the ADB Board of Directors approved the temporary suspension of Afghanistan's phaseout from post-conflict assistance. A 2-year suspension of the current post-conflict assistance phaseout would allow operational level allocation in 2011–2012 to be at par with 2009–2010 period. This allows ADB to keep essential reconstruction and economic support on track.³¹

Table 6: Performance-Based Allocation to Pacific FCAS (2009–2010)

Country in FCAS	Actual ^a		Hypothetical ^b		Variance \$ million
	% of Total PBA Resources	\$ million	% of Total PBA Resources	\$ million	
	Kiribati	0.12	5.28	0.09	
Marshall Islands, Republic of	0.05	2.28	0.04	1.64	0.65
Micronesia, Federated States of	0.10	4.48	0.07	3.21	1.27
Nauru	0.02	0.98	0.02	0.70	0.28
Palau	0.04	1.86	0.03	1.34	0.53
Papua New Guinea	2.20	94.35	1.58	67.64	26.71
Solomon islands	0.45	19.13	0.32	13.72	5.42
Timor-Leste	0.49	20.83	0.35	14.93	5.90
Tuvalu	0.03	1.42	0.02	1.02	0.40
Vanuatu	0.27	11.70	0.20	8.38	3.31
Total	3.79	162.31	2.72	116.36	45.94

FCAS = fragile and conflict-affected situations, PBA = performance-based allocation.

^a Based on actual 2009–2010 PBA, with 4.5% set-aside for Pacific countries.

^b Scenario without the Pacific set-aside.

Source: Strategy and Policy Department.

36. **Activities of other development institutions.** The African Development Bank (AfDB) and the International Development Association (IDA) have reported progress in similar activities over the same period. In early 2008, the AfDB adopted the Strategy for Enhanced Engagement in Fragile States and established the Fragile States Facility, a dedicated vehicle for additional operational support for fragile states in Africa. AfDB also reported three key interventions in affected countries, which (i) allocated resources in addition to regular PBAs; (ii) assisted countries in clearing long-standing arrears, qualifying for highly indebted poor countries debt relief, and improving debt sustainability; and (iii) provided a limited pool of additional grant resources for capacity development. As a result, its resource allocation to fragile African states

³⁰ ADB. 2007. *Asian Development Fund VIII and IX Operations*. Manila.

³¹ ADB. 2010. *Afghanistan: Proposed Suspension of the Post-Conflict Assistance Phaseout*. ADB Policy Paper June 2010. Manila.

increased by 133% from 60 million units of accounts in 2007 to 140 million units of accounts in 2008. AfDB sustained this level in 2009.³²

37. Total IDA commitments to fragile states have doubled in the last 9 years; from \$772 million in FY2000 to \$1.6 billion in FY2009 (IDA's FY ends 30 June). This, however, represented a decline in terms of overall share to total IDA resources, to 11.2% in FY2009 from 21% in FY2004 when the LICUS categorization began. IDA also provided trust fund resources, a state- and peace-building fund, and multidonor trust funds. IDA improved operational approaches to fragile states through (i) preparation of a quick-response interim strategy note when there is a lack of capacity to prepare country assistance strategies; (ii) country analysis in political and security issues, capacity development, and governance reforms (in particular, public financial management and public expenditure management); and (iii) increased staff support through greater field presence, callable sector specialists, effective institutional back-up, cross-country sharing of lessons, and improved incentives to attract top-performing staff.³³

38. **Pilot country initiatives.** The June 2010 report of the ADB FCAS focal point to the FCAS steering committee indicates progress in implementation. The pilot country initiatives supported by the focal point include (i) the field presence of a peace-building advisor to support the Nepal Resident Mission; (ii) a governance and political economy study to support the implementation of the CPS in Papua New Guinea; and (iii) the augmentation of the field presence in Vanuatu with a development coordinator to support country program implementation. In addition, the focal point, in coordination with PARD, other regional departments, the Central Operations Services Office, the Controllers Department, and the Office of General Counsel is preparing a handbook on how to engage differently in fragile situations. The handbook will provide a customized business process guideline in procurement and disbursement procedures to facilitate engagement and effective implementation in FCAS countries. A brochure illustrating ADB engagement in FCAS countries is also being prepared with support from the Department of External Relations.³⁴

39. **Staff survey results.** To determine the level of staff awareness of ADB's FCAS approach, IED conducted a survey among staff in PARD, the Southeast Asia Department, and the Central and West Asia Department.³⁵ Of the 72 staff invited to participate, 30 (42%) responded.³⁶ Twenty one of 30 who responded (70%) indicated awareness of ADB's approach to FCAS countries. Forty percent of total respondents (12 staff) became aware soon after the approach paper was approved (in 2007 and 2008), one even knew about the approach prior to its approval in 2007. New awareness fell off after 2008. Nearly half of respondents claimed substantial to high understanding of the approach (43%), while 30% claimed modest understanding. There was, however, strong appreciation of the importance of learning more about the approach (73%). Details of the perception survey are in Appendix 3.

³² AfDB. 2010. One unit of account is equivalent to about \$1.5. <http://www.afdb.org/en/news-events/article/afdb-credit-lines-boost-tunisian-economy-2052/>; AfDB. 2010. *Proposed Adjustments to the Enhanced Approach to Fragile States Discussion Paper*. ADF-12 Replenishment. Cape Town, South Africa; AfDB. 2008. *Strategy for Enhanced Engagement in Fragile States*. OPCD, Tunisia.

³³ IDA. 2009. *Support to Fragile and Conflict-Affected Countries: Progress Report 2007–2009*. Operations Policy and Country Services. Washington, DC.

³⁴ Minutes of the meeting of ADB FCAS steering committee, 4 June 2010.

³⁵ The target respondents include selected PARD staff directly engaged in developing the CPSs for FCAS countries in the Pacific, the professional staff of Lao PDR country team, and 10 professional staff from CWRD.

³⁶ The 30 respondents out of 72 target sample size has a sampling error of more than 5% at 95% confidence level. This results in a margin of error of 13.76% (+ or -) from the true value.

40. Respondents found that the two FCAS policy recommendations most useful to their respective country requirements were (i) the use of grants and quick-disbursing instruments (80%), and (ii) selectivity in policy reforms over a longer time frame (77%). But, in terms of actual use, only 10% of the respondents had been able to access grants and/or quick-disbursing instruments, while the highest number (22%) had applied reform selectivity. The recommendations least relevant to respondents relate to (i) cofinancing, (ii) differentiated staff skills and incentives, (iii) the expanded use of project implementation units (PIUs), and (iv) relaxed CPS requirements (Table 7). Forty percent of respondents disagreed to give FCAS countries recourse to relaxed internal control mechanisms, 37% thought there should be some flexibility, and 23% have no answer (Appendix 3).

Table 7: Staff Response on Relevance and Usefulness of ADB's Approach to Fragile and Conflict-Affected Situations
(% of total respondents)

2007 Approach Paper Key Recommendations in Engaging FCAS	Substantial to High	Modest	Negligible	No Answer
1. Selectivity in support of a limited number of major policy/institutional reforms over a longer timeframe.	77	10	0	13
2. Partnership with other donors/stakeholders in joint country diagnostic assessments.	67	17	3	13
3. Cofinancing, especially for capacity development.	50	30	7	13
4. Relaxed CPS requirements.	67	13	7	13
5. Expanded use of parallel project implementation units.	57	27	3	13
6. Expanded use of grants/quick-disbursing instruments.	80	3	3	13
7. Relaxed procurement, disbursement, project appraisal/processing procedures.	67	13	0	20
8. Differentiated staff skills and incentives.	60	13	7	20

ADB = Asian Development Bank, CPS = country partnership strategy, FCAS = fragile and conflict-affected situations.
Source: Independent Evaluation Department staff survey.

41. An open-ended question was asked to solicit the thinking of country teams on the type of country that should be classified in the FCAS category. Responses fell within the current definitions in the 2007 approach paper, including conflict-affected, small island economies, DMCs with low levels of development, with the addition of countries vulnerable to shocks. Another question collected views on the advantages and disadvantages of being an FCAS country. The advantages perceived by ADB staff slightly outnumber the disadvantages. They include access to grants, more systems flexibility, relaxed ADB requirements, and opportunities for rapid growth.³⁷ The disadvantages cited, however, involved credibility concerns that could dissuade governments from accepting the FCAS label, including poor image of the FCAS government and deterrence to private investments. When queried whether the benefits of FCAS classification outweigh the costs, the positive responses (57%) far outnumbered the negative (20%).

42. Respondents were also polled on their views of overall donor and development partner support (i.e., not just ADB's) for capacity development. Forty three percent (43%) thought the development community is making an impact toward increasing the FCAS governments'

³⁷ A couple of the disadvantages specified relate more to characteristics inherent in an FCAS country, rather than the consequence of being labeled as an FCAS.

absorptive capacities for utilization of donor assistance. In response to the query on the best way to enhance the coordination of FCAS policy and operations, 37% of respondents preferred the establishment of a new community of practice or a subgroup under an existing one, 33% chose workshops and similar forums, and 23% proposed integration into the CPS preparation process.

43. **Assessment of the country strategy.** To assess ADB country strategy in FCAS countries, the study reviewed two consecutive post-2000 CPSs. The two document review periods were (i) 2004–2006, to represent the time when there was already awareness of FCAS issues up to its discussion in the 2006 MTS II; and (ii) 2007–2010, to represent the time when country teams had sufficient policy guidance on FCAS from the 2006 MTS II and the 2007 approach paper. If the CPS was not available, the latest country operations business plan (COBP) or country strategy and program updates were considered. The CPS or COBP responsiveness indicators were then assessed based on the following:

- (i) **Reference to FCAS contexts:** reference to (a) FCAS, (b) fragility model, (c) government willingness to reform, and (d) size of FCAS; and
- (ii) **Reference to modes of differentiation:** (a) limited number of policy and institutional reforms; (b) special forms of partnership with government and development partners, including nongovernment organizations; (c) special modalities of interventions; (d) special allocation of resources; (e) special application of ADB policies and procedures; (f) special staffing arrangements; and (g) other special and differentiated treatment as an FCAS country (Appendix 4).

44. **Responsiveness of ADB strategy.** ADB's country strategy in FCAS countries is considered responsive. Overall, the responsiveness rating increased in 70% of the sample (7 of 10 FCAS countries with pre and post FAP rating); while in 30% of the FCAS countries (Papua New Guinea, Timor-Leste, and Vanuatu), the responsiveness rating decreased despite the fact that they retained their FCAS status. For current FCAS countries, responsiveness of country strategy over the two periods improved in Afghanistan, the FSM, Kiribati, the RMI, with the highest improvement in Solomon Islands. Among the exited FCAS countries, the Lao PDR and Nepal showed improvements (Table 8 and Appendix 4).

Table 8: Responsiveness of Country Strategy Documents to ADB's Approach in Fragile and Conflict-Affected Situations

Item	Current FCAS									Exited FCAS						
	AFG	FSM	KIR	PAL	PNG	RMI	NAU	SOL	TIM	TUV	VAN	AZE	LAO	NEP	TAJ	UZB
Pre-2007 FAP	2.0	0.8	1.3		2.7	1.1		1.1	1.8		1.2	0.9	2.0	2.3		2.0
Post-2007 FAP	2.2	0.9	1.4	2.1	1.1	1.8		2.4	1.2		0.7		2.2	2.7	2.8	
% change	8.3	22.2	13.3		(59.4)	69.2		123.1	(36.4)		(42.9)		10.0	14.3		

() = negative, ADB = Asian Development Bank, AFG = Afghanistan, AZE = Azerbaijan, FAP = FCAS approach paper, FCAS = fragile and conflict-affected situations, FSM = Federated States of Micronesia, KIR = Kiribati, LAO = Lao People's Democratic Republic, NAU = Nauru, NEP = Nepal, PAL = Palau, PNG = Papua New Guinea, RMI = Republic of Marshall Islands, SOL = Solomon Islands, TAJ = Tajikistan, TIM = Timor-Leste, TUV = Tuvalu, UZB = Uzbekistan, VAN = Vanuatu.

Country ratings: 3 = highly responsive, 2 = responsive, 1 = less responsive, 0 = not responsive.

Source: Various country partnership strategies, country operational business plans, and country strategies and program updates. The developing member countries without ratings are due to documents not being available.

45. **Findings on exited FCAS countries.** The CPSs of the exited FCAS countries tended to have higher ratings for responsiveness even before 2007, receiving good marks for describing

special forms of partnerships with other development partners and the government and for adequately discussing the roots of country fragility and binding constraints. Even after the countries left FCAS status (2007–2010), the CPSs for Nepal and Tajikistan still earned high points for incorporating special arrangements for interventions, allocation of resources, and application of ADB procedures. In contrast, four of the 11 current FCAS countries received less responsive ratings (the FSM, Papua New Guinea, Timor-Leste, and Kiribati). They were pulled down by the absence of provisions that defined special partnerships with governments and development partners or that allowed a special application of ADB procedures.

46. **Findings on current FCAS countries.** Of the 11 current FCAS countries, six categorically adopted the “weakly performing country” (WPC) term or confirmed that the CPS was aligned with the 2007 approach paper. Prior to 2007, out of 12 FCAS countries then, the CPSs of Papua New Guinea and the RMI made indirect references to WPC characteristics, while that for the Lao PDR mentioned that it received the lowest CPA rating among the DMCs. These CPSs were submitted in 2006, suggesting that some ADB country team members were familiar with FCAS literature even then. The three countries for which there was no reference to their FCAS status were based on COBPs and, hence, probably prepared with less comprehensive coverage of issues than a CPS. Moreover, those for the FSM and Papua New Guinea³⁸ were issued in 2007 when the approach paper was just coming out. Credit should be given to Timor-Leste because its COBP was also released in 2007 yet mentioned the 2007 approach paper. In contrast, even though the Vanuatu COBP came out in 2008, it failed to acknowledge that the country had been given FCAS status and made no mention of the approach paper. In its 2008 CPS, Tuvalu claimed that it had not been categorized as a WPC, which was the term then in use, even though it was an FCAS country in 2007 and 2008.

47. **Selectivity and focus.** Table 9 shows the number of projects in the CPS pipeline and compares them with actual approvals in the lending program over two periods (2000–2005 and 2006–2009). The selection for 2000–2005 CPS and 2006–2009 CPS country strategy for the assessment reflects the same time period. Although there was not much planned sector selectivity in the CPSs, there has been substantial selectivity in practice in the lending program. In all FCAS countries (exited and current), average number of sectors in CPS pipeline (5.3 sectors) did not change over two CPSs, but the average number of sectors has decreased if we consider approved projects over the same period. In current FCAS countries, the CPS pipeline showed no change in number of sectors in PNG, Timor-Leste, Tuvalu and Vanuatu; but the number of sectors in approved projects decreased, except for Vanuatu. There are also sharp reductions in number of sectors in approved projects for RMI (from 7 to 2 sectors), FSM (4 to 2 sectors), and Afghanistan and PNG (both 9 to 6 sectors). In exited FCAS countries, the CPS pipeline appeared constant or increasing, but sectors in approved projects actually declined in Azerbaijan, Tajikistan and Uzbekistan.

³⁸ The new CPS for PNG (2011–2015) acknowledged issues of fragility of the country.

Table 9: Trends in the Number of Sectors in Country Partnership Strategy Pipeline and Approved Projects

Item		Current FCAS										Exited FCAS					Average	
		AFG	FSM	KIR	PAL	PNG	RMI	NAU	SOL	TIM	TUV	VAN	AZE	LAO	NEP	TAJ		UZB
Number of sectors in CPS pipeline	2000–2005 CPS	9	4	<i>4</i>	0	<i>8</i>	5	3	2	4	3	5	7	9	6	8	8	5.3
	2006–2009 CPS	5	3	<i>5</i>	2	<i>8</i>	4	0	3	4	3	5	8	9	8	8	<i>10</i>	5.3
Number of sectors in approved projects	2000–2005 CPS	9	4	0	0	9	7	0	4	7	4	0	7	10	9	10	9	5.6
	2006–2009 CPS	6	2	0	0	6	2	0	3	5	2	0	3	10	9	6	7	3.8

AFG = Afghanistan, AZE = Azerbaijan, FCAS = fragile and conflict-affected situations, FSM = Federated States of Micronesia, KIR = Kiribati, LAO = Lao People's Democratic Republic, NAU = Nauru, NEP = Nepal, PAL = Palau, PNG = Papua New Guinea, RMI = Republic of the Marshall Islands, SOL = Solomon Islands, TAJ = Tajikistan, TIM = Timor-Leste, TUV = Tuvalu, UZB = Uzbekistan, VAN = Vanuatu, CPS = Country Partnership Strategy.

Note: Figures in bold indicate a decrease in trend. Figures in italics indicate an increase in trend.

Source: Various country partnership strategies, country operational business plans, country strategies and program updates, and loans/grants/TA approval database.

48. **Partnerships.** The 2007 FCAS approach paper and Strategy 2020 put special emphasis on partnerships. In post-conflict situations, ADB coordinated closely with the WB, IMF and bilateral agencies in the preparation of Afghanistan's rehabilitation and reconstruction joint needs assessment in 2001. This was a critical input to the development of ADB's interim CPS in 2002. In Timor-Leste, there was strategic coordination with the Government of Japan in the development of the roads program. ADB has led sectoral working groups for development partners in agriculture and energy in Nepal, governance and transport in Solomon Islands, energy and transport in Tajikistan, and private sector development and finance for the Pacific region as a whole. It has produced a common sector strategy, conducted common project management, and operated a single sector fund for land transport in Solomon Islands with Australia and New Zealand. The joint use by ADB and World Bank of office facilities in Solomon Islands and Papua New Guinea strengthens collaboration. There is no strong evidence however of effective joint work among development partners at the project level. An IEG report found that there are basic disagreements in strategies, project design and approaches, and implementation follow through that needs to be addressed, rating implementation progress "medium overall". In addition, A DFID study pointed out challenges that place great strains on working together, where acting fast is required and where there are differing views on political issues such as human rights.³⁹ A case to case assessment must be exercised in pursuing collaborative work at project level.

