Operational Guidelines of the Transition Support Facility (TSF)

June 2023

Transition States Coordination Office (RDTS)
African Development Bank Group

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Acronyms and Abbreviations

ACLED	Armed Conflict Location and Event Data Project
ADF	African Development Fund
ADF-10	Tenth Replenishment of the African Development Fund
ADF-13	Thirteenth Replenishment of the African Development Fund
ADF-14	Fourteenth Replenishment of the African Development Fund
ADF-15	Fifteenth Replenishment of the African Development Fund
ADF-16	Sixteenth Replenishment of the African Development Fund
AfDB	African Development Bank Group
ALSF	African Legal Support Facility
CPIA	Country Policy and Institutional Assessment
CPO	Country Program Officer
CRFA	Country Resilience and Fragility Assessment
CSO	Civil Society Organization
CSP	Country Strategy Paper
DAM	Delegation of Authority Matrix
DSA	Debt Sustainability Analysis
ECAD	African Development Institute
ECGF	Governance and Economic Reforms Department
ERR	Enhanced Readiness Review
FCS	Fragile and Conflict-affected Situations
FIFC	Financial Control Department
FIFM	Financial Management Department
FIRM	Resource Mobilization and Partnerships Department
FITR	Treasury Department
FSF	Fragile State Facility
GNI pc	Gross National Income per capita
HDP	Humanitarian, Development, and Peace
HIPC	Heavily Indebted Poor Countries
IDEV	Independent Development Evaluation Department
IDP	Internally Displaced Person
IFI	International Financial Institution
IMF	International Monetary Fund

IPR	Implementation Progress Report
MDB	Multilateral Development Bank
MTR	Mid-Term Reviews
NGO	Non-Governmental Organization
OpsCom	Senior Management Operations Committee
PAGL	Office of the Auditor General
PAR	Project Appraisal Report
PBA	Performance-Based Allocation
PBO	Program-Based Operations
PCCF	Post-Conflict Country Facility
PCEF	Post-Conflict Enhancement Factor
PCER	Communication and External Relations Department
PCN	Project Concept Note
PCR	Project Completion Report
PGCL	General Counsel and Legal Services
PPC	Preliminary Project Concept
PPN	Project Proposal Note
RDTS	Transition States Coordination Office
RDVP	Regional Development, Integration, and Business Delivery
RMC	Regional Member Countries
ROE	Regional Operations Envelope
ROSPG	Regional Operations Selection and Prioritization Guidelines
RRS	Results Reporting System
SME	Small and Medium-sized Enterprise
SNDR	Development Impact and Results Department
SNFI	Fiduciary Services and Inspection Department
TAS	Targeted Advisory Service
TSF	Transition Support Facility
UA	Unit of Account
UCDP	Uppsala Conflict Data Project
UN	United Nations
UNHCR	United Nations High Commissioner for Refugees
USD	American Dollar
WB	World Bank


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1. BACKGROUND

Context

1.1. Under the operationalization of its 2022-26 Strategy for Addressing Fragility and Building Resilience in Africa[1] (hereafter 'the 2022 Strategy'), the African Development Bank Group ('the AfDB', or 'the Bank') is committed to scaling up its engagement to tackle fragility and build resilience in the continent. The Bank recognizes that fragility and conflict in some countries require complementary and catalytic funding beyond the standard non-concessional instruments. To address this gap, the Transition Support Facility (TSF) has provided concessional financing, since 2008, to countries eligible for the African Development Fund ('ADF', or 'the Fund') and affected by fragility and conflict.

1.2. These Guidelines are designed to serve as a reference document for relevant stakeholders providing them with the necessary information to understand and put in place the appropriate systems, responsibilities, and institutional arrangements needed to operationalize TSF-related activities and optimize the use of its resources.

1.3. These Guidelines replace the 2014 TSF Operational Guidelines.[2] They draw on lessons learned from series of evaluations and review processes, including the FERDI study,[3] the ADF-16 Working Group, discussions from ADF-15 and ADF-16 replenishment meetings, and consultations leading to the development of the 2022 Strategy, as well as the independent evaluations conducted by the Independent Development Evaluation (IDEV) department on the 2014 Strategy[4] and the TSF[5]. These milestones have generated learning around the TSF's role and function, its resource mobilization and deployment mechanisms, and, most importantly, its ability to deliver results.

1.4. In addition to these Guidelines, the Bank's collection of fragility-related analytical works, toolkits, and guidance notes provide a wide range of principles, tools, products, processes, and methodologies for applying the fragility lens to operations in fragile and conflict-affected situations. These resources serve as a source of inspiration, fostering

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[1] *Bank Group's Strategy for Addressing Fragility and Building Resilience in Africa (2022-2026), March 2022, (ADB/BD/WP/2021/208/Rev.1 — ADF/BD/WP/2021/163/Rev.1).*

[2] *Operational Guidelines for the Implementation of the Strategy for Addressing Fragility and Building Resilience in Africa and for the Transition Support Facility, December 2014, (ADB/BD/WP/2014/46/Rev.3/Approved — ADF/BD/WP/2014/30/Rev.3/Approved).*

[3] *Designing a Conceptual Framework for Applying Vulnerability Indices to Resources Allocation in Situations of Fragility, September 2018, Fondation pour les études et recherches sur le développement international.*

[4] *Independent Evaluation of the African Development Bank Group's Strategy for Addressing Fragility and Building Resilience in Africa (2014-2019), July 2020 (ADB/BD/WP/2020/147 – ADF/BD/WP/2020/105).*

[5] *Independent Evaluation of the African Development Bank Group's Transition Support Facility (Summary Report), March 2022.*

ideas, innovations, and adaptation when using TSF resources. However, it is essential to note that the TSF Operational Guidelines take precedence in case of any conflicts or discrepancies, ensuring a consistent approach.

History

1.5. The TSF was established in 2008 as a financially autonomous special purpose vehicle to be administered by the Bank and the Fund. It works as a financially autonomous vehicle with a total separation of its resources from those of the Bank and the Fund or any other trust funds administered by the Bank and the Fund. The Annex provides the legal note detailing the establishment, management, and operations of the TSF.

1.6. The TSF provides concessional funding and operational flexibility to assist Regional Member Countries (RMCs) facing issues of conflict and fragility and support them in their transition to resilience. Since inception, the facility has mobilized over 4.9 billion Units of Account (UA) from its ADF contributors to support investments and institutional support projects in ADF countries. It operationalizes a distinct but complementary financing framework through which the Bank can more effectively deploy broader and integrated support in fragile and conflict-affected situations. It is designed to allow the Bank to operate flexibly and in close coordination with partners across the Humanitarian, Development, and Peace (HDP) nexus.

1.7. The genesis of the TSF is anchored in the Post-Conflict Country Facility (PCCF), which was established in 2004 to help post-conflict countries clear their arrears to the ADB window. To broaden the scope of the PCCF, a Post-Conflict Enhancement Factor (PCEF) was introduced into the formula of the Performance-Based Allocation (PBA) system with the aim of increasing concessional resources allocated to conflict-affected countries in ADF-10 (2005-2007).

1.8. The Bank's 2008 Strategy for Enhanced Engagement in Fragile States[6] (hereafter 'the 2008 Strategy') has prioritized the provision of: (i) supplementary resources to 'fragile states' on top of their regular PBAs; (ii) arrears clearance resources; and (iii) enhanced support for capacity building and knowledge management. The 2008 Strategy also placed emphasis on addressing regional spillovers, environmental challenges, and the impact of conflicts and crisis on vulnerable groups.

1.9. To support the operationalization of the 2008 Strategy, the PCCF was transformed into the Fragile State Facility (FSF) in ADF-11 (2008-2010). The FSF comprised three windows: (i) Supplemental Support Window; (ii) Arrears Clearance Window; and (iii) Targeted Support Window. This resulted in easier administration, better oversight and coordination, and greater transparency in the allocation of resources.

1.10. Grounded in the Bank's 2013-2022 Ten-Year Strategy and the recommendations from the *High-Level Panel on Fragile States*,[7] the Bank's independent evaluation of the *'Assistance of the Bank to Fragile States'* in 2012 and the lessons learned from the implementation of the 2008 Strategy led to the refinement of the conceptualization of

[6] *Strategy for Enhanced Engagement in Fragile States, February 2008, (ADF/BD/WP/2008/10).*

[7] *Ending conflict and building peace in Africa: A call to action, High-Level Panel on Fragile States, January 2014.*

fragility. As a result, the 2014-2019 Strategy for Addressing Fragility and Building Resilience[8] (hereafter 'the 2014 Strategy') was introduced, which brought significant changes and enhancements in the FSF, leading to the establishment of the TSF.

1.11. The 2014 changes included the introduction of the concept of 'transition states' that qualify for TSF financing through a combination of quantitative and qualitative assessments. Additionally, the Bank established a TSF Unallocated Reserve for crisis response in situations of exogeneous shocks; increased the minimum level of TSF resources allocated to each transition state; and strengthened the synergy between the TSF and the ADF Regional Operations Envelope (ROE) with a cost-sharing mechanism more favorable to transition states. The changes also brought greater flexibility, allowing the TSF to mobilize additional resources from bilateral donors and third parties to leverage traditional ADF contributions. This strengthened its financing capacity and helped address specific fragility-related themes.

Scaling-Up Impact

1.12. The 2022 Strategy builds on the lessons, milestones, stocktaking exercises, and best practices learned from the implementation of previous strategies to support transition states. Its main goal is to scale up the Bank's work on fragility, with a focus on preventive actions rather than reacting to crises after they occur. The strategy aligns with the Bank's High 5 priorities and aims to systematically build resilience by strengthening institutional capacity, providing targeted support for infrastructure and public services, and catalyzing private investment.

1.13. To operationalize this renewed strategic ambition, the TSF must play a strong role in creating synergies with the Bank's full range of instruments and catalyzing other sources of development finance. This includes development assistance, foreign direct investments, remittances, and diaspora capital for productive purposes. The TSF should focus on anticipating the root causes of fragility and conflict while increasing its flexibility to respond rapidly to crises and opportunities. The ultimate objective is to deliver high-quality, and peace-positive interventions at multiple levels, engaging with communities, national governments, regional institutions, and other partners across the HDP nexus to enhance impact.

1.14. To achieve this objective, the introduction of a finer balance between the TSF operational selectivity and its programmatic flexibility has been agreed under the ADF-16 negotiations. Box 1 summarizes the main features behind this evolution.

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[8] *Bank Group's Strategy for Addressing Fragility and Building Resilience in Africa (2014-2019), June 2014, (ADB/BD/WP/2014/46/Rev.2 — ADF/BD/WP/2014/30/Rev.2).*

Box 1: Enhancing Selectivity and Impact of the TSF

Changes introduced in ADF-16 represent an important evolution in the TSF: from a mechanism that provides supplemental funding to transition states affected by fragility, to one that also provides flexible, programmatic support targeting the root causes of fragility, wherever they arise, including at subnational, national, and regional level in ADF countries. The main features of the changes are as follows:

Tightening eligibility of countries for upfront allocations. Eligibility for country allocations align with the World Bank's criteria for Fragile and Conflict-affected Situations, adjusted to reflect countries' credit status. This would lead to the progressive 'graduation' of some countries from upfront allocations, freeing up resources for programmatic initiatives.

Introducing a programmatic approach, which involves allocating resources to targeted programs based on their merit, impact, and performance in effectively preventing and/or responding to fragility and conflict. To achieve this, the Unallocated Reserve of the TSF is made available for preventive interventions ('Prevention Envelope') and crisis response ('Response Envelope') in any ADF country. Preventive interventions are selected through annual Calls-for-Proposals while, crisis responses are managed on a case-by-case triggered by externalities and exogenous shocks. The preventive approach would pursue thematic priorities agreed upon for each ADF cycle. In ADF-16, three thematic areas have been identified: Gender equality and women's empowerment; Climate change adaptation and mitigation; and Private sector development.

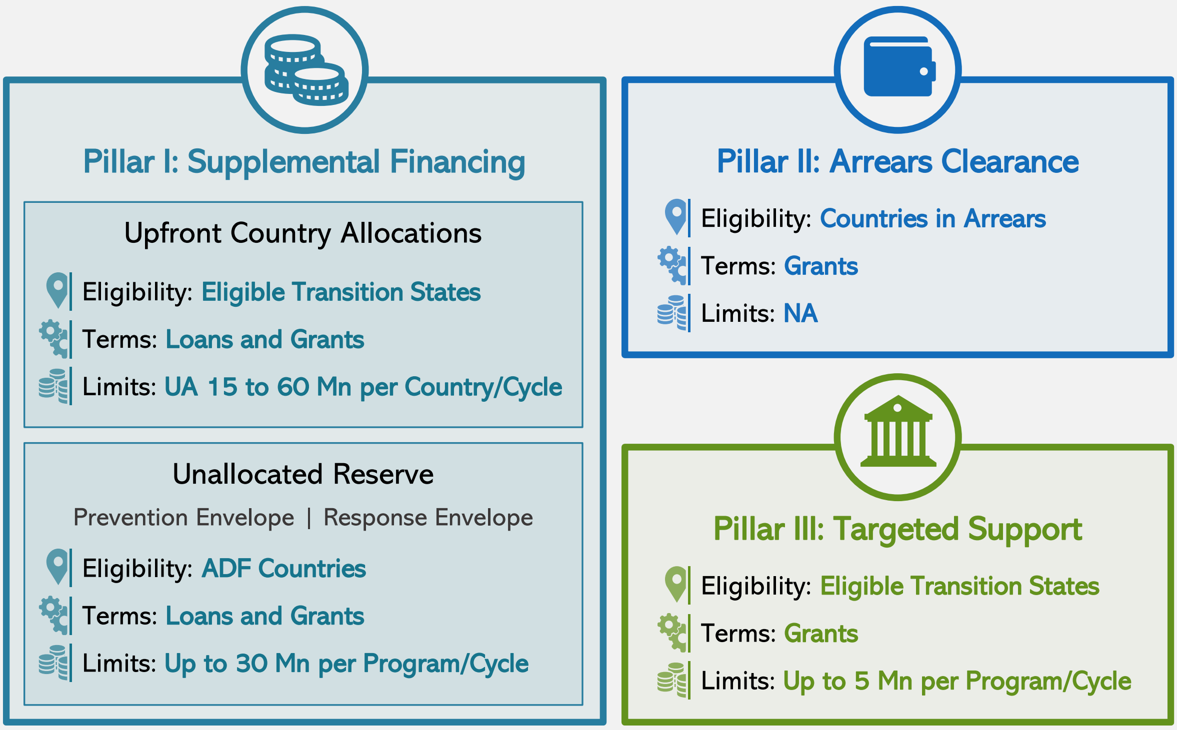
These changes are meant to enable the TSF to direct more resources towards key drivers of conflict and fragility in ADF countries, as they evolve over time, to respond to urgent needs and opportunities, and to address pockets of fragility emerging at the regional or subnational level. This greater operational flexibility seeks to enhance the TSF's strategic impact and crisis prevention potentials. It makes the TSF better placed to leverage partnerships for joint programming and co-financing.