49. The Pacific mid-term review 2005–2009 notes that cofinancing has been a key contributor to the rise in project approvals in the Pacific strategy. For 2005–2007, cofinancing of \$142 million accounted for 31% of the total value of approvals in PARD. For the same period, substantial cofinancing was also provided for grants (\$61 million) and TA (\$28 million). Cofinancing in ADB's Pacific active project portfolio increased 39% during 2004–2007. Strong

³⁹ World Bank. 2006. *Engaging with Fragile States: An IEG Review of World Bank Support to Low-Income Countries Under Stress*. Washington, DC; and DFID. 2010. *Synthesis of Country Programme Evaluations Conducted in Fragile States*. Evaluation Report EV709. UK.

collaboration with World Bank and bilateral donors at preparation stage, the conduct of joint needs assessment, and the use of SWAP have facilitated the preparation of cofinancing.⁴⁰

50. ADB has also tapped NGOs in implementing components of loans or grants (Nepal, Uzbekistan), although Uzbekistan CPS acknowledged that this had limitations, given the channeling of funds through government and the operational constraints faced by nongovernment organizations (NGOs) in Uzbekistan, and in other transition economies. ADB has also included a community development component in its major infrastructure projects in Afghanistan and set up regular consultation mechanisms in Papua New Guinea and Solomon Islands.

51. **Alignment with national systems.** The alignment with national systems and the use of temporary parallel systems are consistent with the 2007 approach paper but most are not distinctively different from the way ADB engages non-FCAS governments. Examples of these engagements are

- (i) preparing government strategies (the Afghanistan National Development Strategy, the National Socioeconomic Development Plan in the Lao PDR, and roads and transport program in Solomon Islands and Timor-Leste);
- (ii) aligning ADB monitoring mechanisms with the government's (the Lao PDR, Papua New Guinea), or helping develop the government's monitoring and evaluation system and interim monitoring until this is operational (Tuvalu);
- (iii) sharing diagnostic tools (security and narcotics assessment in Afghanistan; peace filter and climate change checklists in the Lao PDR);
- (iv) supporting statistical and planning agencies (the RMI and the FSM); and
- (v) providing knowledge on reforms, project designs, and implementation experience (Azerbaijan, the Lao PDR, Nepal, Palau, and Tuvalu).

52. In terms of special arrangements, the CPS review highlights the

- (i) extended scope and duration of project preparatory technical assistance to include consultant support for counterpart preparation, initial capacity development, advance procurement action, and financing of initial implementation stages for start-up costs like project management units, technical design, and direct payment to contractors (Papua New Guinea);
- (ii) use of sector-wide approaches (SWAPs) in Nepal, the Lao PDR, and Solomon Islands;
- (iii) provision of multi-tranche financing facilities for power, roads, and irrigation in Afghanistan and roads in Papua New Guinea ;
- (iv) approval of cluster TA for capacity development in the RMI, for over 5 years in Palau, for financial management in Tuvalu, and of cluster regional TA (climate change in the Pacific including Palau, reduction of impacts of global economic crisis in Pacific, including Kiribati);
- (v) loan-linked capacity development TA (Uzbekistan);
- (vi) quick-disbursing program loan (Afghanistan);
- (vii) flexible and quick response regional technical assistance for Pacific private sector development reform, which has been successful in providing advice in investment laws in Solomon Islands and other PDMCs; and
- (viii) political risk guarantee mechanisms in Afghanistan and the Lao PDR.

⁴⁰ ADB. 2008. *Working in Fragile Environments: A Midterm Review of the Pacific Strategy (2005–2009)*. Manila.

53. **Incentives to staff and related staffing arrangements.** Only a few of the CPSs reviewed mentioned special conditions facing ADB staff and consultants who may be assigned in FCAS countries. These have included tighter security arrangements facilitated by a designated security unit and project-specific security plans in Afghanistan, and difficulties in planning and supervision raised by conflict in Nepal. None discussed possible compensatory measures to attract staff to work in FCAS countries. In Papua New Guinea, for example, inflation compounded by an overvalued currency puts pressure on the cost of living. Even staff temporarily on mission to Papua New Guinea needs to budget for much higher costs than in other countries. This situation is a disincentive to staff locating and working in countries such as Papua New Guinea.

54. **ADB Workforce Plan 2010–2012.** More recently ADB launched a series of initiatives related to staff assignments in FCAS country field offices as well as a 3-year workforce plan for 2010-2012 that will strengthen staff incentives and capacity in FCAS countries. For example, staff capacity of PARC are expected to increase by 25% from the 2009 level, half of which (a total of 11 new staff positions including 3 professional staff, 4 national officer, and 4 administrative staff) have been allocated in 2010. In addition, ADB's local presence in the Pacific countries are strengthened through provision of coordinator positions over 2010-2012. In other RDs, additional 10 positions are planned for resident missions in Afghanistan and Nepal. Aside from the increase in number of staff, BPMSD also plans to introduce new institutional strengthening and human resources policies for enhancing role of resident missions and their staff. The overall objective of this initiative is to make ADB resident missions more effective, through addressing a number of institutional, organizational and human resources issues in field offices. By implementing the new policies, resident missions including those in FCAS countries are expected to be more effective in being ADB's principal representatives in the field for external relations and donor coordination, and taking a more proactive role in ADB operations related activities.⁴¹

IV. EVALUATION OF ADB'S OPERATIONAL PERFORMANCE IN FRAGILE AND CONFLICT-AFFECTED COUNTRIES

55. ADB adopted a formal FCAS framework only in 2007 (para. 14). It is therefore too early to evaluate actual project outcomes and development impacts based on implementation of the 2007 approach paper. An evaluation of ADB's past operational performance from 2000 to 2006, may be useful to inform future implementation of the 2007 approach paper (para. 3). The evaluation utilize IED's standard evaluation criteria to rate the operational performance of ADB projects in countries classified as FCAS, the evaluation criteria are: relevance, effectiveness, efficiency, and sustainability, leading to an overall assessment rating. While each project was evaluated separately using the documents available for desk review, the paragraphs 59 to 107 illustrate some examples to draw the factors that contribute to lessons regarding each evaluation criteria. To organize the evaluation, the assessment grouped countries into current and exited FCAS countries; following the same grouping in chapters two and three of this SES. The former covers 46 investment projects in 11 current FCAS countries. Completed and ongoing projects were selected from the universe of ADB assistance approved from 2000 to 2006. Since no projects were approved from 2000 to 2006 for Kiribati, Palau, Nauru, and Vanuatu, they are not included in the operational performance assessment. While the evaluation provided an overall rating for all current FCAS countries, the discussion in this section acknowledged Afghanistan's case as a country in post-conflict situation with continuing

⁴¹ Source BPMSD. The workforce plan for 2010–2012 is also cited in ADB. August 2010 (Draft). *ADB Engagement in Fragile and Conflict-affected Situations: Progress Report 2007–2009*. Manila.

serious security concerns. The SES assessment is mindful of the depth and breadth of Afghanistan's turbulent history, distinct from other current FCAS countries.⁴²

56. The main sources of data were the project performance evaluation reports (PPERs), project completion reports (PCRs) and PCR validations reports (PCRVs). The SES also collected portfolio performance indicators from the COSO database to supplement project specific information. For ongoing projects and closed projects without completion reports, additional information from back-to-office reports and project performance reports were gathered to prepare the desk reviews and preliminary ratings.⁴³

57. For exited FCAS countries, country-specific ratings and discussions in country assistance program evaluation (CAPE) for Nepal (2009) and Lao PDR (2010) were adopted in place of project-specific assessments, since the evaluation were prepared recently. In addition, the information from the project completion reports (PCRs) were used for the other exited FCAS countries. Table 10 provides a summary of the evaluation ratings.

Table 10: Summary of Evaluation Ratings^a

Item	WA	Rating	Relevance	Effectiveness	Efficiency	Sustainability
Current FCAS	1.4	PS	1.9	1.5	1.0	1.4
Afghanistan	1.5	PS	1.9	1.5	1.3	1.5
Federated States of Micronesia	1.1	PS	1.3	1.0	1.0	1.0
Papua New Guinea	1.5	PS	2.0	1.4	1.2	1.4
Republic of Marshall Islands	0.8	PS	2.0	0.3	0.7	0.7
Solomon Islands	1.7	S	2.0	2.0	1.0	2.0
Timor-Leste	1.6	S	2.0	2.0	1.0	1.5
Tuvalu	1.7	S	2.0	2.0	1.0	2.0
Exited FCAS	1.7	S	2.2	1.8	1.5	1.5
Azerbaijan	1.8	S	2.0	2.0	2.0	1.0
Tajikistan	2.1	S	2.6	2.2	2.0	1.8
Uzbekistan	1.5	PS	2.0	1.4	1.4	1.4
Lao PDR	1.7	S	2.0	2.0	1.0	2.0
Nepal	1.5	PS	2.3	1.4	1.2	1.3
Overall Average (Current and Exited)	1.6	S	2.0	1.6	1.3	1.5

FCAS = fragile and conflict-affected situations, Lao PDR = Lao People's Democratic Republic, WA = weighted average.

^a The ratings follow the ADB. 2006. *Guidelines for Preparing Performance Evaluation Reports for Public Sector Operations*. Manila. In calculating for overall rating, the weights for the criteria are as follows: relevance (20%), effectiveness (30%), efficiency (30%), and sustainability (20%). Highly successful = WA is greater than or equal to 2.7; Successful = WA is greater than or equal to 1.6 and less than 2.7; Partly successful = WA is greater than or equal to 0.8 and less than 1.6; Unsuccessful = WA is less than 0.8. Ratings for the criteria are rounded to the nearest whole number. Relevance: 3 = highly relevant, 2 = relevant, 1 = less relevant, 0 = irrelevant. Effectiveness: 3 = highly effective, 2 = effective, 1 = less effective, 0 = ineffective. Efficiency: 3 = highly efficient, 2 = efficient, 1 = less efficient, 0 = inefficient. Sustainability: 3 = most likely, 2 = likely; 1 = less likely, 0 = unlikely.

Source: Compiled by the special evaluation study team.

58. Overall, the performance of the sample projects for the current FCAS countries is rated *partly successful*. They are considered *relevant* in design and aligned with the DMCs' development needs. Meanwhile, those in exited FCAS countries are rated *borderline successful*. The rating on relevance was higher for the projects in former FCAS countries. The

⁴² Early involvement of ADB in the post-conflict setting of Afghanistan is well articulated in ADB. 2002. *Afghanistan Initial Country Strategy and Program: 2002–2004*. Manila.

⁴³ Findings from the desk review of projects in Papua New Guinea and Solomon Islands were validated when the SES team went on evaluation missions to these two countries in May 2010.

relatively higher design quality of projects in exited FCAS countries relative to those in current FCAS countries is consistent with the finding in the CPS review that DMCs that have left FCAS status tend to have country strategies that are more responsive to the countries' need for differentiated treatment. Several current FCAS DMCs are less likely to achieve their outcomes, and thus earn a borderline *effective* rating, compared with the *effective* rating of exited FCAS countries. Both groups, however, have some problems in efficiency, with efficiency issues more pronounced in all the current FCAS countries. Both groups also have sustainability issues. The results imply the need to continue building strong institutions to implement projects, maintain them, and improve on existing policies to ensure sustainability of the government's physical assets, quality of service delivery, and strengthen the investment climate for private sector development. Thus, across all project evaluation criteria, countries that have exited FCAS status are characterized by better-performing projects than countries still in the FCAS category.

A. Relevance

59. The selected projects in FCAS are assessed *relevant*. In general, projects were aligned with ADB country partnership strategies and the DMC development strategies. The efforts to attend to good design principles resulted in mixed results.

60. **Conduct of joint needs assessments.** In Afghanistan, need assessment exercises were aligned with government development agendas, and provided quick responses using rapid sector diagnostics. The relevance of some projects in post-conflict situations was good. ADB worked in close coordination with the WB, IMF and USAID in 2001 in the needs assessment for rehabilitation and reconstruction. This exercise provided input to ADB's initial CSP 2002–2004 (footnote 42). The needs assessment also provided the framework for the design of the Post-Conflict Multisector Loan Program, followed by the Emergency Infrastructure Rehabilitation and Reconstruction.⁴⁴

61. In Timor-Leste, a World Bank-coordinated multi-agency joint assessment mission conducted a month after the post-referendum violence in September 1999 identified the need to undertake a water systems, utilities and sanitation rehabilitation program, leading to the Water Supply and Sanitation Rehabilitation Projects Phases I and II⁴⁵. In Solomon Islands, ADB and the World Bank also conducted a joint needs assessment mission⁴⁶ in October 2003, the findings of which led to the reactivation of the Post-Conflict Emergency Rehabilitation Project and the formulation of critical accompanying institutional development and private sector development TA, where before investment projects focused only on civil works. In the case of the Fiscal and Financial Management Program, ADB's technical support for the government of RMI resulted in a successful extension of the Compact of Free Association with the United States (the Compact) and the formulation of a long-term development plan (the Meto 2000).⁴⁷

⁴⁴ The initial CSP provides a good example of ADB's approach in a post-conflict situation. It has all the elements of the 2007 approach paper, 5 years before ADB's formal approach was formulated.

⁴⁵ Details of grants, loans, and technical assistance projects mentioned in this report can be found in Appendix 5. They are not footnoted when they are referred to in the text.

⁴⁶ To assess conditions for donor re-entry into Solomon Islands following the intervention of the rapid assistance mission for Solomon Islands (RAMSI) and settlement of ADB arrears.

⁴⁷ The Compact gave the United States the right of "strategic denial" to other nations and allowed the use of islands within the RMI for military purposes. In return, the RMI received economic assistance, the right of RMI citizens to live and work in the US, compensation for the impact of nuclear testing, and rental payments for land used by the US for military purposes. The METO 2000 proposed wide ranging reforms in the public sector that would eventually lead to the phasing out of the US Compact assistance. ADB. 2004. *Program Completion Report: Fiscal and Financial Management Program, Loan 1828/29-RMI*. Manila.

62. **Shortcomings due to emergency response.** In a few projects, some design procedures were dispensed with to meet the urgent need for post-conflict reconstruction and rehabilitation. For example, in Afghanistan, while the Emergency Infrastructure Rehabilitation and Reconstruction Project was being processed in a timely manner, consultants from a capacity-building TA prepared design-build contracts for the civil works packages under the project roads component. These included only concept design drawings, bills of quantity roughly estimating quantities, as well as the bid documents. The contractor was thus required to do the detailed design. During implementation however, the design was found to be inadequate, which led to a reconstruction of the works that cost \$13 million more than the original estimate, or a 30% increase in contract price. A contract variation was eventually required in the absence of a price escalation clause in the contract. The additional work and the long negotiations to reach agreement on the additional amount of such contract also caused delays of about 25 months.

63. In Timor-Leste since the Water Supply and Sanitation Rehabilitation Project was viewed as an emergency rehabilitation project to restore systems destroyed in the violence that followed the vote for independence in 1999, appraisal for its Phases I and II took 5 days and 10 days respectively. Approval was similarly fast-tracked (57 days and 130 days, respectively). As a result, financial and economic analyses were not incorporated in the design documents, which would have helped decision makers assess longer term financial or societal costs and benefits of investing in the sector. The pressure to deliver quick results also meant that water sources were often not assessed as to their adequacy, thus requiring redesign work in several instances. Focus was also given on rehabilitating existing and often poorly performing systems, rather than on designing schemes fit for the purpose. The projects performance audit report noted problems in trying to combine quick results with sound development, as the rehabilitation of poorly performing systems may not likely be a viable option. Instead, it may be preferable to separate interventions yielding quick results (e.g., by delivering water by tanker or in bottles) and those targeting development (e.g., construction and operation of water supply schemes). The report proposed that ADB ought to inform political decision makers about the consequences of overly hasty action, as well as give alternatives so their political objectives are still met.⁴⁸

64. Solomon Island's Post-Conflict Emergency Rehabilitation loan in 2000, in response to the reconstruction and rehabilitation needs brought about by the 1999–2000 civil unrest, is another example of the importance of institutional capacities to sustain project implementation. In this case, later TA support to the Ministry of Infrastructure and Development proved effective in strengthening implementation capacities in reconstruction and rehabilitation work.

65. **Relevance of large infrastructure projects.** In most exited FCAS, ADB's involvement in large infrastructure is timely and relevant given the economic and historical context. Since its independence, Tajikistan had been pursuing an energy export-led growth strategy to benefit from its large energy resource potential. But most of its distribution and transmission systems have reached the end of their economic life, brought about by the civil war in 1992 to 1996 and accelerated deterioration due to low cost recovery of electricity. All these resulted in significant power cuts, especially in severe winter months, affecting the already impoverished population. This is the context in which ADB's Power Rehabilitation Project in 2000 was formulated. In Afghanistan, under the Emergency Infrastructure and Rehabilitation Project (2003),

⁴⁸ ADB. 2004. *Project Performance Audit Report: Water Supply and Sanitation Rehabilitation Projects Phase I and II in Timor-Leste*. Manila.

uninterrupted power supply made possible the rehabilitation of industrial plants and offices in Mazar-e-Sharif, Pul-e-Khumri, and Kabul that were damaged during the wars.

66. In the Lao PDR, the Nam Theun 2 Hydroelectric Project addressed the country's need to develop its vast hydropower potential. ADB, in collaboration with the World Bank and other development partners, prepared a public expenditure report that supported the policy dialogue on channeling electricity-export revenues to spending in the social sector (health and education).⁴⁹ ADB also provided innovative support through direct lending to a private power entity (without government guarantee), and a political risk guarantee mechanism to mobilize commercial debt. A similar approach is seen in Afghanistan's Investment Guarantee Facility Project, where ADB has collaborated with the World Bank's Multilateral Investment Guarantee Agency to provide political risk guarantees to eligible investors and financiers. The risk coverage includes transfer restriction, expropriation, war and civil disturbance, and breach of contract.

67. **Overambitious design and lack of support.** Some project designs were over ambitious and did not provide for the logistical and institutional support needed to implement large infrastructure projects. In Pacific island FCAS, infrastructure project designs are confronted by logistical challenges brought by typhoons and locations of inner islands. RMI's Outer Island Transport Infrastructure Project has components for landing facilities in selected islands (all with considerable distance from each other), navigation aids facilities, and air strips rehabilitation. Implementing the infrastructure component already appeared very challenging and ambitious from the outset, involving small subprojects at widely scattered locations with high fixed costs and vulnerability to weather delays. The logistical issue of carrying supplies and equipment to all the selected islands appeared daunting; in addition, work has to be in sync with the typhoon season. In addition to the logistical issues, strengthening institutions is equally challenging. In FSM, the challenges of reforming institutions are quite unique. The Private Sector Development Program not only has to deal with weak institutions at the national level, but also with four broadly independent states of the federation. The program design pointed out possible risks in dealing with weak institutions at the national and state level; and the uneven capacities across the states. But it did not provide a program of sequencing that would have taken this into consideration. In Papua New Guinea and Solomon Islands, transport projects are confronted by issues of customary land that added to the complexity of involuntary resettlement issues, causing delays in project implementation and cost escalation in some cases.

68. In the case of the Maritime Training Project in Tuvalu, some project components⁵⁰ were subsequently considered non-essential to the ultimate objective of making the Tuvalu Maritime Training Institute compliant with the International Maritime Organization standards (to ensure future employment of Tuvaluans on foreign vessels) and later dropped, as a result of cost overruns in other components.

69. Afghanistan's Agriculture Sector Program, approved in 2004, was aligned with the government's strategies and program for the agriculture sector with the help of a comprehensive needs assessment carried out by two ADB missions fielded from February to May 2002. The

⁴⁹ While this is cited as a good initiative in channeling revenue sourced from natural resources to targeted poverty reduction, caution must be exercised in ensuring that sound public financial management is put in place to support implementation. In 2001, the World Bank helped finance the Chad-Cameroon Pipeline Project. One of the conditions was to ensure that revenues from the project were devoted to social spending. Since then however, the project encountered persistent problems, and the financial system put in place to manage Chad's oil proceeds never worked as intended (see Bank Information Center news article: <http://www.bicusa.org/en/Article.3892.aspx>).

⁵⁰ For example, rehabilitation/extension of recreational facilities for trainees, installation of a back-up solar power system, and improvement of the Marine Department office in Fongafale.

needs assessments drew up short and medium term programs for sector investments, institutional reform and capacity development, and policy reforms. The program also initiated the establishment of a policy and planning framework and institutional and organizational reforms that will improve the effectiveness of sector institutions. The envisioned time frame for tranche release however suffered from overly optimistic expectations. There was a presidential and parliamentary elections which resulted in some hiatus in decision making in government agencies; and that a number of performance indicators included in the program framework appeared too optimistic (e.g., aggressive target in per capita income in five years).

70. **Responsiveness to debt issues.** In Tuvalu, senior officials were concerned over the government's ability to repay loans (outstanding and in the future) given fluctuating revenues from the Tuvalu Trust Fund, thus expressing preference for well-prioritized TA assistance in the future. ADB's response supported a more innovative approach to assistance delivery in the country, including the option of helping expand the Tuvalu Trust Fund. Development partners like AusAID, JICA and NZAID also downplayed stand-alone projects and favored a more coordinated support to the Tuvalu Trust Fund as a mechanism to ensure better economic and fiscal management. Solomon Island's Post-Conflict Emergency Rehabilitation Project has to stop implementation in February 2002 due to non-payment of arrears to ADB. Instead of cancelling the project, it was suspended until January 2004 when the Government of Australia supported the resolution of the arrears.⁵¹

71. **Financial management in project design.** To supplement findings from project assessment, this SES refers to ADB's 2008–2009 Financial Due Diligence Retrospective Report. The report noted that, from a financial management perspective, an essential risk based approach was not embedded into the planning of projects and programs. It could be expected that Group A DMCs, including FCAS countries, are less likely to have strong country financial management systems than the more developed Group C DMCs. However, review results suggest that financial management issues are given little priority in RRP's regardless of the DMC and its grouping. An example of this is the fact that the standard sentence "appoint auditor acceptable to ADB" appears in almost all RRP's. No reference to the actual capacity of the audit profession was found in any RRP. Few Group A countries have adequate audit profession capacity but this was never highlighted as any kind of fiduciary risk.⁵² To address this concern, ADB's support for the State Audit Office in Lao PDR, beginning in year 2000, was to strengthen audit functions of Lao PDR especially for ADB assisted projects. ADB's success in this area was due to a focused and sustained approach over a long period of time.⁵³

B. Effectiveness

72. Overall, projects in the past and current FCAS countries are assessed as *borderline effective*. Those currently in FCAS status are rated *borderline effective*. Projects in exited FCAS countries are rated *effective*.

73. **Successes from sector-wide approach.** In Nepal, the SWAp arrangement in education sector development ensured the continuity and timeliness of ADB support, including extensive TA support for sector assessment and policy and strategy development. Nepal's Education for

⁵¹ Discussion on the debt sustainability issue can be found in ADB. 2004. *Solomon Islands Country Strategy and Program Update 2005–2006*. Manila.

⁵² ADB. Draft Report July 2010. 2009-2009 Financial Due Diligence Retrospective Report. Draft Report. The SES team also held extensive discussions with the author of the report.

⁵³ ADB. Draft Report August 2010. *Country Assistance Program Evaluation: Lao People's Democratic Republic: Sustainable Growth and Integration*. Manila.

All pooled-funding arrangement also substantially reduced the government's workload in managing multiple-donor project systems and meeting different reporting requirements, as well as strengthening the core functions of Ministry of Education. In Solomon Islands, support for the Ministry of Infrastructure and Development through TA and cofinancing with other development partners have been productive. The Ministry of Infrastructure and Development has updated their transport integration plan for a possible SWAp arrangement with development partners. In Papua New Guinea, there has been strong collaboration with development partners in formulating SWAp arrangements in roads and health sector.

74. **Risks in sustaining policy actions in program lending.** Program loans, by their design, often achieved short-term outputs and outcomes, but longer-term structural transformation and sustaining policy actions remained elusive. RMI's Fiscal and Financial Management Program has three broad objectives: (i) strengthening financial management, (ii) maximizing the benefits from the renegotiation of the economic provisions of the Compact of Free Association with the United States (Compact), and (iii) improved effectiveness of public service and enhancing the policy environment for the private sector. Given its urgency and importance to the government, the first two objectives were largely achieved, but sustaining measures to improve effectiveness of the public service and to enhance the policy environment for the private sector requires more work.

75. Papua New Guinea's Public Service Program, approved in 2001, supported legislative and regulatory frameworks, piloted an effective diagnostic tool to analyze and reformulate service delivery processes, and utilized existing government public sector reform implementation arrangements. By November 2002, government claimed compliance of 10 of 11 tranche conditions, but some of these conditions, the PCR validation notes, were done only for compliance, but whether the reforms have strong ownership and can be sustained remained doubtful. Through 2003 and 2004, there was considerable high-level dialogue between the government and ADB, but there were no firm agreements on what was necessary for second tranche condition compliance. Eventually, the second tranche was not released due to uncertain commitment over reforms.⁵⁴

76. In Nepal, the Governance Reform Program was not able to accomplish all its policy actions, especially in civil service reforms, resulting in cancellation of the third and final tranche of the program. Complexity of the program was acknowledged even in the preparation staged, but the design remained complex and has hampered implementation.

77. **Good results in private sector partnerships.** Project activities that required partnership with the private sector and offered the right market incentives have worked. In Nepal, the Rural Finance Sector Development Cluster Program was also rated *effective*. It has helped the government improve the mechanism for delivering rural finance and increasing private sector activity in rural areas.

78. In Papua New Guinea, ADB's support for microfinance is progressing well due to an effective partnership with the commercial bank association. The association has supported training for microfinance institutions and a reasonable fee was charged to sustain operation. In another project, the HIV/AIDS Prevention and Control in Rural Development Enclaves partnered with an international NGO to disseminate and increase awareness of HIV/AIDS prevention. This NGO, in turn, involved commercial retail outlets in the program by providing reasonable margins

⁵⁴ ADB. 2009. *Special Evaluation Study: ADB Support for Public Sector Reforms in the Pacific: Enhance Results through Ownership, Capacity, and Continuity*. Manila.

as incentive for them to market contraceptives and join the campaign for HIV/AIDS prevention. The network is now expanding and likely to be effective and sustained. However, the HIV/AIDS component in a roads and ports project in Papua New Guinea appeared to be less successful since such projects rely mainly on building billboards and posters for the prevention information drive. There appears to be no effort to deepen community organizing and networking to improve awareness and reach. A closer synergy between the two projects (i.e., the HIV/AIDS support and roads and ports) may improve effectiveness.

79. **Institution building components of infrastructure projects.** Success in policy reforms and institution building components of infrastructure projects appeared mixed. Lao PDR's Vientiane Urban Infrastructure and Services Project, approved in 2001, emphasized the importance of urban infrastructure in national development planning, decentralized government, and poverty reduction. The PCR cited the infrastructure component as a functional and technical success. The PCR however stressed that the entity (i.e., the Vientiane Urban Development Administration Authority) established to maintain urban management need further institution building support. IED's PCR validation done in 2009, concurred with this finding. In another case, The Tajikistan Power Rehabilitation Project accomplished the infrastructure component and was rated technically sound. But the accompanying component on financial reporting, accounting, and monitoring procedures were inadequate.

80. In Timor-Leste, the road sector improvement projects are hampered by unclear guidance from government on a road sector development strategy. To address this gap, ADB approved the Road Sector Improvement Program to help develop government capacity for integrated multisector institutional development for infrastructure and technical capacity development for the road subsector. However, in view of the "significantly reduced capacity of infrastructure ministries to make use of the institutional reforms in the TA" owing to the political crisis and unrest, in February 2007, TA outputs were confined to planning and implementation support for ongoing road development activities. In August 2007, a new Ministry of Infrastructure was established and the former project executing agency was absorbed as an office under this Ministry, but the TA scope remained focused on planning and implementation support. Also in Timor-Leste, there was an observed decline in system performance in water supply and sanitation systems due to a lack of maintenance and operational support. Achievements under the Water Supply and Sanitation Rehabilitation Project (approved in 2000) were also limited due to inadequate understanding of local practices, the absence of effective awareness campaigns, and insufficient resources being directed to sanitation.

81. In Tuvalu, the infrastructure component of the Maritime Training Project appeared straightforward, but the financial management part was problematic due to lack of capacity in counterparts. In particular, the long delays in reporting and accounting of the imprest account, was blamed to one account officer who was out of the country on training. The Outer Island Transport Infrastructure Project of the Republic of the Marshall Islands had difficulty decoupling the provision of outer island services from political influence and action (e.g., ordering when and where services run, and accepting or purchasing new vessels without due diligence as to suitability, ongoing costs, or effects on other operators) due to management weakness within the executing agency and the lack of regard for efficiency and service performance. The government preferred to operate the subsidized domestic shipping service, even at high cost.

82. **Constant changes in counterparts and multi-layered processes.** Detailed knowledge of local conditions prior to project design and implementation is important. However, such knowledge can easily be rendered obsolete by constant changes in political alliances in the country, resulting in changes in key leadership and project counterparts. Program loans

(e.g., in PNG and Solomon Islands in early 2000) that relies on policy dialogue and reform champions are rendered at risks after election cycles when change of leaderships happen. When heads of government change, it is likely that ministry level appointed officials also changed. Support for state owned enterprise reforms in Solomon Islands resulted in slow progress as the executing agency head, the minister of finance, was replaced six times since 2004. Consistency in policy directions and guidance to mid-level staff was hampered.

83. Moreover, policy making and political influence operates in multiple layers. It is therefore important to build local knowledge over a certain period of time. It takes time for relationships to mature and trust established. The long term support to the Ministry of Infrastructure and Development in Solomon Islands, with constant staff contact, is showing results. In PNG, the ministry of public works director overseeing ADB road projects demonstrated strong familiarity with ADB procedures and implementation issues, as a result of constant capacity strengthening support and working together with staff over a long period. The establishment of the Solomon Islands development coordination office in 2008, represented by a senior consultant, provides consistent and constant communication with counterparts in government; while the establishment of PNG resident mission in 2003 enhanced the operational link between ADB and the government, and other stakeholders in PNG. In both Solomon Islands and PNG, the decision to locate both the ADB and World Bank offices in one building, strengthens communication and coordination between two key development partners in these countries. These two examples illustrate ADB's initiative to strengthen partnership with FCAS countries.⁵⁵

C. Efficiency

84. The projects in FCAS are assessed *less efficient* overall, mainly due to the lack of efficiency in the current FCAS. The exited FCAS are borderline *efficient*.

85. **Fast-tracking implementation.** Portfolio management problems that normally accompany ADB projects in general appear more pronounced in FCAS because of the very weak institutional capacities of government agencies, the lack of interest from the private sector and consultants to bid for project contracts, and the rapidly-changing political environment. Moreover, popular pressure to demonstrate immediate and tangible benefits from the projects, especially in countries that have just emerged from a civil conflict, sometimes demand a quicker response to government requests for assistance.

86. An example relates to Timor-Leste's Water Supply and Sanitation Rehabilitation Project, where the government and project managers felt the need to spread the benefits as widely and as quickly as possible. As a result, the project sprawled across many sites and adopted unrealistic targets, which imposed strong costs pressures. Given the sense of urgency and the large number of subprojects, the time available for the consultants to transfer skills was limited—a problem compounded by a lack of counterpart staff with the basic skills. In PNG, care is given in addressing resettlement and road clearing issues as the proposed road network pass through politically sensitive areas, where customary land disputes and indigenous peoples are involved.

87. **Weaknesses in implementation capacities of counterparts.** Even if project preparation or implementation process from the ADB side is fast-tracked, this is no guarantee that output delivery can be expedited owing to undeveloped administrative systems and weak capacities inherent in FCAS country institutions. The CAPEs for the Lao PDR and Nepal noted

⁵⁵ IED SES FCAS mission findings, May 2010.

that start-up delays were often due to the government's slow action (i.e., delays in fulfilling the conditions for loan and grant effectiveness like in a Lao PDR transport project) or the lack of available government staff (e.g., delays in appointing government counterparts/coordinators in Nepal and in recruiting consultants in the Lao PDR agriculture project).

88. The establishment of the new government in Timor-Leste, with numerous changes in its structure and personnel, did not allow a project steering committee to function under the Water Supply and Sanitation Rehabilitation Project. Another problem was the lack of government capacity to act on the technical and policy reports produced; too many consultants were producing plans and studies for the absorptive capacity of the new government. Finally, policy and planning activities (e.g., development of legal and regulatory framework, water supply and sanitation standards/guidelines, waste management plan, and water tariff study) were largely conducted before the new government was formed, thus providing limited scope for building ownership of these policies and strategies. The evaluation noted that carrying out such detailed planning in times of rapid change increases the risk of redundancy.⁵⁶

89. Regarding Tuvalu's Maritime Training Project, despite the appointment of a new project manager, frequent changes in executing agency management staff⁵⁷ and difficulties in getting timely decisions and pro-active involvement at EA management level, along with non-familiarity with ADB guidelines and procedures (despite participation in ADB seminars), has continued to impede project implementation. For example, structural and material defects due to engineering shortfalls were observed in the construction of dormitory and classroom buildings under Tuvalu's Maritime Training Project. While the Supervisory Engineer had accepted his liability and had agreed to activate his defect and liability insurance policy to finance the required remedial works, this did not materialize owing to the lack of vigorous follow-up action from the EA. The outcome is that the EA will outsource the remedial works to a private contractor, to be funded from a supplementary budget request from Parliament in March 2010.

90. For RMI's Outer Island Transport Project, the EA took 12 months to select the project implementation consultants owing to its lack of capacity in applying the QCBS method and, in the end, had to be assisted by the Loan Inception Mission. The PCR noted a clear reluctance on the part of the project manager to make decisions, often referring matters to a higher level within the government, and corresponding responses were slow. ADB training seminars were useful but not sufficient to build the capacity required; the PCR proposed that capacity substitution, with personnel familiar with ADB processing procedures, should be considered. The external recruitment of an assistant to the project implementation unit could have reduced the 2-year delay between loan signing and the fielding of the design consultants.

91. The CPS for Afghanistan acknowledged that the civil service is being rebuilt when many of the most highly qualified Afghans left the country. ADB established parallel units given the lack of government counterparts for the projects; and strengthened supervision and coordination among field based and headquarter based staff with regard to project implementation:

- (i) In the Emergency Infrastructure Rehabilitation and Reconstruction Project, as a measure to mitigate the capacity risks, the loan covenants required the establishment of three levels of government counterparts to ensure monitoring and reporting: (a) a project coordination unit (PIU) within the executing agency; (b) a

⁵⁶ ADB. 2004. *Project Performance Audit Report on Water Supply and Sanitation Rehabilitation Projects Phase I (Grant 8185-TIM[TF]) and Phase II (Grant 8189-TIM[TF]) in Timor-Leste*. Manila.

⁵⁷ Changes involved a succession of four Secretaries at the EA, several Captain Superintendents at the IA, and an initial Project Manager.

project management unit within the implementing agency for the road component, which remained understaffed over the project life owing to the shortage of qualified nationals;⁵⁸ and (c) PIUs for each of the three project components. The PIU for the irrigation component became operational only during the last 8 months of implementation, after the agency was abolished and replaced by a new entity.

- (ii) In the Agriculture Sector Program, the late appointment of the project coordinator (2 years after the release of the first tranche), and non-appointment of program officers by implementing agencies limited the effectiveness and timely achievement of the planned reform measures and increased the demands on TA consultants and other projects supporting the reform measures.

92. **Costs escalation.** Projects in FCAS countries also run a very high risk of price instability, and consequently project cost escalation. Significant cost overruns resulting from the price increases in construction materials were noted in the Emergency Infrastructure Rehabilitation and Reconstruction Project, the Road Connectivity Sector I Project of Nepal, and Solomon Island's Post-Conflict Emergency Rehabilitation Project. The main reason for the cost overruns in the former was due to constrained supply owing to deteriorating security and transport conditions; in the latter, the cost escalations were due to rising fuel and bitumen costs, on top of upward adjustments in consultant costs. For RMI's Outer Island Transport Project, cost escalation arose from the intervening inflation between the time of the project preparatory TA estimate in 2001 to tendering in 2005–2006 (leading to overall increase of 71%; the 20-month delay between loan effectiveness and the receipt of tenders was due to EA delays), and the change in project design concept owing to the application of technical and environmental standards.⁵⁹ There were also uncertain and potentially high costs associated with mobilization and weather-induced delays. As a result, the cost increases was accommodated through the removal of less beneficial project components.