2. Structure and Operational Modalities

Structure

2.1. As presented in Figure 1, the TSF is structured into three financing windows: the Supplemental Financing Window (Pillar I); the Arrears Clearance Window (Pillar II); and the Targeted Support Window (Pillar III).

Figure 1: Financial Structure of the TSF



2.2. Pillar I consists of upfront country allocations that selectively support projects aimed at addressing fragility and building resilience in eligible countries. Additionally, the TSF Pillar I sets aside an Unallocated Reserve. Starting from ADF-16, this reserve has been expanded to include a programmatic approach, which is distributed across two envelopes: the 'Prevention Envelope' and the 'Response Envelope'. The 'Prevention Envelope' supports preventative interventions through thematic priorities defined for each ADF cycle, while the 'Response Envelope' helps respond to crisis situations in a programmatic way. It comes into play when new and unforeseen fragile situations develop, or when reversals in circumstances warrant increased support.

2.3. Pillar II provides funding for clearing arrears to the Bank Group, to help eligible countries normalize their relationships with the Bank and other international development partners. Eligible countries can access Pillar II resources on a first-come, first-served basis, given the limited scale of resources relative to potential need. Somalia in 2020, then Sudan in 2021, benefitted from Pillar II arrear clearance, helping them improve their creditworthiness and unlocking their access to further development finance.

2.4. Pillar III supports targeted capacity building and technical assistance activities that cannot readily be undertaken through institutional support projects and other Bank programs. Priority is given to activities with the potential for high impact due to their innovative character or strategic positioning, or which offer potential for leveraging other resources or strengthening the Bank's leadership.

2.5. Reallocation of resources between TSF Pillars is possible, subject to approval by the Boards of Directors. This reallocation enables the TSF to effectively direct funding to where it is most needed, thereby maximizing its impact and agility in addressing fragility and building resilience.

Pillar I Country Allocations

Country Eligibility

2.6. As per the agreement reached during the ADF-16 negotiations, the eligibility for TSF Pillar I allocations follows a two-layer methodology based on quantitative criteria applied on all ADF-eligible countries. The first layer aligns with the World Bank's (WB) criteria for determining Fragile and Conflict-affected Situations (FCS). This approach promotes harmonization and operational coordination across Multilateral Development Banks (MDBs). The second layer adjusts the outcomes of the first layer and align them with the Bank Group's credit policy[9], ensuring that only 'ADF-Only' (Category A) countries are considered. Therefore, to be recognized as a 'transition state' eligible for TSF Pillar I allocations, a country must meet the criteria of the two layers detailed in Table 1.

2.7. During each ADF replenishment negotiations, an indicative list of eligible countries is established using the methodology outlined in Table 1 and agreed upon by ADF Deputies. This list serves as the basis for determining the necessary envelope for TSF Pillar I country allocations. To be effective, the final list of transition states eligible for TSF Pillar I allocations must be approved by the ADF Board of Directors at the outset of the ADF cycle. Once the final list is approved, no additional countries can be considered eligible for Pillar I allocations during the cycle. In the event of an emerging crisis or changing circumstances occurring during the cycle and affecting an ADF country that is not included in the approved list, such situations can be addressed through the unallocated 'Response Envelope.'

[9] *Bank Group Credit Policy, March 1998 (ADB/BD/WP/98/40 – ADF/BD/WP/98/33).*

Table 1: Eligibility Criteria for TSF Pillar I Country Allocations

First Layer Criteria (Aligned with the WB FCS Classification)	ADF-eligible countries with high levels of political, institutional, economic, and/or social fragility	**AfDB or WB Country Policy and Institutional Assessment (CPIA) score below 3.0** *<u>Rationale:</u> Considers countries facing deep institutional crises, having poor transparency and government accountability, or having weak institutional capacity, while compounded by threats posed by climate change.* OR **Presence of international or regional peacekeeping operations over the last 3 years** *<u>Rationale:</u> Reflects a decision by the international or the regional community that a significant investment is needed to maintain peace and stability.* OR **Refugees and Internally Displaced Persons (IDPs) by country of origin relative to the population above 2,000 per 100,000 according to the United Nations High Commissioner for Refugees (UNHCR)** *<u>Rationale:</u> Perceives the number of refugees and IDPs in need of international protection as a signal of political and security crisis.*
	OR	
	ADF-eligible countries in high and medium intensity conflict	**Absolute number of conflict deaths over the last 3 years above 200 according to Armed Conflict Location and Event Data Project (ACLED) or above 150 according to Uppsala Conflict Data Project (UCDP)** *<u>Rationale:</u> Reflects the average spread of violence and conflict across the country.* AND **Number of conflict deaths over the last 3 years relative to 100,000 population above 0.75 according to ACLED or above 0.5 according to UCDP** *<u>Rationale:</u> Reflects the intensity of violence and conflict on the population.*

AND

Second Layer Criteria	Bank Group's Credit Policy	**Exclude Blend countries (Category B) and countries graduating to the ADB-Only status (Category C)** *<u>Rationale:</u> Considers the fact that Blend countries and countries graduating to the ADB-Only status have access to a larger financing room from non-concessional resources.*

Country Allocations

2.8. TSF Pillar I country allocations, spanning three years, are determined at the outset of each ADF cycle. As per the agreement reached in ADF-13 and modified in ADF-15 negotiations, TSF Pillar I allocations are tied to the overall performance principle of the ADF allocation framework. To calculate the three-year TSF Pillar I allocation of an eligible country, its PBAs in the previous ADF cycle serve as the basis, to which a phasing out mechanism is applied. Furthermore, a maximum ceiling of UA 60 million and a minimum floor of UA 15 million are considered. Box 2 presents the methodology for calculating TSF Pillar I country allocations.

Box 2: Methodology for Calculating TSF Pillar I Country Allocations

For a given eligible country, its TSF Pillar I allocation is determined by considering the following sequence of calculations:

——— Allocation Baseline ———

1. Compute the average of the country's two highest annual basic allocations—under the PBA system—during the previous ADF cycle.
2. Apply a top-up multiplier on the obtained allocation. A multiplier of 2 is considered by default. For each cycle of engagement—including engagement under the PCCF—, the multiplier shall be discounted by 0.125.

——— Phasing Out ———

3. Check if the country's average AfDB/WB CPIA score is above 3.3. Apply a discount of 2.75% on the country allocation for each 0.1 point above the 3.3 threshold.
4. Check if the country's Gross National Income per capita (GNI pc) is above USD 500. Apply a discount of 1.75% on the country allocation for each USD 100 above the USD 500 threshold.
5. Check the number of years of the country's eligibility for TSF Pillar I allocations. Apply a discount of 2.25% on the country allocation for each year of eligibility.

——— Ceiling and Floor ———

6. If the country allocation is above UA 60 million, set its final allocation at this ceiling.
7. If the country allocation is below UA 15 million, set its final allocation at this floor.

2.9. The ADF Board of Directors must approve the final calculation of TSF Pillar I country allocations, in addition to the list of eligible transition states agreed during the ADF replenishment negotiation, at the start of the ADF cycle.

2.10. In some cases, portions of TSF Pillar I allocations may remain uncommitted with no prospect of use at the end of the cycle. If this occurs, these resources will be lost from country allocations and moved to the next cycle in the TSF Pillar I Unallocated Reserve.

2.11. During the third year of the cycle, or when required, the Bank's Management can recommend the transfer of uncommitted resources from country allocations to the Unallocated Reserve of TSF Pillar I, or to TSF Pillar II, or to TSF Pillar III, with a view to committing them during the same cycle. However, such a transfer requires the approval of the ADF Board of Directors to become effective.

Financing Terms

2.12. The financing terms for TSF Pillar I allocations comply with the prevailing financial aspects and operational guidelines for the implementation of the ADF cycle. The general principle is that the TSF allocation for a country aligns with its PBA in the first year of the cycle, provided either in loans or grants based on the country's credit status and Debt Sustainability Analysis (DSA). 'Blend' countries (Category B) and countries 'graduating to the ADB-Only status' (Category C) receive 100% of their allocations in loan terms. 'ADF-Only' countries (Category A) with a DSA categorized as '*low risk*' or '*moderate risk*' also receive 100% of their allocations in loan terms. However, 'ADF-Only' countries (Category A) with a DSA categorized as '*high risk*' or '*in debt distress*' receive 100% of their allocations in grants. Grants of TSF Pillar I allocations are exempt from any form of grant discounts, while their loans follow the same differentiated lending terms approach as PBA loans in the first year of the ADF cycle.

2.13. Alongside the eligibility of transition states and their TSF Pillar I allocations, their respective financing terms must be approved by the ADF Board of Directors at the start of the ADF cycle.

2.14. TSF Pillar I allocations are subject to the dynamic DSA approach introduced in ADF-15. If an eligible 'ADF-Only' country's DSA deteriorates to a '*high risk*' status or if the country becomes '*in debt distress*' during the cycle, the uncommitted part of its TSF Pillar I allocation—which has not been approved for operations—is fully converted to grants, without any discount applied. Any subsequent operations utilizing these converted resources must explicitly reflect this change and seek the approval of the ADF Board of Directors through the financing section of the Project Appraisal Report (PAR). However, if an eligible 'ADF-Only' country's DSA improves to, or remains unchanged at, a '*low risk*' or '*moderate risk*' status during the cycle, there will be no change in the financing terms of its TSF Pillar I allocations.

Strategic Programming

2.15. Upon approval by the ADF Board of Directors, TSF Pillar I allocations, as well as their financing terms, are notified to Country Teams in full and upfront at the beginning of the ADF cycle. This enables predictability and allows Country Teams to plan the utilization of resources in their pipeline of operations. Additionally, it offers flexibility as Country Teams are allowed to commit up to 100% of their TSF Pillar I allocations any time during the ADF cycle, starting from its entry into force.

Type of Interventions

2.16. A TSF Pillar I allocation, either used on a standalone basis or in conjunction with other sources of financing, can support a variety of programs and projects, including investment projects, regional operations, government participation in private sector operations, and Program-Based Operations (PBOs). It can make use of any of the Bank's financing instruments[10] and applies any of the Bank's financing approaches, including result-based financing[11], multi-tranche financing[12], and subnational financing[13], to support implementation of national priorities set out in the Country Strategy Paper (CSP). It can particularly leverage resources from the ROE with exceptional cost-sharing mechanisms tailored to transition states eligible for TSF Pillar I allocations and those receiving small allocations.[14] Additionally, TSF Pillar I allocations can be used to issue ADF guarantees in line with the applicable 2020 Revised Guarantee Policy and associated guidelines.[15] As such, TSF guarantees can be leveraged up to four times and shall be capped at the total PBA and TSF allocation for the country. Such TSF guarantees shall be appropriately accounted for in the ADF Guarantees Liquidity Pool once effective.

2.17. A TSF Pillar I allocation is intended and expected to be utilized to deliberately build resilience in fragile and conflict-affected situations, rather than as a solution to address financing gaps. It represents an opportunity to address the root causes of fragility, enhance sources of resilience, and foster a peaceful and inclusive society. The design of projects and the theory of change for achieving desired outcomes should be informed by the most recent fragility analyses, including the Country Resilience and Fragility Assessment (CRFA) and other *ad hoc* diagnoses. The project appraisal should demonstrate how risk management, particularly the '*Do No Harm*' principle, has been incorporated into implementation arrangements. The focus should be on intentionally '*doing good*' by contributing to resilience, stability, and peace, while avoiding exacerbating fragility or conflict dynamics.

Access to Resources

2.18. Eligible countries can utilize their entire TSF Pillar I allocations at any point during the ADF cycle. The Country Managers, under the supervision of Regional Directorates, are responsible for monitoring and ensuring timely commitment of their respective country allocations.

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[10] These financing instruments may include lending, guarantees, equity, risk management, trade finance, technical assistance, and co-financing arrangements.

[11] Bank Group's Policy Instrument on Results-Based Financing, November 2017 (ADB/BD/WP/2017/77/Rev.3 – ADF/BD/WP/2017/56/Rev.3).

[12] Bank Group's Policy on Multi-Tranche financing (MTF) approach, March 2022 (ADB/BD/WP/2021/172/Rev.1 – ADF/BD/WP/2021/132/Rev.1).

[13] Guidelines on Subnational Financing, November 2019 (ADB/BD/IF/2019/292 – ADF/BD/IF/2019/187).

[14] The guidelines for leveraging additional resources from the Regional Operations Envelope are further detailed in the Regional Operations Selection and Prioritization Guidelines (ROSPG).

[15] Revised Bank Group Policy on Guarantees, July 2020 (ADB/BD/WP/2019/86/Rev.4 – ADF/BD/WP/2019/54/Rev.4).

2.19. To avoid over-commitment of allocations, Country Program Officers (CPOs) shall involve the Transition States Coordination Office (RDTS) in the programming TSF Pillar I allocations and keep it informed of any changes during the implementation of the ADF cycle.

2.20. In cases where a country is under sanctions due to arrears, access to up to 100% of the grant portion of its TSF Pillar I allocation may be allowed, provided the government demonstrates firm commitment to debt regularization.[16] Such exceptional access may be used to support operations, including institutional support activities and infrastructure rehabilitation. However, for each project being funded through grant resources from Pillar I, the PAR must explicitly seek approval from the Boards of Directors and provide evidence that the country has:

i) Entered into an arrangement with the Bank regarding its arrears clearance program with clearly defined milestones and performance benchmarks, including sound macroeconomic practices and debt management policies;

ii) Made token arrears clearance payments to the Bank; and

iii) Coordinated an arrears clearance program with the World Bank (WB) and the International Monetary Fund (IMF).

2.21. The above conditions are crucial to mitigate moral hazard issues and demonstrate the country's active commitment and ownership in enhancing its economic governance towards arrears clearance and debt regularization.

Approving Authorities

2.22. The Boards of Directors approve any operation that utilizes resources from the TSF Pillar I country allocations.

Cancellations and Restructuring

2.23. The Bank's cancellation policy and guidelines[17] on eligibility for cancellation, rules, and procedures apply to undisbursed loans and grants approved from the TSF Pillar I country allocations. This policy provides incentives to Country Teams to better manage and restructure their operations, leading to a healthier portfolio.

2.24. The general rule for cancelled resources stipulates that 30% should be returned to the TSF Pillar I Unallocated Reserve, and the remaining 70% can be retained by the concerned country for commitment to ongoing or new operations within the timeframe of the ADF cycle during which the cancellation occurred. However, if the cancellation resulted from mis-procurement, corruption, or fraudulent practices, 100% of the cancelled resources must be returned to the TSF Pillar I Unallocated Reserve.

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[16] Similarly, an access to up to 50% of the grant portion of the PBA is allowed to a country in arrears if it demonstrates firm commitments for debt regularization.

[17] Revised Guidelines on Cancellation of Approved Loans, Grants, and Guarantees, March 2011 (ADB/BD/WP/2010/106/Rev.3/Approval – ADF/BD/WP/2010/62/Rev.3/Approval).

2.25. The 70% portion of cancelled resources can be used for all types of interventions (investment projects, PBOs, capacity building, technical assistance, etc.) However, it cannot be used to leverage funds from the ROE.

2.26. Cancelled resources retain their original legal financing terms as per the Bank's cancellation policy. However, if the country's current DSA is at '*high risk*' of debt distress or '*in debt distress*' as per the dynamic DSA approach introduced in ADF-15, cancelled loans from TSF Pillar I allocations shall be fully converted to grants without any discount applied. The loan cancellation modalities remain unchanged for countries at '*moderate risk*' or '*low risk*' of debt distress.

2.27. Any uncommitted balance from the 70% portion of cancelled resources at the end of the cycle will no longer be available to the country and must be rolled over to the next cycle in the pool of the TSF Pillar I Unallocated Reserve.

Pillar I Unallocated Reserve

Country Eligibility

2.28. In line with the Bank's understanding of the fragility spectrum, all ADF countries that qualify for the ADF concessional financing, including 'ADF-Only' countries (Category A), 'Blend' countries (Category B) and countries 'graduating to the ADB-Only status' (Category C), are eligible for Pillar I Unallocated Reserve. The list of ADF countries is identified and updated based on the classification criteria of the Bank Group's Credit Policy.[18]

2.29. During the ADF-16 negotiations, it was agreed that priority would be given to high-quality operations with the strongest cases for anticipating and preventing risks of fragility and conflict across all ADF countries. This programmatic approach aims to allow the TSF to address pockets of fragility in ADF countries while advancing the prevention agenda more coherently. This approach also enhances the TSF capacity to address regional dimensions of fragility. Safeguards have been put in place to ensure that transition states are not disadvantaged in accessing TSF Unallocated Reserve.

Allocation of Resources

2.30. TSF Pillar I Unallocated Reserve is not pre-allocated to specific countries. Instead, allocations are made for thematic areas and crisis responses, and eligible countries can access resources through competitive Calls-For-Proposals and on a case-by-case basis, respectively. At the start of each ADF cycle, the Unallocated Reserve allocates three quarters (3/4) of its total resources to thematic prevention ('Prevention Envelope') and reserves the remaining quarter (1/4) for crisis responses ('Response Envelope'). This approach ensures that the TSF can effectively respond to emerging crises and changing circumstances during the cycle, while also promoting prevention and early action to address the root causes of fragility.

[18] *Bank Group Credit Policy, March 1998 (ADB/BD/WP/98/40 – ADF/BD/WP/98/33).*

2.31. RDTS Director provides guidance for the implementation of a Call-for-Proposals process for one-third of the Prevention Envelope, including any cancelled resources, each year of the ADF cycle. Programming from the Response Envelope is only carried out when crises occur due to exogenous shocks. Subject to availability of resources, the crisis response can be processed at any time during the cycle and presented to ADF Board of Directors for approval.

2.32. In the third year of the ADF cycle, any unused resources from the Response Envelope can be transferred to the Prevention Envelope. Depending on their amount, the transferred resources may be used to support highly scored and/or recommended proposals from earlier Call-for-Proposals or initiate a new Call-for-Proposals.

2.33. The resources that remain uncommitted until the end of the cycle, whether from the Prevention Envelope or the Response Envelope, shall be rolled over to the next cycle in the TSF Pillar I Unallocated Reserve.

Financing Terms

2.34. The financing terms of an operation supported through TSF Pillar I Unallocated Reserve, including the Prevention Envelope and the Response Envelope, align with the PBAs of its beneficiary countries during the approval phase. These terms depend on the countries' latest credit status and DSA. Similar to TSF Pillar I allocations, 'Blend' countries (Category B) and countries 'graduating to the ADB-Only status' (Category C) receive 100% of their financing in loan terms. 'ADF-Only' countries (Category A) with a DSA categorized as '*low risk*' or '*moderate risk*' also receive 100% of their financing in loan terms. However, 'ADF-Only' countries (Category A) with a DSA categorized as '*high risk*' or '*in debt distress*' receive 100% of their financing in grants.

2.35. To provide an example of a financing plan for a TSF programmatic operation involving four countries with different credit statuses and DSAs, Table 2 is presented. Grants from the TSF Pillar I Unallocated Reserve are not subject to grant discounts, while loans follow the prevailing lending terms of each beneficiary country's PBA during the approval phase.

Table 2: Financing Plan Example of a TSF Pillar I Programmatic Operation

Beneficiary Country	Financing (UA Million)	Credit Status	DSA	Loan (UA Million)	Grant (UA Million)
Country A	9	ADF-Only	Moderate	9 (100%)	0 (0%)
Country B	3	Blend	High	3 (100%)	0 (0%)
Country C	8	ADF-Only	In debt distress	0 (0%)	8 (100%)
Country D	10	ADF-Only	Low	10 (100%)	0 (0%)
Total Financing	**30**	—	—	**22 (73%)**	**8 (27%)**

Thematic Prevention

2.36. Building on the Bank's knowledge and analytics of national and regional dynamics, the TSF programmatic approach is informed by proactive entry points for building resilience with a clear thematic focus. For each cycle, a set of themes should be identified based on emerging development trends and in line with the ADF strategic direction and the 'prevention' principle that underpins its resilience agenda.[19]

2.37. The Call-for-Proposals is disclosed internally within the Bank and made public for external partners. It provides clear indications on resources available, targeted themes, eligible countries, selection criteria, and the processing timeline. It must also include an annotated template to help bidders prepare their submissions in the form of a standardized Preliminary Project Concept (PPC).[20]

Key Requirements

2.38. A submitted PPC is required to demonstrate to what extent the project '*does good*' and applies a design that is sensitive to fragility and conflict, based on peace-positive and preventive considerations. The proposal should ensure that the project aligns with the '*Do No Harm*' principle and demonstrates clear peacebuilding and/or conflict prevention objectives within the Bank's socio-economic mandate.

2.39. Submitted proposals should be in line with the strategic engagement of the Bank as articulated in relevant Country or Regional Strategy Papers. However, exceptions can be made when conditions have changed since the Strategy Paper was adopted. For example, if there is an increasing risk of subnational fragility and conflict that threatens the development trajectory of the country or region, an exception may be warranted. The PPC should confirm the proposal's alignment with the relevant Strategy Papers or make a case for an exception. In all cases, it must demonstrate the commitment of national and/or regional authorities and external partners to support the preventive thrust of the project and to scale up impact under the thematic areas.

2.40. In situations where there are insecure operating environments and/or where national capacity has deteriorated and cannot meet the Bank's governance standards, project implementation through third-party arrangements is advisable. In the specific case of *de facto* situation, any third-party arrangements should adhere to the procedures, conditions, and guidelines specified in the Bank's Presidential Directive (No. 031/2010) regarding continuity of operations and engagement with *de facto* governments in RMCs, which may be updated periodically. In such cases where project implementation through third-party arrangements is necessary, the PPC should outline the potential risks and steps to mitigate them, while also highlighting how these solutions can support the development of strong, effective, and legitimate national institutions that are resilient in the long term.

2.41. To ensure reasonable coverage across thematic areas and situations of fragility, the maximum amount provided by the TSF Unallocated Reserve should not exceed UA 30 million per project. Therefore, to accelerate institutional change in fragile and conflict-

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[19] In the context of ADF-16, three main thematic areas were agreed: (1) Gender equality and women's empowerment; (2) Climate adaptation and mitigation; and (3) Catalyzing private sector engagement.
[20] The annotated template of the PPC is available in the Bank's Quality Matters Toolkit website.

affected contexts, Task Teams are encouraged to prioritize the deliberate design of projects that can leverage the TSF financial support and scale-up results from the outset. The TSF catalytic effect should be leveraged to attract additional financing from other multilateral institutions, bilateral financiers, government budgets, and private sector entities. Furthermore, it is crucial to demonstrate in the PPC that the requested support complements rather than duplicate those provided through regular PBAs and/or TSF Pillar I allocations. These elements will be given favorable consideration in the selection process.

Selection Process

2.42. The selection process for PPCs involves an inter-departmental evaluation committee chaired by RDTS, which includes members from various organizational units responsible for corporate functions such as regional integration, resource mobilization, partnerships, co-financing and syndication, environmental and social safeguards, performance management and results, private sector development, economic research, integrity and anti-corruption, fiduciary standards and inspection, and legal services. In addition, experienced professionals from the front-offices of the Bank's sectoral complexes may be invited to join the committee, based on their expertise and alignment with the thematic areas. The key principle guiding the selection of committee members is to avoid conflicts of interest, ensuring a fair and objective evaluation process.

2.43. For each Call-for-Proposals, RDTS Director approves the establishment of the committee, which evaluates PPCs submitted for each theme through thematic sub-committees. The evaluation process focuses on performance and expected results, with clearly defined triggers and impact criteria. The selection criteria used by the sub-committees align with the thematic areas outlined in the Call-for-Proposals and are consistent with the objectives of the TSF and the Bank's quality standards.

2.44. To increase efficiency, an online and automated Call-for-Proposals expands the pool of applicants. The committee members independently evaluate proposals and assign quantitative ratings and qualitative reviews. Based on the individual evaluations, each sub-committee recommends a selection of proposals for further preparation and appraisal.

2.45. The evaluation committee, in consultation with RDTS Director, may consider strategic trade-offs such as balancing available resources between thematic areas and prioritizing transition states. To prevent over-commitment of the annual Prevention Envelope, the committee may recommend adjusting the financial plan and scope of activities of a certain number of selected proposals. Conversely, to prevent under-commitments during the first and/or second year of the ADF cycle, the committee may select proposals exceeding up to 30% of the annual Prevention Envelope available and recommend front-loading resources from the subsequent year.

2.46. The results of the evaluation process and the recommendation of the committee are documented in a comprehensive evaluation report. This report should include information about the Call-for-Proposals implementation steps, received proposals, evaluation committee composition, methodology used, and tradeoff considerations made during the selection process. Once validated by the Vice-President of Regional

Development, Integration, and Business Delivery (RDVP), the report is submitted to the Senior Management Operations Committee (OpsCom) for clearance. Upon clearance, the report is shared with the Boards of Directors for information.

2.47. Once the selection process has been cleared by OpsCom, Task Teams responsible for the selected proposals are authorized to proceed with the preparation, appraisal, and approval phases, following the Bank's standard templates, tools, policies, and systems. They should pay close attention to the recommendations received from the evaluation committee and/or OpsCom. To ensure that the project design is responsive to these recommendations and in line with the considerations set out in these guidelines, the Task Teams should include fragility experts from RDTS in the peer-review stages of preparation and appraisal.

Prioritization of Transition States

2.48. While all ADF countries are eligible for TSF Pillar I Unallocated Reserve, priority should be given to proposals covering transition states. Other ADF countries are only considered in the absence of sufficient funds from other instruments or in contexts where a well-targeted intervention has the potential to produce transformative impact with significant local, regional and/or global benefits.

2.49. The evaluation committee should prioritize proposals that make the strongest case for prevention in transition states. Communities in transition states facing multiple pressures along the thematic areas, and elevated risks of spillover from conflict-affected neighborhoods shall receive priority attention. Proposals that contribute to regional or global public goods such as climate and peace-related interventions must be given additional preference. The evaluation committee could recommend including a bonus system in the selection criteria that ensures positive discrimination in favor of these considerations.

2.50. In the context of ADF-16, the Bank's Management has committed to using more than 50% of the TSF Unallocated Reserve in transition states. The Bank has also committed to conducting a thorough assessment of the operationalization of the programmatic approach and reporting its findings to ADF Deputies at the ADF-16 Mid-Term Review (MTR).