93. In the case of Tuvalu's Maritime Training Project, cost escalation was driven by the devaluation of the US dollar (in 2003 when tenders were called relative to appraisal in 2002), as well as a major building boom in neighboring Fiji Islands that drove subregional material and labor costs up (the winning contractor for one of the civil works component is from Fiji). As a result, bids received under the two international competitive bidding procedures exceeded available resources, forcing ADB to shift to international shopping process and use of force account.⁶⁰ ADB also needed to approve a supplementary loan of almost \$2 million to finance the cost overrun. The project officer identified the need for more innovative approaches to delivering assistance to a small and remote country like Tuvalu, given that ADB's standard procedure guidelines were too difficult to implement there.

94. However, this was not uniformly true in all FCAS countries:

⁵⁸ This prompted ADB to recruit consultants to assist with its project/contract management responsibilities, who were later found to be unfamiliar with ADB procedures. Based on the Integrity Division of the Office of the Auditor General audit of the project, some of these consultants who took over the PIU duties did not process documents according to ADB guidelines.

⁵⁹ According to the PCR, the project implementation consultants' adherence to international best practice standards and designing for robustness and durability may have constituted an "over-design" relative to the very basic situation in the outer islands, such that only a modest capital investment could be supported by the economic benefits to be gained. ADB's emphasis on safeguards may have also encouraged an overly conservative approach to the risks of minor damage to coral reefs, especially where the damage would likely occur anyway.

⁶⁰ Instead of awarding the entire work to one contractor, it was changed into 7-8 supply contracts. Force account procedures entail the use of the EA's own workforce and equipment to undertake the civil works.

- (i) Nepal's Road Network Development Project is unlikely to suffer cost overruns, with the actual cost of one road subcomponent even being lower than the original estimate.
- (ii) The Nepal CAPE also noted that the Urban and Environment Improvement project will likely be completed without time or cost overruns.
- (iii) The executing agency for RMI's Skills Training and Vocational Education was given full management of ADB and counterpart imprest accounts, which expedited disbursements and ensured proper monitoring by the PIU. The use of the imprest account and statement of expenditures procedures simplified the process for drawing advances and replenishments and was extremely beneficial to project implementation. Replenishments of the imprest account were carried out in a timely manner, with very minor delays. Most major purchases under RMI's Skills Training and Vocational Education Project were from off-island vendors so while there were long lead times, there were no major difficulties with procurement of materials, supplies, and equipment.

95. **Security related concerns affecting consultants.** In areas in which there are reports of serious security concerns, consultants faced security issues that hampers implementation and raise project costs:

- (i) The Emergency Infrastructure Rehabilitation and Reconstruction Project of Afghanistan had to contend with a ban on certain citizens working in Afghanistan and threats and intimidations of expatriates, causing the consulting firm problems in maintaining international staff;
- (ii) Security concerns relating to consultants had been noted under the Andkhoy-Qaisar Road Project;
- (iii) The contractor for the Power Transmission and Distribution Project invoked the "force majeure" provision in its contract and demobilized staff due to the deteriorating security situation at the project site, while the contractor for the North-South Corridor Project, both in Afghanistan, had been making slow progress also due to aggravating security issues; and
- (iv) Political unrest in Nepal resulting in frequent disruption and stoppage in the Road Network Development Project.

96. **Availability constraints in consultants and contractors.** FCAS countries suffers from a limited pool of competent manpower resources. For example, getting qualified contractors proved difficult for the implementation of the small water supply and sanitation repair contracts under the Water Supply and Sanitation Rehabilitation Project due to the limited number of contractors.

97. The limited market for marine engineering work in RMI, coupled with the strong demand for engineering construction in the region, led to difficulty in attracting contractors for RMI's Outer Island Transport Project. The PCR observed that ADB's procurement guidelines do not cater very well to this non-competitive situation. A turnkey approach was considered inappropriate, but neither was the conventional design and schedule-of-rates bid contract necessarily the most efficient procurement method. The Project required marine engineering design input, which was not available within RMI; needed to be responsive to the type of equipment and construction techniques that were locally available; and had to match design standards to the local situation. The government's suggestion of a directly-negotiated contract with the local contractor that would be supplemented with design assistance from the project implementation consultant and government oversight was similar to a partnering form of contract, but this is not within ADB's procurement guidelines.

98. In another project, the use of some international consultants in RMI's Skills Training and Vocational Education was not cost-effective and resulted in slowdown of project implementation, given the difficulty in monitoring their work (the executing agency had expressed concern over consultants who completed their work off-island rather than in-country where they could have imparted their knowledge to counterpart staff) and their lack of knowledge of local constraints and information on the ground.

99. **Ownership and stakeholder support.** The complexity and dynamism of local conditions argues for greater support to consensus building and use of parallel organizations. According to CAPE Nepal, community-driven initiatives in land pooling under the Urban and Environment Improvement Project have helped the realization of project objectives. Implementation relied heavily upon municipal administrations supported by staff seconded from the Department of Urban Development and Building Construction.

100. Similarly, a component of Timor Leste's Road Sector Improvement dealing with community involvement in road maintenance using gender-inclusive modalities is progressing well and may be considered for replication in future loan projects. An international NGO was engaged using direct selection to rehabilitate and maintain two unpaved district roads, which then recruited community workers (60% of which are women, often including a deputy crew leader) to support the civil works. The quality of the accomplished roads was very good and the livelihood opportunities were created (as almost all crew members invested in income-generating activities), but only 75% of the target works was achieved as of September 2008 (relative to a December 2008 deadline) owing to the problems faced by the NGO in transporting the construction materials and the additional works caused by the rainy season.

101. In the case of Afghanistan's Emergency Rehabilitation and Reconstruction Project (approved in 2003), civil works for the irrigation component was delayed because of the need to undertake a full system analysis of the traditional irrigation systems (which did not have prior blueprints) and conduct consultations with farmers on water allocations and rehabilitation works. Water allocation was deemed to be a very sensitive issue in the project site because upstream farmers often took more water than their allocation and the downstream farmers demanded their fair share, hence the long consultations were critical in establishing stakeholder ownership of the project. While there was value in strengthening ownership, there were substantial delays to implementation.

102. **Implementation delays across DMCs.** To supplement project level assessments, the SES collected two portfolio performance indicators on elapse time (in months): (1) approval to loan effectiveness, and (2) loan effectiveness to first disbursement. The purpose is to find relevant trends over time, from 2000 to 2009, in portfolio performance of FCAS countries as compared with ADB-wide performance.⁶¹ Figure 9 shows elapse time from approval to first disbursement, combining the two indicators. ADB-wide data on ADF loans and grants, and ADB-wide data on ADF loans and grants and OCR loans are compared with loans and grants (ADF and OCR) in exited FCAS and current FCAS countries. The data excludes policy-based lending.

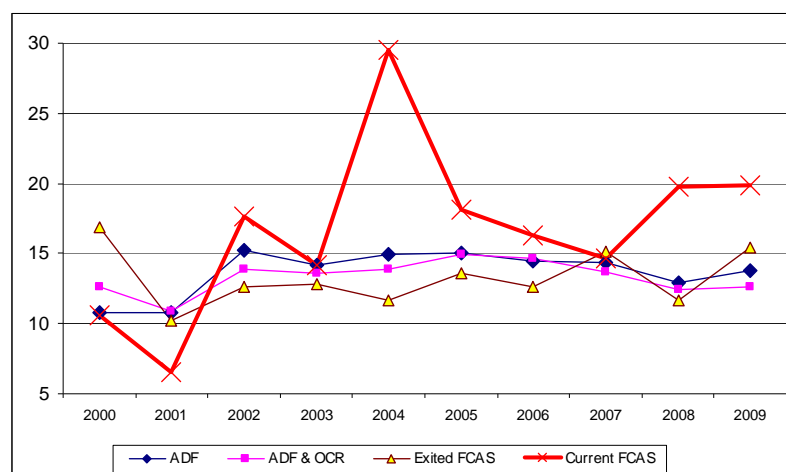
103. ADB-wide time elapse from approval to first disbursement falls consistently within a band of 11 to 15 months for OCR and ADF loans and grants, with improved performance since 2007. On average, it takes longer to prepare a project for implementation in current FCAS countries

⁶¹ The Annual Report on 2009 Portfolio Performance cited delays in startup and implementation and currency exchange rate changes as the two main reasons affecting changes in project cost. A major reason for implementation delay is readiness of the executing agency to undertake implementation.

compared to exited FCAS countries and ADB-wide performance. The delays are mostly related to setting up of imprest accounts, lack of counterpart agency understanding of procedures, and availability of counterpart agency staff and consultants in the field. It should be noted that in current FCAS countries, since there are no projects in most of the years from 2000 to 2009 (e.g., Vanuatu, Kiribati, Republic of Nauru, and Palau), the figures are therefore driven by a few DMCs, such as PNG, Solomon Islands, Afghanistan, and FSM. For example, the 29.5 months elapse time in 2004 in current FCAS countries is primarily due to the Post Conflict Emergency Rehabilitation Project of Solomon Islands (Figure 9). The main reason for the delay however was considered non-operational, and should not be compared with other projects. Nevertheless, this project is a good example of how ADB provided some flexibility in difficult circumstances. The project approved in November 2000 was in response to government's request to rebuild key infrastructure damaged from the civil unrest early in the same year. The PCR noted that preparation was rapid in order to meet the urgent need for rehabilitation, but on February 2002, the project was suspended due to the government's nonpayment of arrears from ADB. The suspension was lifted two years after, in 2004, when the Government of Australia repaid the arrears on behalf of the government. Shortly thereafter, ADB together with other development partners undertook a joint needs assessment to support resumption of operation. In 2006, a major expansion of project scope was requested due to major deterioration in roads and other infrastructure facilities. The project finally closed in 2008.⁶²

104. Figure 9 also showed rising elapse time in 2008 and 2009. In 2008, FSM's Omnibus Infrastructure Development Project implementation stalled pending the signing of the project implementation assistance contract. A change in scope was prepared to incorporate contending issues in local tax treatment. In 2009, the delays were driven by Timor Leste's Dili Urban Water Supply Sector Project and power and road projects in Afghanistan. Common reasons given were delays in bidding processes and mobilization of consultants. (Appendix 6).

Figure 9: Elapse Time from Approval to First Disbursement (in months)



ADF = Asian Development Fund, OCR = ordinary capital resources, FCAS = fragile and conflict-affected situations. Data excludes policy-based lending.

Source: ADB-COSO database.

⁶² In 2004, the project was supplemented by a technical assistance to build capacity at the Ministry of Infrastructure and Development. During the field visit to Honiara, the SES mission team noted that this was critical in the success of the project, providing a strong foundation for public works implementation in Solomon Islands.

D. Sustainability

105. The projects in FCAS countries are evaluated as borderline *likely* to be sustainable overall, with current FCAS countries such as PNG, FSM, and RMI bringing the rating down to unlikely sustainable. Exited FCAS countries received borderline *likely* rating owing to better prospects for sustaining benefits in Tajikistan and the Lao PDR.

106. **Poor maintenance a problem.** Benefits of ADB investments are being eroded by the lack of operation and maintenance (O&M).⁶³ FCAS country institutions, by the nature of their capacity limitations, are constantly challenged by the lack of adequate and stable funding, and maintenance of the assets financed by ADB. For instance, institutional and human capacity under the Skills Training and Vocational Education of RMI was not strengthened sufficiently to (i) carry out effectively and move forward the business plans for the skills training programs; and (ii) utilize the infrastructure built, equipment procured, and materials prepared with project assistance. Some activities (vocational training, skills standard, and certification) have been terminated and was not sustained by the government since the project closed. Lack of maintenance fund for road works in Solomon Islands, resulted in significant road rehabilitation expenses. Failure to implementation user charges in utility projects is another concern. For example, Tajikistan's Barki Tojik (the energy company) reported difficulties in collecting fees from energy consumption; and lack of enforcement in the collection of user charges for consumption of water in Timor Leste.

107. In some countries, there had been concrete measures implemented to improve operation and maintenance financing:

- (i) In Nepal, financing sustainability is ensured under Small Towns Water Supply and Sanitation Sector Project and Community-Based Water Supply and Sanitation Sector Project, by working with the users, private sector organizations, and UN-Habitat through a revolving fund mechanism. Under the Small Towns Water Supply and Sanitation Sector Project, ADB funds are re-lent by a financial institution (in this case the Town Development Fund) to water users and sanitation committees to cover half of the capital cost of a household water supply (the remaining 50% is borne by the beneficiary). About 30% of this loan is "amortized" to the Town Development Fund through the charging of a water tariff for at least 12–15 years. Under the Community-Based Water Supply and Sanitation Sector Project, users share up to 20% of construction cost of a household latrine, with 1% up front in cash, and then deposit 1 year's equivalent of operation and maintenance cost in the development phase only.
 - a. As security problems made it more difficult for ADB to establish direct contact with local communities in Nepal, civil society organizations there had filled the niche, building consensus among political parties and warring factions at the local level, and facilitating social mobilization and raising awareness within the community.
 - b. However, CAPE Nepal noted that while working with NGOs and local communities was helpful, the limited capacity of these local entities as service providers meant that more regular and effective monitoring and

⁶³ The special evaluation study on sustainability noted that the main factor supporting a "most likely" sustainability rating for projects was a positive assessment of pricing and financial viability, followed by operation and maintenance policies and financing. In half of the cases, the rating was supported by the policy and regulatory environment, generally outside project control and addressed at the sector or national level. ADB. 2010 (draft as of 6 September 2010). *Special Evaluation Study Report on Post-Completion Sustainability of ADB Assisted Projects*. Manila.

evaluation of their performance ought to be done to further improve project implementation. Nonetheless, in terms of incentives, the users themselves are the best arbiter of quality and sustainability. For example, in terms of reducing the paving over of agriculture lands, farmers in Nepal proposed the use of more climate-proofed bridges that are strong enough to withstand rainy seasons.

- (ii) The Road Network Development Project of Nepal piloted a performance-based maintenance contract (for preventive and catch-up maintenance) in a strategic road section, for which tolls from another project was earmarked and routed to the Road Board Nepal (RBN) to fund such maintenance contracts. Unfortunately, RBN did not receive the full amount collected from toll revenue (along with those from the fuel levy and vehicle registration), and even if it had, the road agencies have limited absorptive capacity to spend the amount allocated by RBN.
- (iii) Feedback from the stakeholders in the Nepal agriculture sector indicated that the design and quality of rural roads could have been better in terms of reducing the paving over of agriculture lands by using more bridges and ensuring that they are strong enough to withstand rainy seasons. In this case, interactions with beneficiaries and civil society improved project design and enabled the projects to function despite conflict risks.
- (iv) PNG's Rehabilitation of the Maritime Navigation Aid System highlighted the role of the community, in particular, women organization, to safeguard the navigation aid infrastructure (i.e., light houses) from vandals and providing for their upkeep. This project highlights strong ownership brought about by appreciation of the link between the maintenance and sustainability of the functions of the light houses with their livelihood (i.e., fishing).

V. KEY FINDINGS, LESSONS, AND RECOMMENDATIONS

108. This SES focused on four basic questions: Is ADB's approach in FCAS countries relevant? Has the approach been properly resourced? How have the countries that exited FCAS performed compared to current FCAS countries? And what are the general lessons from implementation performance? To answer these questions, the SES took stock of ADB and other agency strategies and findings with respect to fragile states engagement, reviewed the country strategies of 16 FCAS countries, evaluated selected projects in these countries, and prepared country examples and field visits in two Pacific FCAS countries. The SES also drew findings from the recent CAPEs for Nepal and the Lao PDR and other evaluations, including the SES on ADB Support for Public Sector Reforms in the Pacific.

A. Key Findings and Lessons Learned

1. Is ADB's approach in fragile and conflict-affected situations relevant?

109. Overall, the FCAS approach was needed and ADB provided timely assistance to many FCAS countries, focusing selectively on key areas needing attention, working with other partners, and providing increased presence on the ground. However, the approach can be fine-tuned to provide a long-term framework and to minimize implementation issues. The SES argues that while the approach of identifying FCAS can be more flexible based on country context, the principles used in ADB's approach to FCAS have been relevant.

110. **Need to meet individual country needs.** The SES finds that ADB needs to take a differentiated approach to engaging FCAS countries. The country context and therefore the

approaches needed may be different for countries with fragile characteristics (like PDMCs) and those in post-conflict situation (Afghanistan, or formerly Timor Leste). Concern is growing in the international development community about the ability of countries in the FCAS category to meet most MDG targets (paras. 5, 10–11, 24). The potential spillover of adverse economic effects from FCAS DMCs to neighboring countries and the global community at large is another concern. In most cases, standard approaches to development do not work in FCAS countries due to fluid political situations and weak institutions. When such conditions as low capacity, weak reform commitment and governance, disruptions or deficiencies in service delivery, and violent conflict are present, resources are often extremely scarce and the capacities to implement development activities are limited. In Afghanistan, security concerns limit the extent of upfront project preparation. This is why engagement needs to be selective and focused to ensure efficient use of resources. Consistent with this approach, development partners must ensure enhanced strategic partnerships to focus on key reforms together, make efficient use of limited government counterpart capacities in pushing for the development agenda, and build on these reforms for better development results. The findings show that ADB has followed the 2007 approach for working in fragile situations, based on the two pillars of (i) selectivity and focus, and (ii) strategic partnerships but that challenges remain to be addressed (para. 47). The approach paper provided guidance in dealing with post-conflict countries, those in prolonged crisis and impasse, deteriorating governance or rising conflict risk, and gradual reformers. This differentiation takes into consideration that there is no one-size-fits-all solution to the development problems in FCAS countries, and that country teams may want to explore various modalities to allow flexibility in the application of operational tools and business processes, together with a longer-term approach for capacity development. For example, instruments that leads to long-term programmatic engagement, such as multitranches financing facilities and umbrella TAs are recommended.