Crisis Response

2.51. While other partners have the mandate to provide humanitarian support, the TSF plays an essential role in crises and turnaround situations, in line with the 'Triple Nexus' approach. As the Bank's primary instrument for addressing fragility, it uses its Unallocated Reserve and leverage other sources of financing to mitigate human suffering, protect economic assets, reduce economic and social marginalization in divided societies, and deliver 'peace dividends' for countries and regions emerging from conflict.

2.52. The Response Envelope of the TSF Pillar I Unallocated Reserve provides additional flexibility to all ADF countries. It enables the Bank to respond, at scale, to changing situations and emerging crises on a case-by-case basis. This approach recognizes that extreme weather, natural disasters, health emergencies, population displacement, conflict, and political instability can overwhelm the capacity of any country to respond and rebuild. The programming from the Response Envelope is also intended to be highly responsive in consolidating peace and promoting recovery during positive transitions. Additionally, it is aimed at preventing the risks of relapse in turnaround and post-conflict situations.

2.53. The programming of crisis response differs from thematic prevention as it is not based on a Call-for-Proposals process. Instead, it is triggered on a case-by-case basis, and the resources are utilized when the need arises, and it is justified at the country, regional, and/or program levels through a relevant Bank's unit. Crisis response will be processed quickly, and it will involve a fast-disbursing loan or grant to mitigate the adverse impacts within a reasonable time.

2.54. The Task Team may expedite the project appraisal process using a simplified format of the PAR and an accelerated review procedure, depending on the emergency's nature and resources required, in line with the appropriate provisions provided in the Bank's Operational Manual. While a streamlined processing approach may be adopted, quality standards shall not be compromised, including the standards for entry, environmental and social safeguards, and fiduciary requirements.

2.55. Effective crisis response requires strong partnerships and coordinated efforts. Therefore, relevant units of the Bank should work together to coordinate with other humanitarian, development, and peace actors. The Bank can leverage additional resources to respond to crises effectively through such collaborations. Additionally, partnerships can facilitate knowledge sharing and expertise in project design and implementation, ensuring a comprehensive and coordinated approach.

Types of Interventions

2.56. The TSF Pillar I Unallocated Reserve can support a wide range of programs and projects, including investment projects, regional operations, government participation in private sector operations, PBOs, and crisis responses. These resources can be utilized on a standalone basis or in combination with other internal and/or external sources of financing. This flexibility allows the Bank to design and implement interventions that are tailored to the specific needs and circumstances of each country and situation.

2.57. In terms of internal financial synergies, the TSF Pillar I Unallocated Reserve can be used to finance operations in combination with resources from the PBA and/or from the ROE. However, the ROE cost-sharing mechanism does not apply to these resources given their programmatic nature.[21]

Approving Authorities

2.58. The Boards of Directors approve any operation that utilizes resources from the TSF Pillar I Unallocated Reserve, whether through the Prevention Envelope or the Response Envelope.

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[21] The guidelines for leveraging additional resources from the Regional Operations Envelope are further detailed in the Regional Operations Selection and Prioritization Guidelines (ROSPG).

Cancellations and Restructuring

2.59. The eligibility criteria and procedures for cancellation outlined in the Bank's cancellation policy and its guidelines[22] apply to undisbursed loans and grants approved from the TSF Pillar I Unallocated Reserve. However, due to their programmatic nature, none of the cancelled resources are retained by recipient countries. Instead, 100% of the cancelled resources are returned to the TSF Pillar I Unallocated Reserve.

2.60. Cancelled TSF resources from the Unallocated Reserve must retain their original objectives. This means that cancelled resources originally approved under a thematic prevention program should be returned to the Prevention Envelope, whereas those originally approved under a crisis response project should be returned to the Response Envelope.

2.61. Cancelled and returned TSF resources from the Unallocated Reserve are mainstreamed and therefore made available for re-use within the timeframe of the ADF cycle during which the cancellation took place. All the provisions set out in these guidelines for the use and the management of the Unallocated Reserve—during and at the end of the ADF cycle—apply on cancelled and returned resources.

Pillar II Arrears Clearance Window

Country Eligibility

2.62. The TSF Pillar II is meant to support ADF-eligible countries in chronic arrears. To be eligible for its resources, a country must meet the criteria detailed in Table 3.

2.63. In principle, eligible countries can access the TSF Pillar II resources on a first-come first-served basis. However, following the arrears clearance of Somalia in 2020 and Sudan in 2021, Zimbabwe remains the only country eligible for TSF Pillar II resources in ADF-16.

Allocation of Resources

2.64. In order to enhance national ownership, it is recommended to implement a two-tier burden sharing arrangement for the allocation of TSF Pillar II resources, tailored on a case-by-case basis. This approach ensures that the beneficiary country fulfills a maximum of a one-third (1/3) of its arrear clearance obligations, while a minimum of two thirds (2/3) is covered by TSF Pillar II.

2.65. Unless advised otherwise by the ADF Deputies, TSF Pillar II resources that remain uncommitted until the end of an ADF cycle shall, by default, be carried forward within the same pillar to the next cycle.

2.66. If, during or at the end of an ADF cycle, there are no more countries eligible for arrears clearance while resources remain uncommitted in TSF Pillar II, the Bank's Management may recommend transferring these resources to the TSF Pillar I

[22] *Revised Guidelines on Cancellation of Approved Loans, Grants, and Guarantees, March 2011 (ADB/BD/WP/2010/106/Rev.3/Approval – ADF/BD/WP/2010/62/Rev.3/Approval).*

Unallocated Reserve or to TSF Pillar III. Such a transfer requires the approval of the Boards of Directors to take effect.

Table 3: Eligibility Criteria for TSF Pillar II

Status of debt servicing	**Respect the Bank's preferred creditor status by servicing new maturities on all outstanding loans.** Rationale: *Ensure responsible borrowing practices in the country, a strong partnership with the Bank, and a firm commitment to prioritize repayment of the Bank's loans.* OR **Service at least the same level of debt by paying other international creditors.** Rationale: *Ensure commitment to servicing debt obligations to other creditors and demonstrate that debt relief efforts are not being used to simply shift debt from one creditor to another.*
AND	
Status under the Heavily Indebted Poor Countries (HIPC) initiative	**Be eligible for debt relief support under the Heavily Indebted Poor Countries (HIPC) initiative, but not yet reached the decision point.** Rationale: *Prevent further deterioration of economic situation and support the country in reaching the HIPC decision point.* OR **Be approved for exceptional support by the Boards of Directors under an internationally coordinated arrears clearance and debt relief program.** Rationale: *Ensure that the clearance is not a one-off solution but part of a broader framework of sustainable debt management supporting the country's long-term development.*

Financing Terms

2.67. TSF Pillar II resources are provided as grants regardless of the credit status and DSA of the beneficiary country. These resources are exempt from any form of grant discounts.

Arrears Clearance Process

2.68. The national authorities of an eligible country should formally request an arrear clearance program from the Bank through its relevant Country Office and/or Regional Directorate. The Country Office and/or the Regional Directorate work with various departments, including the Governance and Economic Reforms (ECGF), the African Development Institute (ECAD), the General Counsel and Legal Services (PGCL), the Resource Mobilization and Partnerships (FIRM), the Financial Management (FIFM), and the Financial Control (FIFC) departments for processing the arrears clearance operation.

2.69. As part of the process, RDTS and FIRM facilitate consultations between the competent national authorities and their creditors, which include the Bank, the WB, the IMF, and other International Financial Institutions (IFIs). These consultations aim to reach an agreement on burden-sharing arrangements, cut-off dates, and the simultaneous engagement of arrears clearance resources, in line with the *pari passu* principle.

2.70. To determine the most suitable burden-sharing arrangement for engaging TSF Pillar II resources, ECGF and FIRM evaluate the country's ability to pay its arrears while considering its specific macroeconomic dynamics.

2.71. Depending on the results of the consultations with national authorities and creditors, the arrears clearance operation could be designed as a PBO or an *ad hoc* arrears clearance program. If an *ad hoc* program is proposed, a standardized format should be used for the appraisal.[23] In all cases, the PAR should demonstrate the country's eligibility as assessed against the established criteria and clearly articulate: (i) the status of the re-engagement process; (ii) the financing plan and timeline of the arrears clearance program; and (iii) the prospects for sustaining dialogue and financial support beyond the program to prevent the country from falling back into arrears.

Approving Authorities

2.72. The Boards of Directors approve any arrears clearance operation that utilizes resources from TSF Pillar II.

Financial Gaps

2.73. During the negotiation of a new ADF replenishment or the MTR discussions of an ongoing ADF cycle, FIRM coordinates with ECGF and external partners to assess the readiness of eligible countries to arrears clearance.

2.74. If the available resources in TSF Pillar II are not sufficient to support the agreed arrears clearance program, FIRM will lead efforts to explore possible options to bridge the financial gap, including during the negotiations of the ADF replenishment. The Bank will use its convening power to secure additional resources and mobilize voluntary contributions from traditional and/or non-traditional donors, in coordination with other IFIs, particularly the WB and the IMF. Possible options may also include using resources from the net income and/or Surplus Account of the ADB window, with due consideration for the financial integrity of the Bank.

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[23] *A standardized annotated format for ad hoc arrears clearance programs is available in the Bank's Quality Matters Toolkit website.*

Pillar III Targeted Support Window

Country Eligibility

2.75. As agreed upon during the ADF-16 negotiations, for a country to be considered as a transition state eligible for TSF Pillar III resources among ADF-eligible countries, it must meet the criteria of the first layer of the methodology determining eligibility for TSF Pillar I country allocations, which is set out in Table 1. Furthermore, to prevent a sudden break in support, a country that no longer meets the criteria of the first layer will remain eligible for an additional ADF cycle before exiting in the next cycle.

2.76. At the start of each ADF cycle, the list of countries eligible for TSF Pillar III is assessed based on the latest available data and the above considerations. To become effective, the final list of transition states eligible for TSF Pillar III support must be approved by the ADF Board of Directors. Once approved, no additional countries can be considered for eligibility during the cycle.

Allocation of Resources

2.77. TSF Pillar III resources are not allocated by country. Instead, they are allocated to direct and indirect supports, as well as to Targeted Advisory Services (TAS).

2.78. At the start of each ADF cycle, indirect support may be provided from available TSF Pillar III resources to other financing vehicles in the form of a fixed amount agreed upon during ADF replenishment negotiations. For example, in the context of the ADF-16 cycle, ADF Deputies agreed to allocate UA 20 million from TSF Pillar III to the African Legal Support Facility (ALSF). In addition, an allocation not exceeding UA 5 million per cycle, is set aside for TAS to support the Bank's internal capacity to work in/on fragile and conflict-affected situations.

2.79. After setting aside the indirect support and the TAS, the remaining resources in the TSF Pillar III provide direct support for targeted capacity building and technical assistance programs covering all eligible transition states during the ADF cycle. A Call-for-Proposals process for one-third of resources available for direct support is implemented in each year of the ADF cycle.

2.80. For countries facing sanctions as a result of arrears, a fixed amount, not exceeding UA 3 million per country, from TSF Pillar III can be allocated to them at the outset of the ADF cycle. The objective of this targeted support is to provide additional assistance in facilitating and accelerating their arrear clearance process.

2.81. Balances of TSF Pillar III resources that remain uncommitted until the end of the cycle shall be carried forward within the same pillar to the next cycle.

Financing Terms

2.82. TSF Pillar III resources, including those allocated for direct and indirect support, are provided as grants regardless of the credit status and DSA of countries covered by interventions. Resources allocated to TAS are also provided as grants. These resources are exempt from any form of grant discounts. TSF Pillar III interventions do not require counterpart funding from beneficiary entities.

Strategic Programming

2.83. TSF Pillar III may be small in scale, but it provides significant flexibility in resource administration and engagement, including the possibility for expedited processing and interventions through government and non-government entities. This enables the mobilization of additional partners and resources to scale up impact, making it a valuable instrument for catalyzing development. To maximize its potential, TSF Pillar III should be strategically positioned to create synergies with internal and external financing instruments. By doing so, it can leverage additional funding and partnerships to support sustainable and inclusive development outcomes.

2.84. TSF Pillar III should strongly emphasize the enablement of countries to utilize their resources efficiently, including budgetary resources and development assistance. It should assist in addressing crucial capacity bottlenecks, institutional weaknesses, and human resource requirements. Special attention should be given to the transfer or development of skills and the enhancement of transition states' capacity to develop, execute, and assess feasible sovereign and non-sovereign projects. This may necessitate tailored training activities on project development and project cycle management for government officials and project implementation units.

2.85. TSF Pillar III should be used to increase internal synergies within the Bank, supporting interventions that target upstream and midstream activities for private sector development in transition states. This aims to enhance the business environment and stimulate the growth of the private sector, especially national and regional Small and Medium-sized Enterprises (SMEs). By working with other Bank instruments, TSF Pillar III should lead in providing capacity building programs on entrepreneurship management, skills enhancement, and innovation for the benefit of youth and women in transition states.

2.86. In addition, TSF Pillar III should provide increased support in areas such as public finance management, public policy formulation, governance, accountability, sector-specific capacity building, early warning and early action mechanisms, climate change, natural resource management, conflict prevention, disaster risk management, as well as resource mobilization, including from private sector and African diaspora. The only exception would be engagement in crisis conditions, especially in conflict and post-conflict situations that require context-specific support with a sharp and limited scope.

Direct Support

2.87. The first priority area of the 2022 Strategy, which also aligns with the overall thrust of the Bank's Capacity Development Strategy[24], seeks to strengthen capacity of state and regional institutions to become more effective in addressing fragility and building resilience in fragile and conflict-affected situations. In support of these strategic considerations, capacity development in transition states is at the heart of TSF Pillar III

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[24] *African Development Bank Group Capacity Development Strategy (2021-2025), July 2021, (ADB/BD/WP/2021/65/Rev.2/Approved — ADF/BD/WP/2021/45/Rev.2/Approved).*

objectives. The Bank's analytical work, including CRFAs, Country Capacity Development Needs Assessments, and other sectoral analysis, should identify capacity gaps, inform thematic areas for targeted interventions, and help prioritize the direct support of TSF Pillar III.