111. **Major infrastructure approach sound.** ADB's involvement in large infrastructure is timely and relevant given the economic and historical context. The rationale for ADB's large infrastructure projects in FCAS countries are post-conflict reconstruction, rehabilitation of key infrastructure, and the need to align with government development agendas. In some cases, a joint diagnostics supporting development of key public utilities, in the energy sector, for example, also covered public expenditure issues, such as channeling power revenues to finance health and education investment (para 65–66). ADB also provided some innovative approaches, such as political risk guarantee mechanisms and private sector lending (para. 66).

112. **Development partnerships productive.** ADB worked with other partners to develop joint strategies. Selectivity and focus were not key features of the CPSs of many FCAS countries but, in practice, country programs were much more selective than country strategies (para 47). ADB's work in FCAS countries to enhance partnerships, in accordance with the FCAS approach paper and principles of harmonization and aid effectiveness, has been useful. Some of these partnerships include (i) preparation of joint needs assessment (Afghanistan, Solomon Islands, Timor-Leste); (ii) portfolio, procurement, and public expenditure reviews (Afghanistan, the Lao PDR, Nepal, Uzbekistan); (iii) leadership in sectoral and thematic working groups in most FCAS countries; and (iv) developing common strategy and project management arrangements in Nepal, Tajikistan, and most of the Pacific countries (para. 48).

113. **Quick response and project preparation.** In post-conflict situations, project teams struggled to strike a balance between the need to respond quickly to urgent needs and allowing sufficient time for thorough project designs. In some cases, preparation of detailed design was fast-tracked to facilitate construction or implementation of projects. This often results in poor arrangements for implementation. In other cases, complex environmental or socioeconomic

assessments were not strictly followed, including economic and financial analysis. This hampers longer-term assessment of economic costs and benefits (paras. 62–64). In countries where the reason for fragility is mainly due to weak institutional capacities rather than conflict, project designs suffer from over-ambition and under-estimation of capacity weaknesses (para. 67).

114. **Longer view and planning needed.** In Pacific FCAS countries, where fragility is primarily due to geographic, and weak capacities and institutions, ample preparation time should be given to cultivate ownership and consensus building during project design, given institutional constraints and challenges. It also takes longer to prepare a project for implementation in these countries compared to exited FCAS countries and ADB-wide performance (paras. 79, 102–104). Developing capacities and institutions to sustain development outcomes takes time. In addition, the fluidity of the environment in these Pacific DMCs raises the likelihood of implementation adjustments and necessitates built-in flexibility in implementation. A recent proposal of SPD to establish a project design facility to address possible work on detailed design after project effectiveness tries to address this issue.

2. **Is ADB's approach to fragile and conflict-affected situations properly resourced?**

115. **Resource allocation for FCAS countries.** Resource allocation to FCAS countries follows ADB policies on PBA for ADF-eligible countries. An exception is Afghanistan, which draws from ADF's special allocations. The amount to be allocated given the PBA formula, excluding special allocations and subregional earmarks, is divided into two resource pools. One resource pool is made up of the 4.5% "set-aside" or allocated to Pacific DMCs with access to ADF. The remaining amount is distributed to non-Pacific ADF-eligible DMCs. For the ten FCAS countries in the Pacific, the 4.5% set aside assures a premium in resource allocation, compared to following the normal PBA allocation formula. In addition, with the approval of the suspension of the post-conflict assistance phaseout in Afghanistan, the country is assured of stable resource flow from ADB in the next two years (para. 35). However, actual resource flow appeared flat in current FCAS countries since 2005, with loan and TA amount decreasing while grants are increasing. PARD regional TAs however augmented decreasing country specific TAs in Pacific FCAS countries. In contrast, exited FCAS countries have more significant increases over the same period (paras. 33–34).

116. In comparison, other development institutions have provided more resources to countries considered to be experiencing fragility and the effects of conflict. AfDB allocated additional resources on top of regular PBAs, such as debt relief, and a pool of grant resources for capacity development. The IDA has doubled its commitments to fragile states in the past 9 years, in addition to their trust fund resources (para. 37–38).

117. The implementation of ADB's FCAS approach was delayed. A focal point, with corporate-wide mandate and scope, was appointed 15 months after the approach was approved. It took 2 years for a regional capacity development technical assistance to be approved in April 2009 to support implementation. When the appointed focal point left ADB, the vacancy was not filled for a further 6 months. A new focal point was appointed in December 2009. Activities of the focal point in 2010 showed some progress in implementing the approach. In addition, ADB is providing regional capacity development TA to support FCAS implementation for the period July 2009–December 2011. Beyond 2011, the source of funding for the activities of the focal point is not clear.

118. **Staff knowledge and field presence.** In IED's staff survey with 42% response rate, 70% of the respondents indicated awareness of ADB's approach to FCAS; 3 of 10 claimed modest understanding of the approach. A large majority (73%) wanted to know more about the approach and how to implement it (paras. 39–42).

119. Current staff presence in FCAS countries is constrained by the limited scale of operations and security issues. Security and cost of living conditions are a disincentive to staff relocation in these DMCs. Yet, precisely because of the capacity limits in these countries, ADB staff members with the skills and seniority to make decisions on the ground are crucially needed. Recent ADB initiatives under the workforce plan for 2010 and 2012 and improved incentives for resident missions staff beginning in 2009 address these issues (paras. 53–54). In situations of post-conflict and high security risks, a limited field presence may be required but with strong support and coordination with head office. This approach is followed in ADB's engagement in Afghanistan.

3. How have the countries that exited the fragile and conflict-affected situation category performed compared to current FCAS countries?

120. **Help from natural resources.** Most of the former FCAS countries can count on natural resource extraction or exports to contribute substantially to gross domestic product. This provides a certain level of protection during economic shocks, making them less vulnerable than Pacific island countries (paras. 20–21).

121. **No strict pattern in development performances.** In terms of development outcomes, no clear demarcation exists between the exited and current FCAS countries. Progress towards the MDGs varies widely among the past and present FCAS countries and ADF-eligible DMCs in general. So do perceptions of good governance. Even allowing for the quality of data collected and the pitfalls of comparing perception surveys in economies of different sizes, there is no significant positive correlation between CPA rankings and development outcome indicators (paras. 24 and 28). These findings validate an observation in the 2007 approach paper. It said that the "spectrum of weak performance and fragility" covers a wide range of DMCs and that these conditions will not easily disappear just because a country moves above an arbitrary cut-off score on a performance assessment such as the CPA.

4. What are the lessons from general implementation performance?

122. **Implementation adjustments very likely.** Adjustments and major change in scopes, with a few cases of cancellations, have proven to be highly probable during project implementation and efficiency has suffered as a result. Reasons vary and include unanticipated security issues in post-conflict DMCs, nonresponsive executing agencies and weak institutions in small and isolated economies. Some quick disbursing emergency response instruments have been extended beyond the intended time period due to non-emergency issues (paras. 82–85, 103). Projects may need to incorporate built in mechanisms for flexibility in adjusting outputs and components for as long as it is consistent with project outcomes.

123. **Infrastructure projects technically sound, but institution building components lag.** In exited FCAS countries, the technical aspects of infrastructure projects overall are doing well. Problems center instead on building capacities and institutions and effecting policy reforms. In Tajikistan, reporting, accounting, and monitoring procedures were inadequate. In the Lao PDR, the infrastructure component of an urban development project was considered a success, but the entity that was established to manage and maintain the facilities needs further institutional

strengthening. In small Pacific island countries, infrastructure projects have had to contend with the logistical challenges of typhoon cycles and bringing equipment to widely dispersed smaller islands. In some, the infrastructure component is straightforward and simple (e.g., building training facilities) yet it is weak implementation capacities that hampers implementation (paras. 79–81).

124. **Pooling resources with development partners is useful.** In small Pacific FCAS countries, commonality of issues and the small size of country-level support provide opportunities for pooling of resources across DMCs to support common themes. For example, ADB and the Government of Australia co-financed regional TA initiative for private sector development has been effective in strengthening the regulatory and legal environment for business in Pacific countries, including current Pacific FCAS countries. To augment country level TA support, PARD regional TA increased significantly since 2005 (para. 33).

125. **Private sector partnerships work with the right incentive.** There are good examples of private sector partnerships at the project level, and these need to be replicated adapting to country context. In Papua New Guinea, drawing on the expertise of the banking association to support microfinance has paid off. Another example which is showing initial success is the partnership with civil society in establishing and nurturing a network of entrepreneurs to market and disseminate HIV/AIDS prevention and control in rural areas. Then there is also the long term cluster program in support of rural finance in Nepal (paras. 77–78).

126. **Exited FCAS countries perform slightly better.** The current FCAS countries are not performing quite as well as the DMCs that have left FCAS status. They have more pronounced problems with efficiency and achieving outcomes. The solution does not lie in relaxing business processes and procedures. This could lead to unintended governance issues. More important than large resource transfers is the need to understand the country and the counterparts, to produce better, simpler designs, and to commit to work consistently over a medium-term horizon (paras. 34, 40, 82–83).

127. **Sustainability and capacity still key areas.** Sustainability remains a critical issue because of the capacity constraints in FCAS countries. For public utilities, cost recovery is a common problem. In policy-based support, ADB must strengthen its efforts to follow-through on complex civil service reforms, to achieve privatization of state-owned enterprises, and to strengthen public financial accounting and reform (paras. 58 and 105).

B. Recommendations

128. The FCAS approach is young in ADB and has not yet taken root. The following recommendations are made to ADB Management to fine-tune the FCAS approach during the remainder of the ADF X period, giving consideration to resource implications that are supported by donors.

129. **Classify FCAS countries at the CPS preparation stage based not only on the CPA rating but also on other fragile and/or conflict characteristics of the country, including those at subnational levels.** Some specific factors to consider during the FCAS identification process are:

- (i) The current classification method, based on the CPA, may be supplemented with sectoral and macro level assessments, and governance risk assessments.
- (ii) Where partnerships are feasible joint assessments for better categorization needs to be prepared.

- (iii) An assessment of demand for change and ownership of reforms is also important. Consideration should be given to country sensitivities, the issue of fragility and its policy implications should be discussed with governments and broader stakeholders during CPS preparation to deepen ownership of the development program and to inform country stakeholders that identification as an FCAS country is not a disadvantage.

130. Develop a step-by-step plan for capacity development based on country context, CPA assessment, and country diagnostics identified through a needs assessment.

Initially, the CPA assessments can help identify capacity development needs in DMCs and inform the CPS preparation discussion. Subsequently a thorough needs assessments should be undertaken with other development partners as applicable. Factors to consider are:

- (i) Undertaking country level assessments would allow better project design during emergency situations where specific project level assessments may not be feasible.
- (ii) Strengthening capacity development, initially in core areas (e.g., procurement, public financial management) using pragmatic options available at the country are essential for sustainability of early interventions.
- (iii) As the country develops core capacities, the approaches adopted initially (such as outsourcing and turnkey projects) may have to gradually change to ensure retention of capacity in the country.

131. Provide flexibility in the design of FCAS projects to accommodate implementation adjustments and build in longer-term programmatic approaches. The 2007 approach paper provides a range of recommendation on possible modalities and instruments depending on the development context. There is recognition that DMCs in post-conflict or in heightened security concerns may have a completely different approach compared to DMCs whose fragility depends on natural resource endowments, isolation and institutional weaknesses. Support should be given to country teams to design an appropriate approach for each country. In identifying such approaches, the FCAS focal point should work in consultation with other departments. Assessment of such initiatives, including periodic audit, should be carried out after a reasonable time. The different approaches that may be useful in specific context are given below as options:

- (i) In post-conflict situations, maximum flexibility should be given to designs of projects and their implementation. Limited field level presence may be supported by strong coordination with headquarter staff.
- (ii) Exploring options for outsourcing project implementation and developing turn key projects, particularly in conflict-affected countries where field presence is limited.
- (iii) For countries with sources of fragility based on weak capacities and institutions, more frequent real-time monitoring and evaluation at the field level may be needed. This also allows continuity and closer contact with counterparts to build capacities and institutions.
- (iv) Programmatic approaches such as multitranches financing facility and umbrella TAs should be encouraged. When appropriate, regional technical assistance may augment country specific technical assistance.

- (v) Adopting suggestions from handbook to address the needs of FCAS countries with respect to procurement and consultant hiring processes. The handbook is currently under preparation by PARD, COSO, and the FCAS focal point.

132. Identify the external resource gaps and internal resource gaps for working in FCAS countries in consultation with donors and other development partners taking into consideration the country classification, capacity development needs, and pragmatic implementation approaches. Options to consider are:

- (i) Pooling of resources, especially across small Pacific DMCs.
- (ii) Replicating past successful engagements with the private sector
- (iii) Working with the Budget, Personnel, and Management Systems Department to identify the right skills mix to deploy in FCAS countries and provide the necessary incentives to staff to locate in those countries.
- (iv) Continuing support to the FCAS focal point to facilitate the fine-tuned FCAS approach.

SAMPLE CLASSIFICATION OF A COUNTRY IN THE FRAGILE AND CONFLICT-AFFECTED SITUATION CATEGORY: KIRIBATI

1. A country is considered to be in fragile and conflict-affected situation (FCAS) status if its country performance assessment (CPA) score falls in the fourth or fifth quintiles for 2 out of the last 3 years or it is deemed to be in conflict or post-conflict. To illustrate how this classification process works in practice, the case of Kiribati in 2007 is presented.
2. Initially, a CPA for Kiribati was conducted, which resulted in the following scores:

Table A1.1: Kiribati Country Performance Assessment Rating Categories and Scores 2007

Criteria	Score
A. Economic Management	2.8
1. Macroeconomic Management	2.5
2. Fiscal Policy	2.5
3. Debt Policy	3.5
B. Structural Policies	2.7
4. Trade	2.5
5. Financial Sector	3.0
6. Business Regulatory Environment	2.5
C. Policies for Social Inclusion/Equity	3.0
7. Gender Equality	3.0
8. Equity of Public Resource Use	3.0
9. Building Human Resources	3.0
10. Social Protection and Labor	3.0
11. Policies and Institutions for Environmental Sustainability	3.0
D. Public Sector Management and Institutions	3.0
12. Property Rights and Rules-based Governance	3.0
13. Quality of Budgetary and Financial Management	3.0
14. Efficiency of Revenue Mobilization	3.0
15. Quality of Public Administration	3.0
16. Transparency, Accountability and Corruption in the Public Sector	3.0
E. Portfolio Performance	4.0
17. Portfolio Performance	4.0
Economic and Social Policy and Institutional Performance	2.8
Public Sector Management and Governance Performance	3.0
Portfolio Performance	4.0

Source: Asian Development Bank, Strategy and Policy Department.

3. The next step was to determine the composite country rating. Using the calculation process outlined in the Annual Report on the 2007 Country Performance Assessment Exercise,¹ the cluster scores for A (economic management), B (structural policies), and C (policies for social inclusion/equity) were averaged to obtain the policy and institutional rating. This was then inserted in the following weighted formula to obtain the composite rating:

$$= (\text{Policy and Institutional Rating})^{0.7} \times (\text{Governance Rating})^{1.0} \times (\text{Portfolio Performance Rating})^{0.3}$$

where governance rating is the cluster score for D (public sector management and institutions) and portfolio performance rating is the score for E (portfolio performance). Using all the scores from Kiribati, a composite rating of 9.4 was obtained.

¹ ADB. 2008. *Annual Report on the 2007 Country Performance Assessment Exercise*. Manila.

4. From here, the composite rating scores all ADB's developing member countries (DMCs) were arranged into quintiles to determine Kiribati's performance relative to other countries that had also undergone a CPA exercise. As FCAS status depends on a place in the fourth or fifth quintile for 2 of the last 3 years, quintile rankings for the last 3 years were examined.

Table A1.2: ADB CPA Rankings by Quintile, 2005–2007

Quintile	2005		2006		2007	
	Country	Rating	Country	Rating	Country	Rating
1	COO	19.3	COO	19.3	COO	18.9
	SAM	18.4	SAM	18.4	SAM	17.9
	VIE	17.4	BHU	17.3	ARM	17.5
	BHU	17.3	ARM	17.2	VIE	17.4
	MLD	15.4	VIE	16.8	GEO	17.3
	MON	14.2	MON	15.4	BHU	16.8
2	SRI	14.0	MLD	15.4	MON	16.2
	PAK	13.4	PAK	13.6	PAK	14.1
	BAN	13.2	INO	13.1	NEP	13.9
	AZE	12.6	BAN	13.0	INO	13.6
	FSM	11.7	SRI	12.9	MLD	13.2
	TUV	11.6	FSM	11.7	BAN	13.0
3	RMI	11.5	TAJ	11.6	KGZ	12.8
	KIR	11.5	TUV	11.6	LAO	12.7
	TON	11.4	KGZ	11.5	SRI	12.6
	INO	10.8	TON	11.4	TAJ	12.4
	KGZ	10.7	CAM	11.2	TON	12.0
					CAM	11.9
4	CAM	10.5	NEP	11.1	TUV	11.4
	NEP	10.5	KIR	10.7	PNG	10.9
	VAN	10.4	LAO	10.2	VAN	10.5
	LAO	9.6	VAN	9.8	SOL	9.8
	TAJ	9.6	SOL	9.4	AZE	9.5
				KIR	9.4	
5	PNG	9.5	PNG	9.1	TIM	9.4
	UZB	9.2	RMI	8.7	RMI	8.0
	SOL	6.1	UZB	7.5	NAU	7.9
	TIM	4.7	AZE	7.4	FSM	7.2
	AFG	4.0	AFG	3.5	UZB	6.1
				AFG	3.9	

ADB = Asian Development Bank, AFG = Afghanistan, ARM = Armenia, AZE = Azerbaijan, BAN = Bangladesh, BHU = Bhutan, CAM = Cambodia, COO = Cook Islands, FCAS = fragile and conflict-affected situation, FSM = Federated States of Micronesia, GEO = Georgia, INO = Indonesia, KIR = Kiribati, KYR = Kyrgyz Republic, LAO = Lao People's Democratic Republic, MLD = Maldives, MON = Mongolia, NAU = Nauru, NEP = Nepal, PAK = Pakistan, PNG = Papua New Guinea, RMI = Republic of Marshall Islands, SAM = Samoa, SOL = Solomon Islands, SRI = Sri Lanka, TAJ = Tajikistan, TIM = Timor-Leste, TON = Tonga, TUV = Tuvalu, UZB = Uzbekistan, VAN = Vanuatu, VIE = Viet Nam.

Note: Afghanistan and Timor-Leste use PCPI score - different in scale from CPA scores.

Source: Asian Development Bank, Strategy and Policy Department.

5. As is evident from the preceding table, based on Kiribati's 2007, the DMC was found to have been in the fourth quintile for 2 out of the last 3 years and thus was considered to be then termed "a weakly performing state" for 2007.

6. The World Bank methodology yields a similar result, as indicated in Table A1.3 below:

Table A1.3: World Bank CPIA Scores for Kiribati, 2005–2007

Criteria	2005	2006	2007
A. Economic Management	3.3	3.2	3.2
1. Macroeconomic Management	2.5	2.5	2.5
2. Fiscal Policy	2.5	2.0	2.0
3. Debt Policy	5.0	5.0	5.0
B. Structural Policies	3.0	3.0	3.0
4. Trade	3.0	3.0	3.0
5. Financial Sector	3.0	3.0	3.0
6. Business Regulatory Environment	3.0	3.0	3.0
C. Policies for Social Inclusion/Equity	3.0	2.9	2.9
7. Gender Equality	3.0	3.0	3.0
8. Equity of Public Resource Use	3.5	3.0	3.0
9. Building Human Resources	2.5	2.5	2.5
10. Social Protection and Labor	3.0	3.0	3.0
11. Policies and Institutions for Environmental Sustainability	3.0	3.0	3.0
D. Public Sector Management and Institutions	3.3	3.2	3.2
12. Property Rights and Rules-based Governance	3.5	3.5	3.5
13. Quality of Budgetary and Financial Management	3.5	3.0	3.0
14. Efficiency of Revenue Mobilization	3.0	3.0	3.0
15. Quality of Public Administration	3.0	3.0	3.0
16. Transparency, Accountability and Corruption in the Public Sector	3.5	3.5	3.5
E. CPIA Score/IDA Resource Allocation Index	3.2	3.1	3.1

CPIA = country policy and institutional assessment, IDA = International Development Association.

Source: World Bank CPIA tables.

7. For 2007, Kiribati had a World Bank country policy and institutional assessment of 3.1, which would also lead to the country being classified as fragile (marginal low-income country under stress). World Bank notes that there is a high degree of consistency among multilateral development bank country policy and institutional assessment scores, with a correlation coefficient of 0.9 in 2007 between its scores and those of ADB and the African Development Bank.²

² World Bank. 2009. *Country Policy and Institutional Assessment: Frequently Asked Questions*. <http://go.worldbank.org/EEAIU81ZG0> (accessed 4 December).

**NUMBER OF OPERATIONS SINCE 2000 FOR COUNTRIES CURRENTLY IN THE FRAGILE
AND CONFLICT-AFFECTED SITUATION CATEGORY**

FCAS	Number of Loan/Grants^a	Total Amount (\$ million)	Number of TAs	Total Amount (\$ million)
Afghanistan	34	3,108.1	46	64.5
Federal States of Micronesia	5	41.0	15	6.9
Kiribati	0	-	10	5.2
Palau	0	-	5	3.3
Papua New Guinea	19	552.7	41	26.5
Republic of Nauru	0	0.0	4	1.0
Republic of Marshall Islands	3	25.8	15	5.3
Solomon Islands	6	91.7	11	8.8
Timor-Leste	5	74.0	31	29.1
Tuvalu	2	7.0	9	3.1
Vanuatu	0	0.0	17	7.5
Total	74	3,900.3	204	161.2

FCAS = fragile and conflict-affected situations, TA = technical assistance.

^a Papua New Guinea and the Republic of Marshall Islands are the only FCAS countries with ordinary capital resources operations.

FCAS Perception Survey Results

1. The SES Team conducted a perception survey to gather information regarding awareness on FCAS policy and the perceived relevance and effectiveness of the ADB approach among members of the country teams.

Response Statistics

Invited to participate in the survey	72
Survey respondents	30 (42%)

Respondent Profile

PARD PS/NO working directly in FCAS	12 (40%)
Lao PDR Country Team members (PS)	8 (27%)
CWRD PS working directly in FCAS	10 (33%)

A. Awareness

1. Are you aware of ADB's approach to FCAS?

Yes	21 (70%)
No	9 (30%)

2. When did you hear first about ADB's approach to engaging FCAS?

Year	No. of Respondents	%
In 2006	1	3
in 2007	6	17
in 2008	6	23
in 2009	2	7
in 2010	2	7
No answer	13	43
Total	30	100

3. How would you rate your understanding of ADB's FCAS policy?

Substantial to High (%)	Modest (%)	Negligible (%)	No Answer (%)
43	30	3	23

4. How important is it for you to learn more about FCAS policy?

Substantial to High (%)	Modest (%)	Negligible (%)	No Answer (%)
73	13	0	13

B. Relevance

How relevant and useful are the following FCAS guidelines to the country context?

Guidelines	Substantial to High (%)	Modest (%)	Negligible (%)	No Answer (%)
1. Selectivity in support of a limited number of major policy/institutional reforms over a longer timeframe.	77	10	0	13
2. Partnership with other donors/stakeholders in joint country diagnostic assessments.	67	17	3	13
3. Cofinancing, especially for capacity development.	50	30	7	13
4. Relaxed CPS requirements.	67	13	7	13
5. Expanded use of parallel Project Implementation Units.	57	27	3	13
6. Expanded use of grants/quick disbursing instruments.	80	3	3	13
7. Relaxed procurement, disbursement, project appraisal/processing procedures.	67	13	0	20
8. Differentiated staff skills and incentives.	60	13	7	20

C. Application

1. In your experience, has any of the above been utilized by you or your country team?

Yes (%)	No (%)	No Answer (%)
67	13	20

2. If yes, please mark relevant guideline/s. (Respondents can mark more than one)

Guidelines	(in %)
1. Selectivity in support of a limited number of major policy/institutional reforms over a longer timeframe.	22
2. Partnership with other donors/stakeholders in joint country diagnostic assessments.	19
3. Cofinancing, especially for capacity development.	16
4. Relaxed CPS requirements.	7
5. Expanded use of parallel Project Implementation Units.	16
6. Expanded use of grants/quick disbursing instruments.	10
7. Relaxed procurement, disbursement, project appraisal/processing procedures.	7
8. Differentiated staff skills and incentives.	3
Total	100
Total Frequency	58

3. What do you think are the countries which are suitable for FCAS classification?

1. Post-conflict countries and small island countries w/ limited capacities.
2. Countries with poor project implementation rates.
3. There is a need to have indicators first to determine if a country is considered FCAS.
4. Countries with very quick low level of development in terms of infrastructure, legal and governance framework. Also, these countries often suffer from political instability and are prone to natural disasters.
5. Countries that are extremely vulnerable to exogenous and endogenous shocks and that have significant structural and institutional constraints.
6. All Pacific DMCs
7. Some relaxation of requirements would be good.

4. What do you think are the advantages or disadvantages of FCAS countries?

Advantages	Disadvantages
1. Access to grant financing and support for capacity development.	1. Limited resources.
2. Potential benefit from more flexible approach.	2. Private sector may be discouraged to invest.
3. FCAS can relax requirements of a project implementation/administration.	3. FCAS countries are prone to rely on aid and are weak in ownership and commitment to reforms presented by different development partners.
4. There are many possibilities for the FCAS countries to leapfrog in development.	4. Strengthening of institutional knowledge on these countries and strong case for establishing country offices to improve in-country donor coordination, reduce transaction costs, etc.
5. FCAS countries normally receive lenient treatment and aid from many development partners.	5. Too many disadvantages (not specified).
6. Greater level of flexibility in terms of how support within ADB is provided rather than a "one-size-fits-all" approach.	6. Poor international perception of a government of a FCAS.
7. More financial and TA resources and streamlined processes.	

5. Do you think possible benefits of being classified as a FCAS outweigh the potential costs?

Yes (%)	No (%)	No Answer (%)
57	20	23

6. Do you think ADB's internal control mechanisms should be relaxed for countries classified as FCAS, regardless of country-specific governance?

Yes (%)	No (%)	No Answer (%)
37	40	23

7. Do you think current overall donor support on capacity development is having an impact on increasing government's absorptive capacity for more assistance?

Yes (%)	No (%)	No Answer (%)
43	20	37

8. What are the best ways to raise awareness and enhance coordination/implementation of FCAS policy and operations?

Through	%
1. Creation of new Community of Practice (CoP)	37
2. Subgroup under existing CoP	7
3. CPS preparation dialogue	23
4. Others (e.g., workshop, etc.)	33

REVIEW OF ADB COUNTRY PARTNERSHIP STRATEGIES AND SIMILAR DOCUMENTS

Table A4.1: Profile of ADB Country Partnership Strategies for Countries Classified as Fragile and Conflict-Affected Situations, Prior to the 2007 Approach Paper (2004–2007)

REFERENCES TO	CURRENT FCAS								EXITED FCAS			
	AFG	FSM	KIR	PNG	RMI	SOL	TML	VAN	AZE	LAO	NEP	UZB
FCAS/WPC/CPA/fragile conditions	Post-conflict, least-developed country	NONE	NONE	weakly performing or conflict prone resource-rich developing countries (indirect)	weakly performing state, small, fragile states of the Pacific (both indirect)	NONE	poor postconflict country	foundations for growth are fragile	unresolved border conflict with ARM	CPA rating lowest in ADB	fragile security situation	NONE
Fragility/WPC model of engagement	post-war/civil conflict, opium-related instability from neighbors	stable democracy, state domination of economy, heavy reliance on foreign aid	limited economic diversity, excessive dependence on public sector employment and control over economic sectors, stable financially and politically	macroeconomic and political stability since 2002, increasingly unstable and politicized bureaucracy, constant threats to stability of ruling government	economy is under significant stress; social conditions are worsening,	overthrow of elected government in 2000 and subsequent armed conflict, near-collapse of the economy, process of building sustainable peace and resuscitating economy will take time	low institutional capability and absorptive capacity; period of consolidation as it deals with a decrease in external assistance; generally stable and secure political situation	political situation currently unstable	macroeconomic and political stability	shift from a centrally planned to market-based economy	escalating armed insurgency, power struggles/fragile coalitions, corruption/weak governance	unfinished transition agenda, significant state control over economy and corruption
Willingness of Government to reform	endorsement of ADB approach/strategy	poor political commitment for SOE reform	NONE	external partners face difficulty in assessing the depth of Government commitment and whether it can be sustained	previous lack of implementation of policy recommendations	NONE	leadership's commitment to the actions matrix agreed with development partners under the Transition Support Program	12 coalition parties in government has caused inconsistency in policy and leadership direction	NONE	Government is committed to improved public sector management, domestic resource mobilization	difficulties in government participation in field activities, frequent staff changes in government, delays in loan effectiveness, under-funding of operation and maintenance	NONE
WPC size	NONE	NONE	small domestic market, sparsely populated islands	small and weakly integrated market	NONE	NONE	small markets	NONE	NONE	small, sparsely populated country	NONE	population, economy and reform agenda are large

REFERENCES TO	CURRENT FCAS								EXITED FCAS			
	AFG	FSM	KIR	PNG	RMI	SOL	TML	VAN	AZE	LAO	NEP	UZB
Limited major policy/institutional reforms												
- Infrastructure/ Investment	transport, energy, NRM	explicitly addressing poverty issues	development of outer island growth centers = land and water issues, social concerns and health threats	NONE	NONE	NONE	improvement of infrastructure assets and services, (roads, water supply and sanitation, power, and telecommunications)	NONE	education, energy, rural development, transportation, urban development, water supply and sanitation	agriculture, primary health care, basic education, transport, and urban water supply/sanitation; infrastructure investments (including private sector finance, guarantees or other commercial lending instruments) and for developing commercial sector	transport; agriculture and rural development; energy; education; water supply, sanitation and urban development; social protection	rural development (71%), human development (13%), regional cooperation (13%), energy (3%)
- Policy reform	governance, finance, banking, telecoms	public sector management, administration, and performance-based budgeting, national poverty reduction strategy, participatory nation building initiatives, and	land management reform	private sector development,	private sector and social sector development	Reform and private sector participation in the SOE sector, transport infrastructure and services, strengthening the enabling environment for the private sector	NONE	policy/ institutional/legal framework for private and financial development; promote reform in good governance, government business enterprise (GBE) reform, and improving infrastructure services;	banks and non-bank financial institutions	SME development	5 ETSW; finance and private enterprise development; implementation of a road fund and other measures on road maintenance	rural development (40%), human development (33%), regional cooperation (18%), energy (9%)
- Institutional development/ capacity building	anti-corruption/ public sector management, trade/transit facilitation	public sector management, administration, and performance-based budgeting, ; civil society participation; youth and gender assessments	create long-term plan that considers land use planning, transportation, expanded water/sewer systems, protection of freshwater lenses, solid waste management	public financial management, transport sector, health and HIV/AIDS, operating information technology	personnel audits to strengthen public services delivery, strengthening of the Economic Policy, Planning and Statistics Office (EPPSO) in support of improved policy formulation and implementation	long-term capacity building; reform and private sector participation in the SOE sector, infrastructure and services	NONE	development of a medium-term strategic framework, secured transaction reforms, and rural microfinance outreach	IAs' and EAs' training to ensure timely project completion	build capacity of Government to generate and utilize the information required for accurate and timely decision making; develop suitable projects and effective sector institutions	policy-making and regulatory oversight capacities of the road transport authority will be developed	

REFERENCES TO	CURRENT FCAS								EXITED FCAS			
	AFG	FSM	KIR	PNG	RMI	SOL	TML	VAN	AZE	LAO	NEP	UZB
Special forms of partnership with Government	programmatic approach, Government-led	NONE	NONE	regular program of training and outreach for EAs on financial management requirements, even beyond project life	NONE	NONE	NONE	NONE	ADB as source of knowledge for policy reforms, strategy implementation, project design and implementation; understanding of Government's internal processing requirements	NONE	routine restructuring and refocusing of ongoing ADB operations with Government through bi-monthly and quarterly meetings; tap EAs with previous experience working with ADB; help Government scale up good practices and design realistic reforms	closer Government supervision of ADB projects, ADB membership in high-level coordination council to support the Government's long-term plan
Special forms of partnership with Development Partners	ADB as focal point for transport and NRM, member of group on (i) energy-mining-telecom, and (ii) public-economic management; \$17 M cofinancing	visits/meetings with US Department of Interior for the US Compact funds,	discussing ways to streamline implementation processes with a view to moving toward harmonization	seek closer relationship with AusAID across its Pacific operations in regard to PSD, infrastructure development and management; help move toward donor roundtable process; Lead coordinated approach to PSD	NONE	NONE	NONE	NONE	joint declaration to align various partner CPSs with Government strategy; membership in sector working groups	active participation in all 8 multi-donor working groups; assist Government to establish a national harmonization action plan	joint annual portfolio performance review; co-chairmanship of Nepal Donor Group's subgroup on agri and energy; membership in Reform and Development Group; pursue cofinancing but retain core components with ADB; involve partners early on in project identification	joint WB and ADB portfolio/procurement assessment, \$122 M cofinancing, URM to develop cofinancing strategy, formal/informal donor aid coordination mechanisms
Special forms of partnership with Non-Government Organizations	NONE	NONE	NONE	pursue grassroots feedback and participation in the Consultative Implementation and Monitoring Committee; consider use of private sector or civil society as delivery agents to address capacity constraints in EAs	financing for 4 informal retreats that stimulated improved policy dialogue between Government and civil society	NONE	NONE	NONE	NONE	explore further opportunities for public-private partnerships similar to the NT2 project	involve NGOs and CBOs in implementation; ensure project benefits are realized by excluded groups/poor; more up-front investment in awareness and consensus building	NGOs implemented grant- and loan-funded components

REFERENCES TO	CURRENT FCAS								EXITED FCAS			
	AFG	FSM	KIR	PNG	RMI	SOL	TML	VAN	AZE	LAO	NEP	UZB
Special modalities of intervention												
- Loan	quick-disbursing program loan at least every other year	NONE	program modality, investment project using a multisector approach	increase flexibility of loan products, in terms of setting interest rates, currency swaps, and the option of local currency financing	NONE	NONE	an ADB-funded project management unit will be available to help the Government and partners execute their own road investments	NONE	credit-enhancement products like guarantees	use of a sector development modality; PSOD and OCO will assist in new forms of instruments, (e.g., partial risk guarantees and bonds) to help widen opportunities for public-private partnerships	more sector-wide and programmatic approaches; road sector loan modality (to adjust to evolving security conditions in regions)	caution against policy-based lending/SWAs
- TA	NONE	NONE	NONE	NONE	NONE	RETAs on civil aviation safety/security and Pacific Regional Transport Analysis	NONE	NONE	NONE	NONE		TA cluster, loan-linked CDTA,
- Grant	multisectoral and community-based JFPR	NONE	trust fund (dropped by new Government who preferred investments in growth centers)	political risk guarantees for commercial lenders to the PNG Gas Project, ADB co-financing of a Pacific regional investment vehicle (the Kula Fund)	NONE	NONE	grant-based infrastructure support in the absence of a lending pipeline	NONE	NONE	finance long-term investments (education and health); augment livelihood options for poor remote communities; and finance regional investments in communicable disease prevention	SAME	NONE
- Policy dialogue (no TA)	NONE	NONE	NONE	NONE	NONE	prepare for the Government an economic report with in-depth analysis of, and policy options for, critical issues on the development agenda	NONE	policy dialogue in support of the grant activities will be critical	NONE	policy dialogue (most important), ETSW, and coordination to support public expenditure management reform		diagnostic studies (on poverty, environment, agriculture, governance and private sector) helped initiate policy debate