2.88. Under the guidance of its Director, RDTS coordinates the implementation of the Call-for-Proposals process for the direct support of the TSF Pillar III. At the launch of the process, the Call-for-Proposals is disclosed with all internal Bank's operational and sectoral units as well as with external partners. It indicates the volume of resources available, the thematic areas, the list of transition states eligible, the selection criteria, and the processing timeline. It also provides the template of Project Proposal Note (PPN) to help bidders prepare their submissions in a standardized format.[25]

2.89. Although the competitive process of Calls-for-Proposals is the regular approach used for the bulk consumption of the direct support of TSF Pillar III resources, the preparation of *ad hoc* programs—at country or regional level—can be initiated at the discretion of the RDTS Director in consultation with relevant operational and sectoral units. This is meant to address identified gaps and/or specific needs of capacity development not covered by submitted proposals.

Selection Process

2.90. Beyond strategic alignment and sensitivity to fragility and conflict-related issues, a proposal submitted through the PPN should demonstrate the potential for scaling-up impact while creating synergies with partners and abiding by the characteristics underpinning the appraisal and implementation of the TSF Pillar III targeted support. While Box 3 details, these characteristics include speed and responsiveness to emerging situations, efficiency and low transaction costs, flexibility, the scope for resource mobilization, and potential for developing innovative programs that can be scaled up in fragile and conflict-affected contexts.

2.91. While the financial plan would depend on the scope of activities, the readiness for implementation, and the number of beneficiary countries, the requested contribution from TSF Pillar III to a proposal should not exceed UA 5 million (exclusive). In addition, the implementation period of the proposal should not exceed 36 calendar months, including potential extension periods.

2.92. The submitted PPNs are evaluated by an inter-departmental evaluation committee against a set of selection criteria. Although the criteria can vary from one Call-for-Proposals to another depending on the specificities of the themes targeted, their general scope is to demonstrate why the submitted proposal cannot be financed more efficiently with other Bank's instruments and to verify to what extent its proposed activities can make a difference in terms of: (i) Targeting identified drivers of fragility and clearly contributing in building resilience; (ii) Reinforcing the Bank's comparative advantages by working with other partners; (iii) Creating synergies with internal and/or external stakeholders and sources of funding; (iv) Scaling up results by aiming for high

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[25] *The annotated template of the PPN is available in the Bank's Quality Matters Toolkit website.*

impact with realistic, measurable, and theory-driven targets; and (v) Innovating the use of technology to operate better and leverage stronger impact.

Box 3: Key Features of the Appraisal and Implementation of TSF Pillar III Direct Support

Appraisal and approval – The development of selected proposals under the Call-for-Proposals goes directly to the appraisal phase.

Grant agreement – In less than 120 days from approval, a standardized Grant Agreement is signed by the appropriate Bank Officer—in accordance with the Delegation of Authority Matrix (DAM)—and the Recipient.

Grant effectiveness – The financing agreement is declared effective once the recipient has furnished the Bank with satisfactory evidence on standard and special conditions of effectiveness.

Monitoring, Evaluation, and Supervision – Task Teams should ensure that sound systems are in place to allow to properly monitor the implementation progress of activities, track the efficiency of the procurement process, and supervise the achievement of objectives. Adjustments may be made to projects based on real-time learning from implementation.

Project Completion – Within six months of project completion, a tailored Project Completion Report (PCR) should assess outcomes in terms of performance and achievement of objectives, and draw lessons learned.

Scaling-up Impact – Standalone projects demonstrating significant intermediate results, and where the original objectives, results framework, and implementation arrangements remain largely the same, can participate in subsequent TSF Pillar III Calls-for-Proposals. In case of approval of additional financing, no separate appraisal report is required.

2.93. Each committee member independently evaluates proposals against the selection criteria and assign quantitative ratings and qualitative reviews for each. Based on these evaluations, the committee recommends a selection of proposals for appraisal. The recommendations should consider equity in allocating available resources between thematic areas and eligible transition states, as well as balancing resources between national and regional programs.

2.94. The committee can also recommend a conditional selection of a proposal and request for specific adjustments. These adjustments may relate to the activities of the proposal as well as to its financial plan, and its implementation arrangements. For proposals submitted by external partners, the committee should pay particular attention to the Bank's ownership, the amount requested from TSF Pillar III, and the associated administrative cost.

2.95. To be effective, the results of the selection process and the committee's recommendations must be cleared by RDTS Director and approved by the Vice-

President, RDVP. Once approved, Regional Directorates are informed and concerned Task Teams are requested to continue developing the selected proposals by embarking directly in the appraisal phase. A selected proposal can be appraised as a standalone project or as part of a larger project.

2.96. For the appraisal of standalone projects, the Task Teams should follow the Bank's standard version of the PAR annotated format. While the appraisal and the approval of a selected proposals are managed by the Task Team, fragility experts from RDTS should be involved in the peer-review stages to ensure that the project design responds well to the recommendations received and is consistent with the appropriate considerations set out in these guidelines.

Approving Authorities

2.97. The approval process for a selected proposal, which is appraised as a standalone project, depends on the amount of TSF Pillar III resources it requires. However, standalone projects that cover one or more beneficiary countries under sanctions due to arrears shall be approved by the ADF Board of Directors, irrespective of the amount of TSF Pillar III resources required. Task Teams should adhere to the guidelines outlined in Table 4 when formulating their approval requests.

Table 4: Approving Thresholds of Standalone TSF Pillar III Projects

Amount of TSF Pillar III Resources Required	**Approving Authorities**
Below UA 3 million (exclusive)	RDTS Director clears → **Vice-President, RDVP approves**
From UA 3 million (inclusive) to less than UA 5 million (exclusive)	Vice-President, RDVP clears → **President approves**
From UA 5 million (inclusive)	OpsCom clears → **ADF Board of Directors approves**
Any amount required for projects covering countries under sanctions due to arrears	OpsCom clears → **ADF Board of Directors approves**

2.98. To ensure the ownership by the beneficiaries, the approval request of a standalone project utilizing TSF Pillar III resources should include formal letters, or any other evidence, that demonstrate endorsement and alignment with the priorities of relevant national and/or regional authorities.

2.99. In case the selected proposal is appraised as part of a larger project, the TSF Pillar III resources are integrated within the whole project's financing plan. Therefore, it would not require a separate approval process. Instead, TSF Pillar III resources should be considered under the regular approval process by the Boards of Directors.

Eligible Recipients

2.100. As long as the geographic scope of interventions complies with the list of eligible transition states, recipients of TSF Pillar III resources cover a flexible range of actors including agencies of the United Nations (UN) across the humanitarian, development, and peacebuilding nexus working at country and/or regional levels. Sovereign entities eligible for funding include, but not limited to, central and local government institutions, regional economic communities, as well as other international and regional organizations, bilateral partners, and multilateral agencies.

2.101. Recipients of TSF Pillar III resources also extend to non-state actors such as Civil Society Organizations (CSOs), Non-Governmental Organizations (NGOs), community-based organizations, research, and training institutions, as well as private sector actors. The Bank's strategic approaches to the civil society engagement and the private sector development serve as reference points for the TSF Pillar III engagement with non-state actors. However, to be a recipient of TSF Pillar III resources, a non-state actor must meet the following prerequisites:

i) Have the reputation of being committed to the key principles of neutrality, independence, and impartiality from parties to any ongoing conflict.

ii) Have a presence in Africa and possess a proven track record of working in Africa or collaborating with reputable African entities, whether sovereign or non-sovereign.

iii) Have a valid legal registration under the laws of the country in which it operates and be authorized to carry out activities in the eligible country covered by the intervention.

iv) Have appropriate organizational and management capacity, including strong and well-organized governing authorities.

v) Have a transparent financial management and accounting system with audited budget statements and accounts that confirm its ability to assume fiduciary responsibility.

vi) Have a proven track record of competence, performance, and successful experience in implementing activities similar to those targeted by the intervention.

vii) Have credibility, knowledge of local values, networks, and structures necessary to carry out the activities of the intervention.

viii) It does not derive benefits purely attributable to the use of the grant proceeds beyond the administrative costs needed for the execution of the intervention.

Type of Interventions

2.102. Either on a standalone basis or in combination with other internal and/or external sources of financing, a TSF Pillar III intervention provides critical technical assistance and/or capacity development support. It should play a complementary role by particularly focusing on thematic areas identified as important drivers of fragility and conflict not otherwise being covered through the Bank's existing instruments.

Indirect Support

2.103. Along with its direct support, TSF Pillar III resources can be allocated to indirect support. Indirect support means that resources from TSF Pillar III are allocated to another financing vehicle. Allocated resources are then administrated by the governing structure of the financing vehicle—with its own rules and procedures—in support of its own pipeline of operations in eligible transition states. Recipients of indirect support ought to comply with the Bank's financial processes and procedures and be subject to *inter alia* independent audit reviews in line with the Bank's policies. Operational activities, outcomes, and results derived from this allocation should be monitored and reported by the beneficiary vehicle to the Bank—through RDTS Director—on an annual basis.

2.104. Any indirect support from TSF Pillar III should be agreed with ADF Deputies a part of the ADF replenishment negotiations and confirmed by the approval of the ADF Board of Directors at the start of the ADF cycle. RDTS coordinates with the beneficiary vehicle to present the case for the ADF Deputies and formulate the allocation request for the approval of the ADF Board of Directors.

2.105. The ALSF is a successful example of a financing vehicle that benefited from the indirect support of the TSF Pillar III (Box 4). While UA 32 million were cumulatively provided in ADF-13 and ADF-15, ADF Deputies agreed to grant an additional UA 20 million from the TSF Pillar III resources to further support the ALSF activities in transition states over the ADF-16 cycle.

Box 4: The ALSF Approach to Addressing Fragility in Africa

The ALSF adopts the Bank's approach to addressing fragility and building resilience in Africa. It structures its projects through a fragility lens to enhance outcomes. It utilizes the funds provided by the TSF Pillar III wholly for funding projects in transition states through three main ways: (i) legal and technical assistance to support the negotiation of complex commercial contracts in the natural resource, power, and infrastructure/PPPs sectors; (ii) legal and technical support in sovereign debt management and creditor litigation; and (iii) training and capacity building in the foregoing areas. By doing so, it enables national governments to avoid concluding inequitable agreements and enhance their readiness for large-scale investment projects. In addition, the ALSF integrates crosscutting solutions relating to good governance, gender equality, and environmental and social sustainability.

Advisory Services

2.106. A portion of TSF Pillar III resources—not exceeding UA 5 million per ADF cycle—may be used for TAS to enable the Bank to mobilize highly specialized advisory support and meet unanticipated or rapidly-changing situations. These resources are meant to complement the Bank's administrative budget and engage the services of high-profile individuals or firms that have political clout, excellent reputation, and strong networks among African policy makers. Ultimately, the TAS seek to constantly maintain and enhance the Bank's leadership role in policy dialogue and advocacy around issues of conflict and fragility in the continent.

2.107. TAS programs are executed by the Bank and managed by relevant sectoral and operational units in accordance with the Bank's corporate procurement and financial management policies and procedures. Resources from the TAS require results-based terms of reference for consulting services, or concept notes, including a clear scope of work, deliverables, and timeline. Approval for the use of TAS resources is granted in accordance with the Bank's Delegation of Authority Matrix (DAM). The implementation of TAS programs is overseen by RDTS, which reports outcomes to Vice-President, RDVP, and/or Senior Management. FIFC maintains an internal accounting and tracking system for the implementation of TAS programs in accordance with standard Bank financial management and accounting procedures.

Cancellations and Restructuring

2.108. Eligibility criteria and procedures for cancellation set out in the Bank's cancellation policy and its guidelines[26] apply on undisbursed grants approved from the TSF Pillar III. However, given their relatively small size, none of the cancelled resources are retained by beneficiary countries. Instead, 100% of the cancelled resources are returned to the pool of TSF Pillar III available resources.

2.109. Cancelled and returned TSF Pillar III resources are made available for use within the timeframe of the ADF cycle during which the cancellation took place. All the provisions set out in these guidelines for the use and the management of TSF Pillar III resources—during and at the end of the ADF cycle—apply on cancelled and returned resources.

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[26] *Revised Guidelines on Cancellation of Approved Loans, Grants, and Guarantees, March 2011 (ADB/BD/WP/2010/106/Rev.3/Approval – ADF/BD/WP/2010/62/Rev.3/Approval).*

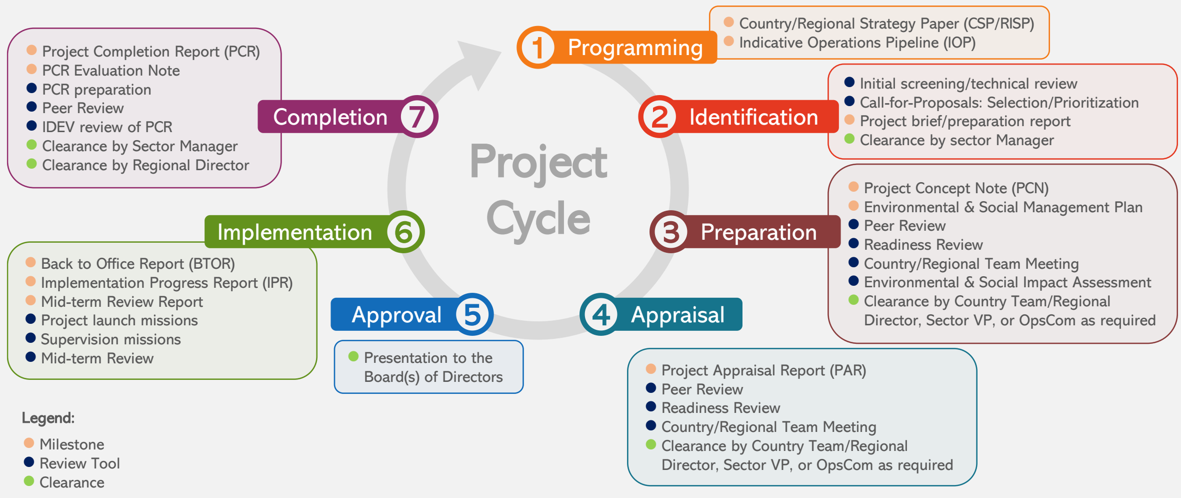
3. Institutional Arrangements

Project Cycle

3.1. Operations involving TSF financing broadly follow the processing of sovereign operations as guided—and updated from time to time—in the Bank's Operational Manual.[27] As depicted in Figure 2, they are processed with the milestones and clearance points of the Bank's standard project cycle, from programming to completion.