REFERENCES TO	CURRENT FCAS								EXITED FCAS									
	AFG	FSM	KIR	PNG	RMI	SOL	TML	VAN	AZE	LAO	NEP	UZB						
Special allocation of resources	"overprogramming"				\$1.5 M per year of ADF allocation								develop more robust lending pipeline to prevent underutilization of ADF (e.g. Replace ADTAs with PPTAs)					
- Loan	\$200 M per year; \$100 M of loan/equity; \$100 M of private sector guarantees	no new loans pipelined, but \$3-4 M per year available	\$5 M ADF per year	\$25 M ADF allocation per year	no new loans due to Government's continuing ADB loan arrears	NONE	Government does not have an explicit "no-borrowing" policy	Government would not borrow because of its economic and fiscal priorities and large grants available	NONE	\$20 M per year of ADF allocation for LAO + access to \$40 M of ADF allocation for GMS	11 projects; program lending = 1/3 of \$350 M						\$100 M per year	
- TA/Policy dialogue/ Capacity development	\$10 M per year	\$0.7 M per year	\$0.6 M per year	\$2-2.5 M per year	NONE	NONE	\$1 M per year	\$0.6 M per year	NONE	\$3-\$3.5 M per year	26 TAs = 16 PPTAs and 10 institutional development TAs						\$2 M per year	
- Grant	half of total lending allocation	NONE	NONE	mobilize supplementary grant financing to address constraints to infrastructure/related services provision across the Pacific	NONE	NONE	ADB's grant leveraging strategy involves sector leadership, sector coordination, and sector-based resource mobilization for infrastructure sectors	minimal grant program is available	NONE	up to 50% of \$20 M ADF allocation in the form of grants; additional sources of grant assistance are being identified for all the lending projects in the pipeline							NONE	
Special application of ADB policies and procedures	waiver of Government cost-sharing for loans and TAs	NONE	NONE	raise current upper limit for LCB from \$1 M to \$3 M; make 2 envelope system (with no prequalification) the 'default' approach to procurement, cost-sharing ceiling is up to 70%; allow ADB financing of taxes and duties + recurrent costs financing in moderation	NONE	NONE	NONE	NONE	NONE	NONE	NONE							NONE

REFERENCES TO	CURRENT FCAS								EXITED FCAS			
	AFG	FSM	KIR	PNG	RMI	SOL	TML	VAN	AZE	LAO	NEP	UZB
Special staffing arrangements	special security arrangements for staff and consultants	NONE	NONE	strengthen PNRM capacity within ADB's overall administrative budget constraints, back-up PNRM by HQ-PARD specialists in the sector and thematic priority areas on a part time basis	Given absence of RM and small ADB program, independent entities recruited under each TA will monitor and report on implementation	NONE	NONE	NONE	NONE	without any increase in staff positions (because of larger but fewer projects); change ADB staff mix, focus, and deployment; redeploy HQ staff to LRM towards infrastructure, and social sectors for regular policy dialogue and increased project supervision and portfolio management	greater NRM staff resources than currently available	professional staff economist + national economics officer in URM for economic/sector work; project analyst for portfolio management; sector specialist
Other special and differentiated treatment as WPC	NONE	NONE	NONE	extend PPTA scope/duration to include consultant support for counterpart preparation, initial capacity development/implementation and advance procurement action and start-up costs; apply ADB Indigenous Policy to PNG projects dealing with rural populations on a case-to-case basis	Given RMI's continued weak performance and failure to address ballooning public sector employment etc, ADB's strategy and program will be consolidated further; extend strategy period (2007 to 2011)	flexibility in the proposed CPS over the planning period, to reflect the progress made in the country's overall rehabilitation/development process and to adjust to other aid agencies' strategies and programs	ADB and WB mitigated the budget execution risk for TFET project execution by embedding project management units in implementing agencies	project management consultants and in-house advisors have monitored project implementation; training of counterpart staff in ADB policies and procedures, and sector-related developments	NONE	harmonize its M&E efforts with those of the Government, other development partners and stakeholders, and use national systems to the greatest extent possible; Improve program lending by providing prior support for diagnostic assessments, capacity development and sector readiness	combine community-based approaches to delivery of basic services; simplify project designs; design longer timeframes, pay greater attention to local service delivery	studies to establish baselines and refine targets in CPS results framework; pilot a results-oriented sector strategy

ADB = Asian Development Bank, ADF = Asian Development Fund, ADTA = advisory technical assistance, AFG = Afghanistan, AZE = Azerbaijan, CBO = community-based organization, CDTA = capacity development technical assistance, CPA = country performance assessment, EA = executing agency, EPPSO = economic policy, planning, and statistics office, ETSW = economic, thematic, and sector work, FCAS = fragile and conflict-affected situations, FSM = Federated States of Micronesia, HQ = headquarters, KIR = Kiribati, LAO = Lao People's Democratic Republic, M&E = monitoring and evaluation, NEP = Nepal, NRM = Nepal Resident Mission, PARD = Pacific Regional Department, PNG = Papua New Guinea, PNRM = Papua New Guinea Resident Mission, PPTA = project preparatory technical assistance, RETA = regional technical assistance, OCO = Office of Cofinancing Operations, RMI = Republic of Marshall Islands, SOL = Solomon Islands, TA = technical assistance, TFET = Trust Fund for East Timor, TIM = Timor-Leste, UZB = Uzbekistan, VAN = Vanuatu, VIE = Viet Nam, WB = World Bank, WPC = weakly performing country.

Note: Afghanistan and Timor-Leste use PCPI score - different in scale from CPA scores. In the absence of CPSs, documents reviewed for AFG, FSM, KIR, RMI, SOL, TML, VAN, and AZE were COBPs. No CPS or COBP was available for TUV and TAJ from 2004 to 2007. The 2006 COBP for PAL was not reviewed since PAL became an FCAS only in 2009.

Source: Various country partnership strategies and country operational business plans.

1. **Methodology.** Two document review periods were set:
 - (i) 2004–2006 to represent the time when there was already awareness of fragile and conflict-affected situation (FCAS) issues up to its discussion in the 2006 Medium-Term Strategy II,¹ thus corresponding to lower expectations about country partnership strategy (CPS) responsiveness; and
 - (ii) 2007–2010 to represent the time when country teams had sufficient policy guidance on FCAS from the 2006 Medium-Term Strategy II and the 2007 approach paper, thus corresponding to higher expectations about CPS responsiveness relative to 2004–2006.

2. The latest CPSs were then compiled for each review period. If a CPS was not available, the latest country operational business plan was considered, based on the assumption that such documents are allowed to change the CPS provisions to align them with new corporate guidance (such as the FCAS approach paper).

3. The CPSs and country operational business plans were then assessed based on the following:
 - (i) **Reference to FCAS contexts:** direct or indirect mention of (a) FCAS, (b) fragility model, (c) government willingness to reform, and (d) the FCAS approach paper's selectivity principle (large FCAS countries ought to focus on a limited number of sectors while smaller FCAS countries could cover national programs).
 - (ii) **Reference to modes of differentiation:** (a) limited number of policy and institutional reforms, (b) special forms of partnership with government and development partners, including nongovernment organizations, (c) special modalities of interventions, (d) special allocation of resources, (e) special application of ADB policies and procedures, (f) special staffing arrangements, and (g) other special and differentiated treatment as an FCAS country.

4. Countries were then grouped according to current FCAS countries and exited FCAS countries. The latter pose a methodological problem if the CPS being reviewed corresponds to the period after the country has already exited FCAS status—should it still be benchmarked against the FCAS context when it is no longer considered an FCAS country? This was the case for Nepal and Tajikistan. To resolve the problem, the special evaluation study continued to apply the FCAS benchmarks to establish whether there were clear distinctions in the country approaches between current FCAS countries and exited FCAS countries.

¹ Asian Development Bank. 2006. *Medium-Term Strategy II 2006–2008*. Manila.

Table A4.2: Responsiveness of ADB Country Documents to the ADB Policy on FCAS Before the Issuance of the 2007 Approach Paper (2004–2007)

REFERENCES TO	CURRENT FCAS								EXITED FCAS			
	AFG	FSM	KIR	PNG	RMI	SOL	TML	VAN	AZE	LAO	NEP	UZB
FCAS/WPC/CPA/fragile conditions	3	0	2	3	2	0	3	2	2	2	2	1
Fragility/WPC model of engagement	1	2	2	3	1	3	2	2	1	3	3	3
Willingness of Government to reform	2	2	0	2	1	0	2	2	0	2	2	2
WPC size	0	0	3	3	0	0	3	0	0	2	1	3
Limited major policy/institutional reforms	2	2	2	2	2	3	2	1	2	2	1	1
Special forms of partnership with Government	3	0	0	2	0	0	3	2	2	3	3	2
Special forms of partnership with Development Partners	3	2	2	3	2	3	3	2	3	3	3	3
Special modalities of intervention	1	0	3	3	0	0	0	0	0	2	3	1
Special allocation of resources	3	1	1	3	1	2	2	1	1	2	3	2
Special application of ADB policies and procedures	3	0	0	3	0	0	0	0	0	2	2	0
Special staffing arrangements	3	0	0	2	1	0	0	0	0	3	2	3
Other special and differentiated treatment as WPC	0	0	0	3	3	2	2	2	0	0	3	3
Mean Scores	2.0	0.8	1.3	2.7	1.1	1.1	1.8	1.2	0.9	2.2	2.3	2.0

ADB = Asian Development Bank, AFG = Afghanistan, AZE = Azerbaijan, CPA = country performance assessment, FCAS = fragile and conflict-affected situations, FSM = Federated States of Micronesia, KIR = Kiribati, LAO = Lao People's Democratic Republic, NEP = Nepal, PNG = Papua New Guinea, RMI = Republic of Marshall Islands, SOL = Solomon Islands, TML = Timor-Leste, UZB = Uzbekistan, VAN = Vanuatu, WPC = weakly performing country.

Ratings: 3 = Highly responsive; 2 = Responsive; 1 = Less responsive; 0 = Not responsive.

Note: In the absence of country partnership strategies, documents reviewed for AFG, FSM, KIR, RMI, SOL, TML, VAN, and AZE were country operational business plans (COBPs). No country partnership strategy or COBP was available for TUV and TAJ from 2004 to 2007. The 2006 COBP for Palau was not reviewed since Palau became an FCAS only in 2009.

Source: Various country partnership strategies and country operational business plans.

Table A4.3: Responsiveness of ADB Country Documents to the ADB Policy on FCAS After the Issuance of the 2007 Approach Paper (2008–2010)

REFERENCES TO	CURRENT FCAS										EXITED FCAS	
	AFG	FSM	KIR	PAL	PNG	RMI	SOL	TML	TUV	VAN	NEP	TAJ
FCAS/WPC/CPA/fragile conditions	3	2	3	3	0	3	3	3	3	0	1	
Fragility/WPC model of engagement	1	1	2	2	0	0	3	1	2	0	3	2
Willingness of Government to reform	3	2	3	0	0	3	2	2	2	0	3	2
WPC size	3	0	0	3	0	3	0	0	3	0	2	3
Limited major policy/institutional reforms	2	2	3	2	1	2	3	3	3	2	2	3
Special forms of partnership with Government	1	0	0	2	0	2	2	0	3	0	3	
Special forms of partnership with Development Partners	2	2	3	2	0	2	3	0	3	0	3	3
Special modalities of intervention	2	0	1	3	0	2	3	3	3	2	3	3
Special allocation of resources	3	2	1	2	3	1	3	1	1	1	3	3
Special application of ADB policies and procedures	0	0	0	3	3	0	3	0	2	0	3	3
Special staffing arrangements	3	1	1	1	3	1	1	1	1	1	3	
Other special and differentiated treatment as WPC	3	1	0	2	3	3	3	0	3	2	3	3
Mean Scores	2.2	1.1	1.4	2.1	1.1	1.8	2.4	1.2	2.4	0.7	2.7	2.8

ADB = Asian Development Bank, AFG = Afghanistan, CPA = country performance assessment, FCAS = fragile and conflict-affected situations, FSM = Federated States of Micronesia, KIR = Kiribati, NEP = Nepal, PAL = Palau, PNG = Papua New Guinea, RMI = Republic of the Marshall Islands, SOL = Solomon islands, TAJ = Tajikistan, TML = Timor-leste, TUV = Tuvalu, VAN = Vanuatu, WPC = weakly performing country.

Ratings: 3 = Highly responsive; 2 = Responsive; 1 = Less responsive; 0 = Not responsive.

Note: In the absence of CPSs, documents reviewed for FSM, KIR, PNG, RMI, TML and VAN were COBPs. No CPSs or COBPs were available for AZE, LAO and UZB from 2008–2010.

Source: Various country partnership strategies and country operational business plans.

**LIST OF SELECTED PROJECTS IN CURRENT AND EXITED FRAGILE AND CONFLICT-AFFECTED SITUATION COUNTRIES
(2000–2009)
A5.1: Loans and Grants**

Project No.	Project Name ^a	Sector	Amount (\$ million)	Funding Source	Approval Date
FCAS Countries					
1. Afghanistan					
L 2304	Regional Power Transmission Interconnection (Regional)	Energy	35.0	ADF	19-Dec-06
L 2257	North-South Corridor Project	Transport and ICT	78.2	ADF	26-Sep-06
L 2227	Western Basins Water Resources Management	Agriculture and Natural Resources	47.3	ADF	20-Dec-05
L 2215	Fiscal Management and Public Administration Reform Program	Public Sector Management	48.0	ADF	14-Dec-05
L 2165	Power Transmission and Distribution	Energy	26.5	ADF	14-Apr-05
L 2140	Andkhoy-Qaisar Road	Transport and ICT	80.0	ADF	15-Dec-04
L 2105	Regional Airports Rehabilitation Project Phase I	Transport and ICT	30.0	ADF	23-Nov-04
L 2091	Afghanistan Investment Guarantee Facility	Finance	5.0	ADF	24-Sep-04
L 2083	Agriculture Sector Program	Agriculture and Natural Resources	55.0	ADF	04-May-04
L 1997	Emergency Infrastructure Rehabilitation and Reconstruction	Multisector	150.0	ADF	03-Jun-03
L 1954	Postconflict Multisector Program	Multisector	167.2	ADF	04-Dec-02
G 0004	Power Transmission and Distribution Project	Energy	23.5	ADF	14-Apr-2005
G 0012	Qaisar-Bala Murghab Road Project	Transport and ICT	55.0	ADF	12-Jul-2005
G 0030	Capacity Building for Institutional Development	Public Sector Management	7.0	ADF	14-Dec-2005
G 0033 ^b	MFF- Water Resources Development Investment Program (Facility Concept)	Agriculture and Natural Resources	303.3	ADF	23-Sep-2009
G 0067	Private Sector and Financial Market Development Program	Finance	56.0	ADF	14-Dec-2006
G 0068	Supporting Private Sector and Financial Market Reforms	Finance	4.0	ADF	14-Dec-2006
G 9019	Community-Based Gender-Sensitive Basic Education for the Poor	Education	4.0	JFPR	10-Sep-2002
G 9024	Road Employment Project for Settlement and Integration of Returning Refugees and Displaced Persons	Transport and ICT	15.0	JFPR	3-Oct-2002
G 9030	Primary Health Care Partnership for the Poor	Health and Social Protection	3.0	JFPR	19-Dec-2002
G 9037	Emergency Road Rehabilitation	Transport and ICT	20.0	JFPR	19-Dec-2003
G 9038	Integrated Community Development in Northern Afghanistan	Agriculture and Natural Resources	3.0	JFPR	26-Dec-2003

Project No.	Project Name ^a	Sector	Amount (\$ million)	Funding Source	Approval Date
G 9039	Rural Recovery through Community Based Irrigation Rehabilitation		5.0	JFPR	26-Dec-2003
G 9060	Balkh River Basin Water Resources Management		10.0	JFPR	15-Dec-2004
G 9097	Rehabilitation of Bamian-Yakawlang Road (North South Corridor)		20.0	JFPR	26-Sep-2006
G 9100	Afghanistan Rural Business Support Project		18.0	JFPR	12-Dec-2006
2. Federated States of Micronesia					
L 2099	Omnibus Infrastructure Development	Multisector	14.2	ADF	05-Nov-04
L 2100	Omnibus Infrastructure Development	Multisector	4.8	OCR	05-Nov-04
L 1873	Private Sector Development Program (Program Loan)	Public Sector Management	5.0	ADF	12-Dec-01
L 1874	Private Sector Development Program (Project Loan)	Public Sector Management	8.0	ADF	12-Dec-01
3. Papua New Guinea					
L 1875	Public Service Program	Public Sector Management	70.0	OCR	12-Dec-01
L 1754	Rehabilitation of the Maritime Navigation Aids System	Transport and ICT	19.8	OCR	12-Sep-00
L 2079	Community Water Transport	Transport and ICT	19.0	ADF	24-Mar-04
L 1925	Coastal Fisheries Management and Development	Agriculture and Natural Resources	5.7	ADF	24-Oct-02
L 1889	Nucleus Agro-Enterprises	Agriculture and Natural Resources	5.9	ADF	18-Dec-01
L 1812	Provincial Towns Water Supply and Sanitation	Water and Other Municipal Infrastructure and Services	15.3	ADF	14-Dec-00
L 1768	Microfinance and Employment	Finance	9.6	ADF	19-Oct-00
G 0042	HIV/AIDS Prevention and Control in Rural Development Enclaves	Health and Social Protection	22.0	ADF, AUS/NZ	25-Apr-2006
G 9002	Low-Cost Sanitation, Community Awareness and Health Education Program	Multisector	1.7	JFPR	14-Dec-2000
4. Republic of the Marshall Islands					
L 1828	Fiscal and Financial Management Program ^b	Public Sector Management	4.0	OCR	07-Jun-01
L 1829	Fiscal and Financial Management Program	Public Sector Management	8.0	ADF	07-Jun-01
L 1948	Outer Island Transport Infrastructure	Transport and ICT	7.0	ADF	28-Nov-02
L 1791	Skills Training and Vocational Education	Education	6.8	ADF	29-Nov-00
5. Solomon Islands					
L 1823	Post-Conflict Emergency Rehabilitation	Multisector	10.0	ADF	21-Dec-00
G 0048	Road Improvement (Sector)	Transport and ICT	16.2	ADF, AUS/NZ	8-Aug-2006

Project No.	Project Name^a	Sector	Amount (\$ million)	Funding Source	Approval Date
6. Timor-Leste					
G 0017	Road Sector Improvement	Transport and ICT	10.0	ADF	27-Sep-2005
G 8185/8189	Water Supply and Sanitation Rehabilitation Project	Water and Other Municipal Infrastructure and Services	9.0	TFET	31 July 2000
7. Tuvalu					
L 2088	Maritime Training (Supplementary)	Education	1.97		03-Aug-04
L 1921	Maritime Training	Education	1.85	ADF	16-Oct-02
Exited FCAS Countries					
1. Azerbaijan					
L 2068	Flood Mitigation	Agriculture and Natural Resources	22.0	ADF	19-Dec-03
2. Tajikistan					
L 2000	Microfinance Systems Development Program (Program Loan)	Finance	4.0	ADF	26-Jun-03
L 2001	Microfinance Systems Development Program (Project Loan)	Finance	4.0	ADF	26-Jun-03
L 1912	Emergency Baipaza Landslide Stabilization	Agriculture and Natural Resources	5.3	ADF	10-Sep-02
L 1852	Emergency Restoration of Yavan Water Conveyance System	Water and Other Municipal Infrastructure and Services	3.6	ADF	30-Oct-01
L 1817	Power Rehabilitation	Energy	34.0	ADF	20-Dec-00
L 1819	Road Rehabilitation	Transport and ICT	20.0	ADF	20-Dec-00
3. Uzbekistan					
L 2017	Grain Productivity Improvement	Agriculture and Natural Resources	26.0	OCR	14-Nov-03
L 1960	Education Sector Development Program (Program Loan)	Education	70.0	OCR	06-Dec-02
L 1799	Small and Medium Enterprise Development	Industry and Trade	50.0	OCR	11-Dec-00
L 1773	Railway Modernization	Transport and ICT	70.0	OCR	31-Oct-00
L 1737	Senior Secondary Education	Education	57.0	OCR	08-Feb-00
4. Nepal					
L 1861	Governance Reform Program	Public Sector Management	30.0	ADF	27-Nov-01
L 1876	Road Network Development	Transport and ICT	46.0	ADF	13-Dec-01
L 1966	Urban and Environment Improvement	Water and Other Municipal Infrastructure Services	30.0	ADF	10-Dec-02

Project No.	Project Name ^a	Sector	Amount (\$ million)	Funding Source	Approval Date
5. Lao People's Democratic Republic					
L 1867	Environment and Social Program	Multisector	20.0	ADF	06-Dec-01
L 1795	Rural Access Roads	Transport and Communications	25.0	ADF	07-Dec-00
L 1834	Vientiane Urban Infrastructure and Services	Water Supply, Sanitation, and Waste Management	25.0	ADF	23-Aug-01

ADF = Asian Development Fund, AUS = Australia, JFPR = Japan Fund for Poverty Reduction, NZ = New Zealand.