3.2. For financing from TSF Pillar I Unallocated Reserve or the TSF Pillar III targeted support window, operations should be submitted and selected through Call-for-Proposals during the identification phase of the project cycle. Although programming documents may reflect priorities aligned with the thematic areas of the Call-for-Proposals, only evaluated and selected operations are identified for further processing. Due to their small scale and flexible nature, operations selected for the TSF Pillar III financing in the identification phase may bypass the preparation phase and move directly to the appraisal phase with the exception being for TAS programs, which may start with the preparation phase.

Figure 2: Bank's Project Cycle and Quality Assurance Tools



Source: African Development Bank Group.

[27] *Operational Manual of the African Development Bank Group, Volume II (Sovereign Operations Business Processes and Procedures), October 2022.*

Quality Assurance

3.3. As shown in Figure 2, the Bank's quality assurance tools are applied throughout the project cycle for operations that involve TSF financing. At entry, various due diligence reviews are conducted to ensure that the operation meets the minimum standard of design quality and readiness when it enters the TSF portfolio, with regards to: (i) strategic alignment and project selectivity; (ii) implementation and results readiness; and (iii) overall design quality.

3.4. The Bank's 'Quality Matters' agenda encompasses a series of measures that embed the quality of operations in resources and toolkits. For example, the 'Task Manager Pathway' within the 'Operations Academy' e-learning initiative includes a dedicated course on the Bank's strategic and operational approach to fragility, accessible to all staff. Additionally, these measures comprise streamlined tools that serve as the basis for robust results planning and monitoring at the operations level. Therefore, operations involving TSF financing require: (i) an articulated theory of change for the intervention; (ii) a results framework with a concise set of measurable and realistic indicators; (iii) a separate monitoring plan to ensure data collection and tracking of results; and (iv) a Risk to development results matrix. These tools hold particular significance in fragile and conflict-affected situations, where setting attainable targets, confirming data availability, and establishing thorough analyses of risks to results, are crucial to success.

3.5. The Enhanced Readiness Review (ERR) process[28] is a significant component of the Bank's endeavor to integrate fragility considerations into its operations. Among other Quality-at-Entry parameters, the process applies to all sovereign operations, including those involving TSF financing, that exceed a predetermined financing threshold. One of the ERR criteria assesses the extent to which the operations' design during the preparation and appraisal phases effectively incorporate the fragility and resilience lens.

Risk Management

3.6. Operations involving TSF financing are handled within the framework of the Bank's Risk-to-Results Matrix, which is one of the results tools detailed in the Operational Instruction on project planning and monitoring[29], as updated from time to time. Risk-to-results is defined as uncertainty that may potentially affect the achievement of the project development objective and may cause unintended negative consequences. Other aspects of risks, such as credit risk in the context of non-sovereign lending, do not apply in the context of TSF-funded operations.

3.7. Management of operational risk-to-results is a key part of the Bank's efforts to increase the relevance, efficiency, effectiveness, and sustainability of its interventions. This is of even greater importance in fragile and conflict-affected environments where the

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[28] *Operational Instructions of the Enhanced Readiness Review, The African Development Bank Group, July 2021.*

[29] *Strengthening Results Planning and Monitoring in the Bank's Operations – Operational Instruction, January 2021.*

potential for harm to the achievement of the project's intended results is higher. In these contexts, it is recognized that TSF investments are exposed to several risks across a wide range of dimensions including political, security, capacity, fiduciary, governance, environment, social, and reputational.

3.8. In addition to the risk management sections in Project Concept Notes (PCNs) and PARs, TSF funded interventions are required to include a fragility-related risk and mitigation matrix highlighting project implementation issues and critical risks requiring attention. The matrix is meant to explicitly identify each operational risk; specify its category; assess its likelihood and impact on the project's ability to achieve results; propose context-specific measures to prevent, mitigate, transfer, or accept it; and designate the responsible entity that will manage it. The roll out of the Implementation Progress Reports (IPRs) and Project Completion Reports (PCRs) provides Task Teams with the ability to monitor risks and mitigation measures during implementation and at completion.

3.9. In the context of dire fragile and conflict-affected situations, Task Teams should consider the nature of the TSF mandate and its alignment with the 'staying engaged' guiding principle of the 2022 Strategy. This requires the TSF to support the Bank's efforts to remain engaged in all situations while adapting management efforts, tolerating non-avoidance of risks, and accepting degrees of operational failure and, at the extreme, lossy investments. Where the Bank cannot be physically present for development implementation, due to Duty of Care limitations, third-party arrangements may be considered.

Staying Engaged

3.10. In compliance with the 'Patience' principle of its 2022 Strategy, the TSF plays a critical role in supporting the Bank's active engagement across the spectrum of fragile situations, alongside other existing instruments. The Bank rarely completely disengages from a country, and the TSF enables more active involvement in phases of conflict and prolonged crisis by supporting and contributing to solutions that sustain engagements during periods of recovery and reforms.

3.11. Effective partnerships are critical for the Bank to remain engaged in fragile and conflict-affected situations until stability is achieved. In transitional periods with *de facto* governments, the Bank seeks solutions that best meet the needs of the population, implement economic safeguards, prevent negative longer-term economic impacts, and coordinates with other partners to find long-term solutions. Where there are pockets of stability and risks can be managed, the Bank can tailor the TSF support to work with non-state actors, including the private sector and civil society, to reach affected populations.

3.12. In all cases, the TSF engagement during transitional periods should adhere to the procedures, conditions, and guidelines specified in the Bank's Presidential Directive (No. 031/2010) regarding continuity of operations and engagement with *de facto* governments in RMCs, which may be updated periodically. Additionally, the Bank provides guidance on the use of diagnostic notes and/or briefs in the context of countries that are under sanctions due to arrears, in conflict, or experiencing marked deterioration in performance.

3.13. To enable a faster response in situations of operational re-engagement after suspensions caused by the presence of *de facto* governments or similar circumstances, CSPs format, as well as interim CSPs and CSP updates, provides guidance for a swift resumption of operational activities.

Results Tracking

3.14. Under its 'Quality Matters' agenda, the Bank has a comprehensive framework of toolkits and methodologies for results planning and monitoring. Task Teams should apply them throughout the preparation and appraisal phases to effectively manage risks and track results during the implementation and completion phases of all operations involving TSF financing.

3.15. As recommended by the 2022 IDEV independent evaluation of the TSF[30], the Development Impact and Results (SNDR) department and RDTS provide support to Task Teams during the preparation and/or appraisal phases to ensure that the operation's results framework is adequately informed by an explicit theory of change of how planned activities are expected to lead to desired outcomes. This includes advising Task Teams on designing context-specific implementation arrangements, setting credible and transparent data monitoring plans, budgeting for monitoring costs, and selecting realistic indicators and targets consistent with the project's timeframe and size, as well as the reality of the operating environment.

3.16. Acknowledging the fragile and conflict-affected context that underpins the TSF engagement, where capacity and availability of robust data are challenged, Task Teams are encouraged to involve RDTS fragility experts and conduct monitoring capacity assessments to identify institutional arrangements and initiatives to strengthen data quality and availability. This may involve including in the project a targeted capacity development component for national entities responsible for collecting and providing data and the use of digital technologies necessary for results monitoring and tracking.

3.17. During implementation, all operations that involve financing from any of the TSF Pillars must undergo regular supervisions and submit IPRs through the Bank's Results Reporting System (RRS). The frequency for updating these IPRs follows the prevailing guidelines and instructions established by the Bank. These supervisions are of utmost importance as they ensure: (i) the timely execution of project activities; (ii) effective management of implementation challenges and risks; (iii) accurate monitoring and reporting of progress; (iv) real-time results tracking; and (v) the identification of lessons learned from project implementation. The effective tracking of results in individual TSF-funded operations is equally crucial to support the Bank's corporate results measurement and reporting exercise.

[30] *Independent Evaluation of the African Development Bank Group's Transition Support Facility (Summary Report), March 2022.*

3.18. At the completion phase, the focus shifts towards the closure of project activities and the production of a self-evaluation PCRs. While this applies to all operations that involve financing from any of the TSF Pillars in line with the Bank's prevailing guidance, a PCR primarily focuses on assessing the project's performance and documenting experiences and lessons learned, supported by candid ratings and thoughtful analysis, to provide valuable insights for future TSF-funded operations. The aggregation of PCRs constitutes the baseline for the performance assessment of the TSF portfolio, which also feeds into the wider Bank's Annual Portfolio Performance Review.

Communication

3.19. RDTS collaborates with the Communication and External Relations (PCER) department to develop and implement strategic communication approaches and deliverables. These include ongoing corporate communication activities that aim to promote the mission and values of the TSF, increase its brand recognition, maintain, and strengthen relationships with key stakeholders, and recognize the contributions of its donors. To ensure accessibility, all external TSF-related communication materials must be created in French and English at a minimum and be published on the Bank's website and other relevant platforms.

3.20. Operational communication supports project appraisal, implementation, and completion. Quality communication deliverables such as beneficiary and impact stories, pictures, and videos require substantive communication work before, during, and after implementation, with sufficient budget. Task Teams should plan and cost these activities during the preparation and appraisal phases and incorporate them into the components and implementation arrangements of operations involving TSF financing.

3.21. In fragile and conflict-affected environments, effective operational communication plays a vital role to coordinate efforts, foster collaboration, build trust, engage with communities, manage risks, build peace, and ensure that TSF interventions are implemented in a transparent, efficient, and accountable manner. Box 5 recommends some relevant practices to be integrated in TSF interventions.

3.22. Any disclosure of information related to the TSF financial statements and operational or administrative activities, made by any member of the Bank staff or TSF governing authorities to the public or any third parties, must comply with the Bank's Disclosure and Access to Information Policy[31], as updated from time to time.

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[31] *Bank Group's Policy on Disclosure and Access to Information, March 2012, (ADB/BD/WP/2011/66/Rev.3 — ADF/BD/WP/2011/35/Rev.3)*

Box 5: Practices of Operational Communication for TSF Interventions

The following communication practices are recommended to support the appraisal, implementation, and completion of TSF-funded operations.

Build relationships and coordinate the efforts of different stakeholders involved in the TSF financing, including government agencies, and implementing partners. This can ensure that everyone is working towards the same goals and can help to avoid duplication of efforts and increase efficiency ultimately.

Build trust with local communities and ensure their perspectives are understood and incorporated into project design and implementation in a participatory manner. Keep them informed about project progress and outcomes. This can be achieved through community meetings, surveys, and other forms of communication in the local language and media.

Develop and implement systems for sharing information and collecting feedback from beneficiaries about the project's effectiveness, its progress, and outcomes. This can be achieved through regular reporting, websites, social media, and other communication channels.

Develop and implement mechanisms for promoting transparency and accountability in project implementation. These mechanisms may include reporting systems, independent monitoring and evaluation, and public participation. They can help build trust and reduce the risk of corruption including with natural resources and minerals' management.

Communicate about potential risks associated with the project implementation, such as security concerns or political instability, as well as mitigation measures that are being put in place. This reduces tensions and helps all stakeholders to have a clear understanding of challenges and efforts being made to address them.

Engage with communities to address conflict and promote peace and stability in project areas. This can be achieved through the development of resolution mechanisms and peacebuilding strategies, and by regular communication with community leaders to prevent and address emerging conflict issues.

Provide communication-related training and capacity building opportunities to task teams and core project implementation unit staff. This can help transfer skills and knowledge needed to ensure the project sustainability.

Procurement

3.23. The Bank's Procurement Framework[32] for funded operations, as updated from time to time, apply to all operations involving TSF financing. This framework adopts a risk-

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[32] *The Bank's Procurement Framework was approved by the Bank's Board of Directors on 14 October 2015 and comprises: (i) The Procurement Policy for Bank Group Funded Operations (Policy); (ii) Methodology for Implementation of the Procurement Policy of the African Development Bank (Methodology); (iii) Operations Procurement Manual for the African Development Bank (OPM); and (iv) Procurement Toolkit for the African Development Bank (Toolkit).*

based fit-for-purpose approach, offering flexible provisions, calibrated approaches, and adapted oversight mechanisms to accommodate the unique circumstances of operating environments affected by fragility and conflict.

3.24. During the preparation and/or the appraisal of a TSF-funded operation, the Task Team should take advantage of the flexibilities of the Bank's Procurement Policy Framework to set up a fragility-sensitive and fit-for-purpose procurement arrangements, while aimed to achieving optimal value for money, safeguarding the Bank's fiduciary obligations, and protecting the guiding principles of economy, efficiency, effectiveness, and equity. The Task Team works with procurement specialists from the Fiduciary Services and Inspection (SNFI) department and RDTS fragility experts to collect information and assess the procurement system of the borrower.