^a The list includes projects that have been reviewed and/or evaluated by the SES.

^b Related to this is Grant 0033-AFG: Western Basins Water Resources Management Project approved on 20 December 2005 amounting to \$14.5 million (ADF).

^c Multitranches Financing Facility/related ADF loan

Source: ADB database.

Table A5.2: Technical Assistance

TA No.	Project Title ^a	Type of TA	Amount (\$)	Funding Source	Approval Date
FCAS Countries					
1. Papua New Guinea					
4798	Demographic and Health Survey in Papua New Guinea	AD	2,232,000	JSF, Australia/New Zealand	07-Jul-06
4798	Demographic and Health Survey in Papua New Guinea (Supplementary)	AD	213,523	UNICEF	30-Aug-07
4798	Demographic and Health Survey in Papua New Guinea (Supplementary)	AD	107,000	UNFPA	24-Oct-06
4947	Support for Public Expenditure Review and Rationalization	AD	500,000	JSF	29-Jun-07
2. Solomon Islands					
4494	Institutional Strengthening of the Ministry of Infrastructure and Development	AD	700,000	TASF	17-Dec-04
4482	State-Owned Enterprise Reforms and Private Sector Participation	AD	800,000	TASF, Australia	15-Dec-04

AD = advisory, JSF = Japan Special Fund, TASF = Technical Assistance Special Fund, UNFPA = United Nations Population Fund, UNICEF = United Nations Children's Fund.

^a The list includes projects that have been reviewed and/or evaluated by the SES.

Source: ADB database.

FCAS SES: Projects Causing Major Delays

Country/ Year	Average Major Elapsed Time (in months)	<u>Approval to Loan Effectiveness</u>		<u>Loan Effectiveness to First Disbursement</u>	
		Project Title	Elapsed Time (in months)	Project Title	Elapsed Time (in months)
2003 Federated States of Micronesia	14.2	Loan 1816: Basic Social Services Project	25.1		
2004 Solomon Islands	29.5			Loan 1823: Post Conflict Emergency Rehabilitation Project	34.5
2005 Papua New Guinea	18.2			Loan 2079: Community Water Transport Project	12.2
2006 Tuvalu	16.3			Loan 2088: Maritime Training Project	18.5
2007 Papua New Guinea	14.6			Loan 2242/2243: Road Maintenance and Upgrading (Supplementa ry)	12.7
2008 Federated States of Micronesia	19.7			Loan 2099: Omnibus Infrastructure Development Project	24.3

Country/ Year	Average Major Elapsed Time (in months)	<u>Approval to Loan Effectiveness</u>		<u>Loan Effectiveness to First Disbursement</u>	
		Project Title	Elapsed Time (in months)	Project Title	Elapsed Time (in months)
2009 Afghanistan	19.9			Loan 2091: Afghanistan Investment Guarantee Facility Project	51
				Loan 2304: Regional Power Transmission Interconnectio n Project (AFG component)	18.3
				Grant 0081: Road Network Development Project 1	20.9
Timor Leste				Grant 100: Dili Urban Water Supply Sector Project	18.3
2006 Azerbaijan	12.6	Loan 2119: Urban Water Supply Sanitation Project	22.7		
2007 Uzbekistan	15.1	Loan 2208: Kashkadarya and Navoi Rural Water Supply and sanitation Sector Project	16.9		
		Loans 2245/6: Land Improvement Project	15.6		
2008 Lao PDR	11.6			Loan 2253: Rural Finance Sector Development Project	21.7

Country/ Year	Average Major Elapsed Time (in months)	<u>Approval to Loan Effectiveness</u>		<u>Loan Effectiveness to First Disbursement</u>	
		Project Title	Elapsed Time (in months)	Project Title	Elapsed Time (in months)
2009 Tajikistan	15.4			Grant 0055: Northern Region Sustainable Livelihoods through Livestock Development	11.8
				Loan 2313: Rural Development Project	20.5

ADB = Asian Development Bank, FCAS = fragile and conflict-affected situations, EA = executing agency, PIA = policy and institutional assessment.

Sources: Project completion reports, project performance reports, project information documents, Memo to the Board: Major Change in Scope, Assessment Sheet (FCAS SES).

FCAS: NUMBER OF SECTORS IN THE CPS PIPELINE AND ACTUAL PROGRAM/PROJECT APPROVALS

	Pipeline					Approved				
	2000–2005		2006–2009		Change in No. of Sectors (2000–2005 vs 2006–2009)	2000–2005		2006–2009		Direction of Change
	No. of Sectors	Sector Focus ^b	No. of Sectors	Sector Focus ^b		No. of Sectors	Sector Focus ^b	No. of Sectors	Sector Focus ^b	
Current FCAS										
Afghanistan	9	ANR, Energy, Transport & ICT	5	Energy, Transport & ICT, ANR	↓	9	ANR, Energy, Transport & ICT	6	Energy, Transport & ICT, ANR	↓
Micronesia, Fed. States of	4	PSM	3	PSM	↓	4	PSM	2	PSM	↓
Kiribati	4	ANR, Industry & Trade, Water Supply, Transport	5	Finance, Health & SP, Water Supply, PSM, Transport	↑	0	PSM, ANR, Water Supply	0	PSM, ANR, Water Supply	↔
Palau ^c	0		2	Water Supply, PSM	-	0	-	0	Water Supply, PSM, Health and SP	↔
Papua New Guinea	8	ANR, PSM, Transport	8	Transport, Energy, Finance, Health & SP, PSM	↔	9	PSM, Health & SP, Transport, ANR	6	Transport, Health & SP, PSM	↓
Republic of Marshall Islands	5	Multisector (Health & SP and PSM), PSM	4	ANR, Water Supply, PSM, Multisector	↓	7	PSM, Transport, Education, Health & SP	2	PSM, Education	↓
Republic of Nauru ^d	3 ^e	PSM, Finance, Health & SP	0		-	0	PSM, Energy, Finance	0	Finance	↔
Solomon Islands	2	PSM, Transport	3	PSM, Transport	↑	4	PSM, Transport	3	Transport, Multisector (postconflict rehab and emergency assistance)	↓
Timor-Leste	4	Finance, PSM, Multisector	4	Multisector (transport, infra capacity bldg)	↔	7	PSM, Transport, Finance	5	Transport, Water Supply	↓
Tuvalu	3	Education, Water Supply, PSM	3	Education, Water Supply, PSM	↔	4	Education, PSM	2	PSM	↓
Vanuatu	5	ANR, Education, Finance, PSM, Transport	5	Education, Health & SP, Water Supply, PSM, Transport	↔	0	PSM, Finance, Education	0	Finance, Water Supply, Transport	↔
Exited FCAS										
Azerbaijan	7	ANR, Education, Finance, PSM, Transport	8	Education, Health & SP, Water Supply, PSM,	↑	7	PSM, Water Supply, Transport, ANR	3	Energy, Transport	↓
Lao PDR	9	PSM, ANR, Transport	9	PSM, ANR, Transport	↔	10	ANR, PSM, Transport	10	ANR, PSM, Health & SP	↔
Nepal	6	ANR, Finance, PSM	8	PSM, Energy, ANR, Transport	↑	9	PSM, ANR, Education, Water Supply	9	PSM, Transport, ANR, Water Supply	↔
Tajikistan	8	no particular focus (covered all sectors except education and water supply)	8	no particular focus (covered all sectors except industry & trade and water supply)	↔	10	ANR, Energy, Transport, PSM	6	ANR, Transport, Energy	↓
Uzbekistan	8	no particular focus (covered all sectors except Health &	10	no particular focus (covered all sectors)	↑	9	ANR, Education, Finance, Water Supply	7	ANR, Water Supply, Transport	↓

ANR = Agriculture and Natural Resources, PSM = public sector management, SP = Social Protection

^a Include loan, grant, and TA programs/projects

^b Sectors with most number of proposed or approved loan/grant and TA programs/projects

^c No available CSP from 2000–2005

^d No available CSP from 2006–2009

^e From Nauru Country Assistance Plans 2000-2002 & 2001-2003.

Sources: CPS, CPSU, and COPB various years and Loan, technical assistance, grant and equity approvals database

MANAGEMENT RESPONSE TO THE SPECIAL EVALUATION STUDY ON ASIAN DEVELOPMENT BANK'S SUPPORT TO FRAGILE AND CONFLICT-AFFECTED SITUATIONS

On 8 November 2010, the Director General, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

I. General Comments

1. We appreciate the findings and recommendations of the Special Evaluation Study (SES) of ADB's Support to Fragile and Conflict-Affected Situations (FCAS). The SES is timely as ADB is strengthening its engagement with FCAS countries and considering improvements for its future approach.

2. The SES acknowledges that ADB's approach, as set forth in its 2007 paper, has been relevant. The SES emphasizes that a differentiated approach to engaging FCAS is needed, and notes that ADB has provided timely assistance focusing on key areas to many FCAS. The two pillars of ADB's approach - selectivity and strategic partnerships - have been followed. Since endorsement of the 2007 approach, ADB has made significant progress in addressing some of the challenges to achieving aid effectiveness in FCAS.

II. Comments on Specific Recommendations

3. **Recommendation 1. Classify FCAS countries at the CPS preparation stage based not only on the country performance assessment (CPA) rating but also on other fragile and/or conflict characteristics of the country, including those at subnational levels.** We agree. CPA ratings are only one input in identifying FCAS. Other factors are being considered when assisting FCAS countries at national and subnational levels. ADB will continue to enhance and fine tune Country Partnership Strategies (CPSs) for FCAS countries with due consideration to country-specific sensitivities and fragility issues.

4. **Recommendation 2. Develop a step-by-step plan for capacity development based on country context, CPA assessment, and country diagnostics identified through a needs assessment.** We agree. In FCAS countries, understanding of the country context and having a customized plan for capacity development at country level will facilitate more effective project design, especially when harmonized with development partners and aligned with governments' development plans. The CPA is an effective tool for identifying capacity development needs although further analysis is required to develop a strategic capacity development plan. Lessons from fragile situations in the Pacific also highlight that engagement with civil society and community-driven interventions have helped address the challenge of weak social, political, and security systems. Cooperation among all partners is particularly effective when the government leads the partnership. In FCAS countries, to the extent possible, ADB will foster such stronger partnerships to develop customized plans for capacity development.

5. **Recommendation 3. Provide flexibility in the design of FCAS projects to accommodate implementation adjustments and build in longer-term programmatic approaches.** We agree. Longer-term engagement is crucial

in assisting FCAS and forms a key part of the existing approach, both in capacity development and general assistance to FCAS countries. Flexibility already exists with respect to a number of ADB guidelines and procedures. Further efforts are currently underway, as the SES recognizes. Here it would have been helpful if the SES included clear recommendations on what features of the design process or guidelines should be interpreted more flexibly. ADB will continue to ensure that the fundamental principles underpinning procurement are maintained when applying the guidelines flexibly to take into account different fragile situations. A FCAS handbook will be developed to provide greater clarity on relaxation of business process requirements.

6. Recommendation 4. Identify the external resource gaps and internal resource gaps for working in FCAS countries in consultation with donors and development partners taking into consideration the country classification, capacity development needs, and pragmatic implementation approaches. We agree. ADB recognizes the need for appropriate staffing to FCAS, particularly on the ground. Since 2007, ADB has added liaison offices in two FCAS Pacific countries. 15 staff have also been assigned to FCAS countries. Further strengthening of resident missions in FCAS countries is envisaged from 2011 to 2013 through 18 additional staff. ADB has also increased assistance to the Pacific FCAS and Afghanistan (drawing from Asian Development Fund special allocations), including increased lending and technical assistance (TA). ADB's approach is based on flexible, focused and selective use of resources in FCAS countries, in close coordination with other development partners. To sustain and intensify ADB support to FCAS countries, the requisite level of TA to strengthen state building operations will need to be provided.

DEVELOPMENT EFFECTIVENESS COMMITTEE OF THE BOARD

Chair's Summary of the Committee Discussion on 10 November 2010

Special Evaluation Study - Asian Development Bank's Support to Fragile and Conflict-Affected Situations (DOC.IN.266.10)

1. The special evaluation study (SES) assessed ADB's support to developing member countries in fragile and conflict-affected situations (FCAS). The SES evaluated how the FCAS approach introduced in 2007 has been used with the objective of informing future work in this area. Director, IED2 noted that the 2007 approach was found useful, particularly in identifying key areas of focus, working with development partners, and increasing ADB presence on the ground. However, still some fine-tuning can be done in terms of (i) identifying FCAS countries at country partnership strategy (CPS) stage; (ii) building core capacity at central level for public sector management through a step-by-step plan for capacity development based on country context, CPA assessment, and country diagnostics; (iii) providing flexibility in project/program design to accommodate implementation issues; (iv) identifying and addressing resource gaps internally and externally, among others.
2. DEC members observed that the current system does not classify some countries as FCAS despite signs of fragility or conflict. FCAS focal point explained that some factors, like presence of UN peace-keeping corps, are also considered in classifying countries as FCAS, and some countries would not qualify as FCAS based on those other factors. Director General, CWRD further explained that there are also instances of short-term fragility in the economy, in which emergency assistance could be provided.
3. DEC members noted that policy-based lending did not do very well in many FCAS countries, and agreed that policy-based lending modalities be considered when there is adequate country ownership and capacity, and policy reform commitments. Director, IED2 explained that ADB can still continue providing policy-based support in a phased approach. Some DEC members also noted limited private sector operations in FCAS countries, and encouraged Management to take stock of lessons learned for planning future private sector operations. Director General, CWRD assured that engagement in private sector operations would continue. Director, IED2 mentioned that performance of projects mentioned in the SES on FCAS could not be attributed to the 2007 FCAS approach as that was too recent to affect the projects reviewed.
4. Some DEC members inquired about the value addition of the FCAS focal point. Director General, PARD explained that an FCAS focal point is an institutional means to address FCAS-specific issues, and distinguish those issues from business-as-usual concerns. The focal point helps address fragility issues in a broader sense.
5. DEC expressed concern on the flexibility in the current approach, particularly on its implication on addressing corruption issues. Staff, IED noted that ADB's 2007 approach paper provide some recommendations on a calibrated engagement depending on the degree of corruption in countries. Director General, CWRD clarified that flexibility is applied on the way ADB does business, with efficiency as a priority. Flexibility is applied without dispensing any key steps in processing, with a strong focus on fiduciary oversight.

6. DEC members were also concerned on the risk of aid dependence for Pacific DMCs. Director General, PARD acknowledged the concern but emphasized that FCAS approach does not enhance risk. Instead, FCAS approach provides more stable allocation of aid, especially given that Pacific DMCs are highly vulnerable to external shocks.

7. Some DEC members sought Management's position on whether the 2007 approach paper would be reviewed. Deputy Director General, SPD recognized that the SES has provided meaningful and useful findings and recommendations to the 2007 approach, and those findings and recommendations would be sufficient bases to enhance the current approach.

Conclusions

8. DEC expressed satisfaction that ADB has remained engaged with member countries confronted with fragile and/or conflict-affected situations.

9. Members noted that the growth performance of countries that have exited the FCAS classification have shown improvement.

10. DEC emphasized the need to distinguish between fragility arising from a situation of conflict and fragility arising from other reasons. Thus, members urged Management to reconsider recommendation no. 1 by the IED and implement it in a more systematic manner.

11. DEC welcomed the assurance by Management that an FCAS handbook would be developed to provide greater clarity on relaxation of business process requirements and urged staff to implement the flexibility in FCAS countries without dispensing any key steps of business processes (such as on procurement and public finance management), with strong focus on fiduciary oversight.

(signed)
Ashok K. Lahiri
Chair, Development Effectiveness Committee