3.25. The procurement assessment is essential to identify, at the country, sector, and project levels, gaps in laws, regulations, practices, organization, and capacity against internationally recognized and accepted benchmarks. The outcomes of this assessment would inform the most appropriate procurement method arrangements and determine whether it should be executed by the borrower, by the Bank, or by a third-party procurement system. The assessment also forms the basis to inform the procurement plan of the TSF-funded operation and the development and mainstreaming of targeted activities to address the issues identified at the three levels.

Disbursement

3.26. Disbursements of TSF grants and loans are carried out by FIFC in compliance with the rules and procedures set out in the Bank's Disbursement Handbook[33], as updated from time to time. During the implementation phase, following fulfilment of disbursement conditions and clearance by PGCL, FIFC is responsible for disbursing TSF resources based on duly completed disbursement requests, provided that these are approved by the competent authorities in accordance with the disbursement requirement and currency agreed with the borrower.

3.27. The specific disbursement methods to be deployed depends on the characteristics of each project, the categories of expenditure, and the ability of the borrower to effectively manage the resources at its disposal. In consultation with FIFC, the Task Team can modify the financing closing date, subject to approval by the appropriate authorities indicated in the Bank's DAM.

Project Extension

3.28. Extensions of TSF-funded operations that do not have financial implications can be granted to accommodate delays in project implementation. This should be done in compliance with the procedures indicated in the Bank's DAM.

3.29. It is acknowledged that implementation carries inherent risks of failure in fragile and conflict-affected situations characterized by uncertainty and rapidly changing contexts.

[33] *The Bank Group's Disbursement Handbook, March 2020.*

In such cases, it may be necessary to consider the cancellation of projects either in whole or in part, while also applying Bank's policies with degrees of flexibility. Notwithstanding, Task Teams are encouraged to make realistic disbursement forecasts and set closing dates that include buffer periods and allow for potential delays.

3.30. Projects normally should be fully disbursed within six years, but it is recognized that some projects might be better suited as a programmatic series of investment operations, allowing for successor projects. In such cases, the preparation of follow-on operations would begin after satisfactory implementation of the preceding project. Project documents should provide a strong justification for the need and feasibility of such follow-on operations, taking into account the evolving context and challenges.

3.31. In rare cases, force majeure events—that could not have been reasonably predicted by the Task Team—may cause project delays. If the rationale for the project remains, the Task Team may request an exception to extend the closing date as determined by the Bank's DAM.

4. Administration and Governance

Overview

4.1. RDTS hosts the operational activities of the TSF. Under the general oversight of the Vice-President, RDVP, and the direct guidance of RDTS Director, it acts as a delivery unit that executes the day-to-day administration of the TSF. It avails managerial oversight, administrative support, and technical inputs to complement other Bank departments in critical activities such as resources mobilization, management of donor relations, pipeline development, project design and implementation and portfolio management. It ensures proper utilization, accounting, and reporting of the TSF in line with the rules and procedures set in these guidelines. This includes, but not limited to, the following:

i) Provide the intellectual leadership and analytical inputs needed to support the mainstreaming of fragility and resilience considerations in all TSF interventions.

ii) Preparation of the list of countries (transition states) eligible for TSF Pillar I upfront allocations and TSF Pillar III support at the start of each ADF cycle.

iii) Coordination with FIRM for the calculation of TSF Pillar I upfront allocations.

iv) Setup and the implementation of Call-for-Proposals processes for the TSF Prevention Envelope and the TSF Pillar III resources.

v) Interactions with internal and external stakeholders to ensure timely implementation of various recommendations and decisions made by the TSF governing authorities.

vi) Provision of technical inputs and guidance to Task Teams through project cycle to ascertain compliance with relevant TSF-related policies, procedures, and rules.

vii) Administration of regular screening, reporting, monitoring, and evaluations of TSF portfolio and lending activities.

viii) Coordination with PCER to ensure internal and external visibility of the TSF impact and results as well as recognition of donor contributions.

ix) Preparation of all TSF-related reporting and advocacy materials supporting the Bank's discussions with donors and its resource mobilization efforts.

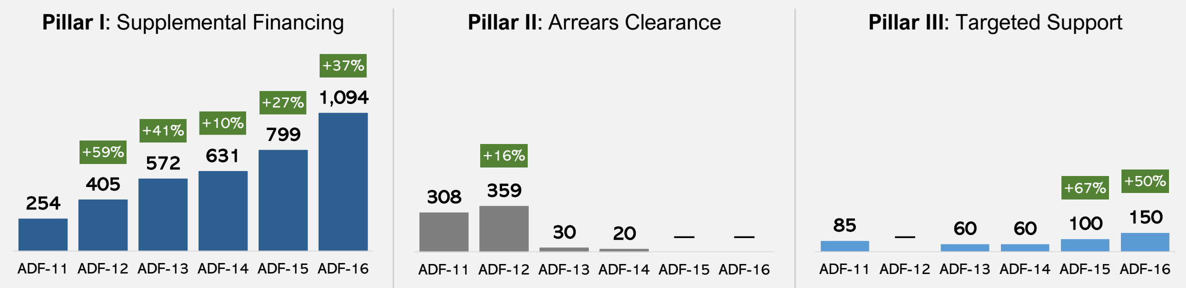
x) Coordination with relevant Bank's units and engagement with current and potential donors to ensure timely reporting and/or solicit financial contributions.

xi) Discussion with internal and external audit and evaluation bodies and, when necessary, provision of technical inputs.

Resource Mobilization

4.2. Through its replenishment cycles, the ADF is the main source of funding for the TSF. As detailed in Figure 3, the TSF has mobilized UA 4.9 billion from ADF contributions since its establishment in 2008. The overall size of the facility has been steadily increasing over the last six ADF replenishment cycles. This positive trend demonstrates the constant support and the commitment of the ADF shareholders to scale-up the Bank's concessional engagement in fragile and conflict-affected situations in Africa.

Figure 3: ADF Contributions to the TSF Since 2008 (UA Million)



Source: African Development Bank Group.

4.3. Along with the ADF contributions, the ADB window of the Bank may grant resources to the TSF from its net income and/or from its Surplus Account[34] (Box 6).

Box 6: ADB Contribution to the TSF

In compliance with the legal note issued by the Bank's General Counsel in 2008, the ADB window of the Bank Group can contribute to the funding of the TSF through three possible options:

i) The ADB may allocate resources to the TSF from its net income, with the approval of the Board of Governors at the Annual Meetings. This complies with Article 42 of the agreement establishing the Bank.

ii) Between Annual Meetings, the ADB may authorize an allocation of resources from its Surplus Account, with the approval of the Board of Governors by postal ballot. This complies with the Guidelines for Distribution from the Surplus Account.

iii) The ADB may set aside a specific allocation to the TSF as part of its general contribution to the ADF replenishment from its net income.

[34] *Guidelines for Distribution from the Surplus Account, July 2007, (ADB/BD/WP/2007/84).*

4.4. By virtue of its status of financial autonomy, the TSF can mobilize resources from various other entities beyond the ADF and ADB contributions. In addition to sovereign traditional donors from the Bank's member states, any of the TSF Pillars can receive grant donations from other sovereign and non-sovereign sources. These grant sources can include non-member states, bilateral agencies, multilateral organizations, trust funds, philanthropies, and private sector actors. In doing so, the TSF provides the flexibility to mobilize funds quickly and the opportunity to further support the Bank's work on fragility without the complexities of setting up new financial instruments.

4.5. Provided that the strategic objectives outlined in these guidelines are adhered to, the TSF offers additional flexibility through a '*soft earmarking*' mechanism that allows any donor to express preferences for deploying an additional grant contribution for specific countries, sectors, and/or thematic areas. This flexible earmarking also applies to operations where the donor can choose to co-finance specific—ongoing or new—projects. For this contribution to become effective, competent authorities from both the Bank and the donor must sign-off on a donor contribution agreement, which specifies the financing terms and the desired use of the contribution. These flexible options aim to facilitate the engagement of the international community in fragile contexts in Africa while minimizing transaction costs.

4.6. Under the direct supervision of RDTS Director, and in close coordination with FIRM and other appropriate stakeholders, RDTS is responsible for providing the fragility expertise necessary for preparing all relevant advocacy materials nurturing the Bank's narrative and supporting its efforts to mobilize resources in the TSF within the frameworks mentioned above.

Donor Relations

4.7. Managing relations with TSF donors is central to achieving the ambition for scaling up the Bank's work on fragility. In coordination with FIRM and other appropriate stakeholders, RDTS is responsible for setting thoughtful and proactive efforts for cultivating relationships with new donors and stewarding current donors to maximize their retention, engagement, and investment. Sustaining these efforts is necessary to constantly promote the flexible nature of the TSF and position it as a tailored instrument for attracting funds in support of coordinated interventions to address fragility and conflict issues.

4.8. In some cases, the engagement with donors may go beyond the provision of financial contributions. This means pursuing a partnership to achieve shared goals, such as joint analytical work, strategic frameworks, policy dialogue, advocacy, and/or programming activities related to fragility in the context of specific countries, regions, sectors, and/or thematic areas. This type of donor engagement can catalyze action-oriented partnerships with greater added value.

Portfolio Management

4.9. The collection of the TSF portfolio information relies on the direct supervisions of individual projects regularly undertaken by Task Teams during implementation in accordance with the Bank's supervision rules and procedures. With the support of its fragility experts on the ground, RDTS coordinates with Task Teams to ensure that the implementation status of TSF funded projects are properly reflected in its portfolio management system. It also works in coordination with Country and/or Regional Teams to ensure proper aggregation of data across TSF funded interventions which is regularly used in annual country and/or regional portfolio performance reviews.

4.10. While the day-to-day management of operations is handled by Task Teams, and relevant operational and sectoral units, RDTS oversees and ensures that the implementation is consistent with these Guidelines. When needed, RDTS can provide additional support to Task Teams in coordinating implementation, supervisions, and/or completion and ensuring that the reporting obligations associated with individual projects are met.

4.11. RDTS works in close coordination with SNDR, and other relevant Bank's corporate services, to extract and track performance of TSF interventions to meet its reporting obligations towards the various TSF donors and governing authorities. With a breakdown by financing windows, the reporting on the TSF portfolio mainly covers its operational performance in terms of implementation progress, disbursements, cancellations, completions, and tracked results. It also covers strategic and long-term issues related to the financial performance of the TSF portfolio, risk management, interaction with the broader Bank's portfolio, synergies with external partners, and lessons learned from project implementations in fragile and conflict-affected environments.

Reporting Requirements

4.12. While Task Teams report on individual operations involving TSF financing at implementation and completion, through IPRs and PCRs, various reporting exercises are carried out at the aggregated level of the TSF operational and administrative activities. These target several types of audience, including internal stakeholders of the TSF, its various governing authorities, its donors, as well as internal and external auditors. The frequency, purpose, content requirement, level of granularity, clearance process of each of the following reporting exercises vary depending on the audience and the context of when it is produced.

4.13. RDTS, in collaboration with SNDR, regularly produces a TSF Flash Light Report. The report provides granular monitoring of the performance of the TSF portfolio, including approval of new projects, implementation progress of ongoing projects, disbursements, cancellations, completions, and results. It also tracks the volume of resources committed against available resources under each of the TSF Pillars.

4.14. RDTS Annual Reports include information on annual utilizations and commitments of TSF resources. It also gives indications on the annual performance of the TSF portfolio and achieved results aggregated by financing window. In addition, the TSF-related section covers activities over the year in terms of resource mobilization, donor relationships management, pipeline development, and portfolio management. After being cleared by the Vice-President, RDVP, the Annual Report is distributed to the Boards of Directors for information.

4.15. Likewise, RDTS will lead the preparation of TSF-specific inputs feeding into the Bank's Annual Reports and Development Effectiveness Reviews. These inputs mainly cover high-level financial statements of the TSF, its portfolio performance, its achieved results, and its broader strategic direction.

4.16. The Bank's Management provides semi-annual reports to the Boards of Directors, which outline the status of standalone TSF Pillar III programs approved by the Vice-President, RDVP, and/or the President. In addition, RDTS may produce *ad hoc* reports upon request from any of the governing authorities and/or donors. RDTS also takes responsibility for coordinating the preparation of management responses to TSF-related assessments and *ad hoc* reports on recommended actions.

4.17. As part of the ADF negotiations, RDTS leads the preparation of TSF-related discussion papers and other materials in support. Particularly during the MTR of ADF cycles, these materials aim to report on progress made on the operationalization of the TSF in the context of the broader implementation of the Bank's fragility agenda, as well as activities and achievements against TSF and fragility-related policy commitments. For example, a thorough reporting on the operationalization of the TSF programmatic approach is required in the context of the ADF-16 MTR.

4.18. An external audit of the TSF accounts is carried out on an annual basis to ensure financial accountability. As part of this process, FIFC is responsible for generating and providing the latest TSF financial statements to the Bank's external auditors. This also applies to internal audits as undertaken from time to time by the Bank's Office of the Auditor General (PAGL). Audited financial statements can be made available upon request from any of the TSF governing authorities.

Financial Management

4.19. The financial management of the TSF and its supported operations refers to the systematic and effective management of its cash flows, outflows, and investments in compliance with the Bank's regular financing processes and procedures. The activities underlying the financial management of the TSF are regularly presented in the Bank's financial statements in accordance with the international financial reporting standards in force.

4.20. Following the entry into force of the ADF cycle, RDTS coordinates with FIFM and the Treasury (FITR) department and initiates the request to transfer cash flows from ADF liquidity to the TSF accounts. The request is updated as needed during the implementation of the ADF cycle to ensure that sufficient liquidity is available to meet the lending commitments of the TSF.

4.21. FIFC constantly ensures adequate segregation of TSF accounts and provides periodical reporting on available resources and current liquidity across its three Pillars. In the meantime, FITR and FIFM manage and conservatively invest the TSF liquidity. They ensure that the capital value of TSF's liquidity is adequately protected and that the TSF has sufficient resources to meet its obligations.

4.22. In ADF-13, loan lending conditions were introduced into TSF Pillar I country allocations. Similarly, the TSF programmatic approach introduced in ADF-16 includes loans. The generated income from these loan repayments is monitored by FITR and/or FIFC and managed in a separate account. These funds are calculated and closed at the beginning of each ADF cycle, making them available for use in the TSF Unallocated Reserve, along with ADF and other contributions.

Governing Authorities

4.23. Several governing authorities are involved in various stages of the TSF administration, including project initiation, processing, and approval. The following are some of the key governing authorities involved in the approval processes of operations that utilize TSF financing.

4.24. RDTS Director is *ex officio* the Administrator of the TSF. He/She is responsible for constituting the evaluation committee of TSF Calls-for-Proposals and validating outcomes of the evaluation for transmission to Vice-President, RDVP. The Director also clears the appraisals for all TSF Pillar III operations and recommends their transmission for further processing towards the approval phase.

4.25. Vice-President, RDVP, clears the submission of the list of selected programs resulting from the Call-for-Proposals process for TSF Pillar I programmatic financing to OpsCom. Vice-President, RDVP, also approves:

i) The list of selected programs resulting from the Call-for-Proposals process for TSF Pillar III financing.

ii) Standalone TSF Pillar III programs with funding amounts below UA 3 million (exclusive), except for programs covering countries that are under sanctions due to arrears.

4.26. OpsCom assures the strategic alignment, operational coherence, and added value of the TSF and clears for further processing:

i) The list of transition states eligible for TSF Pillar I country allocations, the size of their allocations, and their financing terms, as well as the list of transition states eligible for TSF Pillar III support.

ii) The list of selected programs resulting from the Call-for-Proposals process for TSF Pillar I programmatic financing.

iii) Operations involving TSF Pillar I (allocated or programmatic) or TSF Pillar II resources.

iv) Operations integrating TSF Pillar III resources, as part of a larger financing plan.

4.27. The Bank's President approves standalone TSF Pillar III programs with funding amounts ranging from UA 3 million (inclusive) to less than UA 5 million (exclusive), except for programs covering countries that are under sanctions due to arrears.

4.28. The Boards of Directors approve:

i) The list of transition states eligible for TSF Pillar I country allocations, the size of their allocations, and their financing terms, as well as the list of transition states eligible for TSF Pillar III support.

ii) Changes in the financing terms of TSF Pillar I country allocations as guided by the dynamic DSA approach.

iii) Allocations of indirect supports from TSF Pillar III to other financing vehicles.

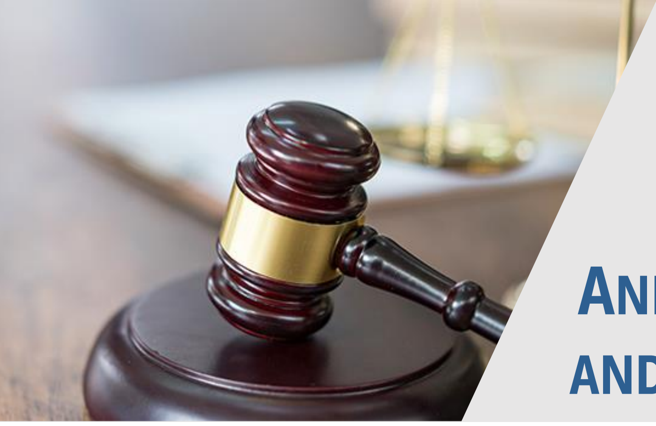
iv) Transfers of resources between TSF Pillars.

v) Operations involving TSF Pillar I (allocated or programmatic) and TSF Pillar II resources, regardless of the amounts committed.

vi) Standalone TSF Pillar III programs with funding amounts of UA 5 million (inclusive) and above.

vii) Standalone TSF Pillar III programs covering countries that are under sanctions due to arrears, regardless of the funding amounts involved.

viii) Operations integrating TSF Pillar III resources, as part of a larger financing plan.



ANNEX — LEGAL NOTE ON THE TSF AND THE OPERATIONAL GUIDELINES

Background

This Legal Note is an update to the Legal Note dated June 30, 2008, which takes into account some of the amendments to the policies of the African Development Bank (the "Bank") and the African Development Fund (the "Fund") (the Bank and the Fund, collectively the "Bank Group") referenced herein.

The consistent engagement of the Bank Group in all regional member countries (RMCs) is essential to the fulfilment of the Bank Group's development mandate. However, this has been particularly challenging in certain countries such as post-conflict countries (PCCs) or otherwise fragile states in which operations have been reduced or discontinued.

In this connection, and particularly to assist fragile states in overcoming their immediate development challenges, the Boards of Directors of the Bank and the Fund, in March 2008, approved the Strategy for Enhanced Engagement in Fragile States (ADB/BD/WP/2008/37-ADF/BD/WP/2008/10) (the "2008 Strategy"). Since 2008, the Strategy has been updated twice.[1]

The Bank Group, through the 2008 Strategy, intended to deepen its development assistance to PCCs by consolidating the lessons learnt, and expanding the scope of its assistance to fragile states, generally (and not only PCCs), as well as increasing the choice of instruments for the delivery of its assistance to include supplementary financing and institutional support through technical assistance, in addition to arrears clearance grants.

A key feature of the 2008 Strategy is the Fragile States Facility (FSF)[2] which is intended to provide financial and technical assistance to fragile states. The Boards of Directors established the FSF by Resolution B/BD/2008/05-F/BD/2008/03 adopted on 28 March 2008. Since 2014, the FSF has been renamed "Transition Support Facility or TSF". The TSF functions through three (3) windows namely the: (i) Supplemental Support Window (SSW); (ii) Arrears Clearance Window (ACW); and (iii) Targeted Support Window (TSW).

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[1] *The two (2) updated strategies are: (a) Addressing Fragility and Building Resilience in Africa: The African Development Bank Group Strategy 2014- 2019 in Document ADB/BD/WP/2014/46/Rev.2, ADF/BD/WP/2014/30/Rev.2 ("2014 Strategy") and (b) Bank Group's Strategy for Addressing Fragility and Building Resilience in Africa (2022-2026) in Document ADB/BD/WP/2021/208/Rev.1, ADF/BD/WP/2021/163/Rev.1. ("2022 Strategy").*

[2] *Under the 2014 Strategy, the FSF was renamed to Transition Support Facility (TSF). The 2014 Strategy similarly included the introduction of the concept of 'transition states', a shift from post-conflict countries and fragile states under the two (2) preceding Strategies.*

i) Supplemental Support Window: Resources from the SSW will supplement the performance-based country allocations (PBA) to eligible post crisis/transitional countries.

ii) Arrears Clearance Window: The ACW builds upon the Bank Group's arrears clearance assistance to PCCs through the Post Conflict Country Facility (PCCF). This window channels resources to assist in the clearance of arrears, similar to the PCCF, and now expands the reach of the Bank Group's assistance to include fragile states and not only PCCs.

iii) Targeted Support Window: Resources of the TSW will provide to fragile states, supplementary targeted support for technical assistance and knowledge management that would not otherwise be provided through current Bank Group instruments and programs.

This Legal Note provides clarification and guidance on the legal framework of the creation and implementation of the TSF.[3]

TSF Legal Structure

Three (3) options for the legal structure of the FSF (TSF) were considered[4] at the time of its creation as follows: (i) a separate earmark or set-aside within ADF-11; (ii) a new special purpose ADF window for the SSW; and (iii) a new, special purpose vehicle, Fragile States Facility to provide resources through the: (a) SSW; (b) ACW; and (c) TSW. The third option was selected as the best option after due consideration of the legal and operational issues.

The factors which weighed in favor of the selected option, which are also discussed in other sections of this legal note, include the need to have an operationally distinct and autonomous facility that functions outside of the framework of the Bank Group's operations. The operational autonomy of the facility is particularly important in light of the refinancing and moral hazard aspects of the ACW; the source of the funding, in the case of the Bank; and the activities and related procedures of the TSF.

Similar to the PCCF, the TSF has been administered as a trust governed by the general principles of trusts administered by international financial institutions. These general principles are summarized as follows[5]:

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[3] *In discussing these issues we have referred to inter alia to the following documents: (i) Agreement Establishing the African Development Bank, dated 1963; (ii) Agreement Establishing the African Development Fund, dated 1972; (iii) Strategy for Enhanced Engagement in Fragile States approved in March 2008; (iv) Bank-Group Post Conflict Assistance Policy Guidelines Arrears Clearance Framework adopted on 19 July 2004; (v) Bank Group Policy on Loan Arrears Recovery, dated March 1997; (vi) Guidelines on Development Budget Support Lending (DBSL) dated April 2004; and (vii) Operations Guidelines of the Fragile States Facility.*

[4] *The legal issues raised by the proposed framework are largely the same as those raised in relation to the establishment of the PCCF in 2004. PGCL has comprehensively addressed these issues in a legal opinion issued at the time of the establishment of the PCCF.*

[5] *Sir Joseph Gold: Legal and Institutional Aspects of International Monetary Systems: Selected Essays. Vol. II (1984) pp 870 ff.*

i) the right of ownership of property subject to a trust are divided between the trustee and the beneficiary(ies);

ii) a trustee must keep trust property separately from its own property as well as the property of other trusts, and must earmark trust property as such, unless relieved of the obligation by law or the terms of the trust;

iii) the trust is not a legal entity in the sense that it is the bearer of rights or the subject of duties;

iv) a trustee must not engage in self-dealing in administering the trust;

v) a trustee must administer the trust solely in the interest of the beneficiary(ies); and

vi) in administering a trust, the trustee must use reasonable care and skill and avoid unreasonable risk.

In addition to being administered as a trust, the TSF has operational autonomy by having its own rules and procedures separate from the rules and procedures generally governing Bank Group's operations, except as otherwise stated. The TSF is also financially autonomous with the total separation of its resources from those of the Bank Group or any other trust administered by the Bank Group.

Given the financial and in the case of the Bank, institutional arrangements for the TSF (including the creation of an organizational unit and secondment/technical assistance activities), the creation of the TSF required the decision of each of the Boards of Directors of the Bank and the Fund.[6]

Funding the TSF

The identified sources of funding for the TSF are: the Bank, the Fund, beneficiary countries (in the case of the ACW), and other donors. In this regard, it may be recalled that in the context of the Eleventh General Replenishment of the ADF (ADF- 11), State participants authorized an allocation of resources to the TSF in the total amount of Four Hundred and Twenty Million Units of Account (UA 420, 300, 000). This allocation was confirmed by the Board of Governors of the Fund when it approved the Report on the ADF-11. Since then, the allocations for the TSF are set-aside at each ADF replenishment cycle.

In the case of the Bank, the Bank may allocate resources to the TSF from its net income, in accordance with Article 42 of the Agreement establishing the Bank. It may be recalled that allocations from the Bank's net income require the approval of the Board of Governors, and such approval is granted during the Annual Meetings of the Bank. Furthermore, between the Annual Meetings, the Bank may also authorize an allocation of resources from its Surplus Account. An allocation from the Surplus Account also requires the approval of the Board of Governors which may be obtained

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[6] *See Resolution B/BD/2008/05-F/BD/2008/03 concerning the establishment of the Fragile State Facility, adopted by the Boards of Directors on March 28, 2008.*

by postal ballot.[7] Another option is an allocation to the TSF to be included in the Bank's contribution to the various ADF replenishments.

Specifically for the financing of the ACW, additional funding sources included: (i) the balance of the resources of the PCCF; (ii) the contribution of the beneficiary countries; (iii) the contribution of donor countries provided towards the contribution of the beneficiary country to its arrears clearance.

Appropriate instruments are concluded to document the terms of the contributions to the TSF, in particular the contributions from beneficiary countries.

Relationship with the PCCF

It will be recalled that the PCCF was established in 2004 by the Fund with separate rules and procedures adopted the same year by the Bank and the Fund, for the purpose of clearing the arrears of eligible PCCs and enabling the PCCs to commence re-engagement with development finance institutions (DFIs) as well as having a real opportunity to benefit from the HIPCs initiative.

The TSF is designed to continue the activities of the PCCF, albeit providing assistance to a wider range of countries (fragile states and not only PCCs). In order to legally provide for this transition, and after considering the rules and procedures of the PCCF, the following steps and decisions were followed:

i) In the context of the adoption of the Guidelines for the TSF, the relevant Resolution to be adopted by each of the Boards of Directors of the Bank and the Fund authorized the transfer of the activities of the PCCF to the TSF, under the ACW;

ii) The Boards authorized the use of the balance of the resources of the PCCF for the activities of the ACW; and

iii) The Boards authorized that the Guidelines for the TSF will be applicable to the ACW, and that the Post-Conflict Assistance Policy Guidelines of the PCCF will cease to be applicable; in particular the rules of eligibility for assistance under the ACW of the TSF are applicable instead of the rules of eligibility for PCCs under the PCCF.

The balance of the resources of the PCCF consist only of the contributions of the Bank and the Fund. Accordingly, the Bank Group does not need to obtain the consent of any other donor, prior to the use of the PCCF's resources for the purposes of the ACW. Furthermore, the Bank has no outstanding obligations under the PCCF which may be considered as granting any PCC rights to the balance and requiring their prior consent to the use of such resources for the activities of the ACW.

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[7] *See Documents ADB/BD/WP/2007/84 and the corrigendum thereto (Guidelines for Distribution from the Surplus Account).*

Prohibition against Refinancing

It will be recalled that the Board of Governors of the Bank, by Resolution 15-74, adopted the Policy and Procedure for Loans and Investments. This Policy provides in paragraph 20 that "[t]he Bank will finance only goods and services to be directly incorporated into a development project. Loans will not be considered for the refinancing of existing debts." (Emphasis added). The proscription of refinancing is also disclosed in Information Statements issued by the Bank for its various borrowing transactions. It is stated therein that the Bank "follows a policy of not participating in debt rescheduling or renegotiations and does not permit the making of new loans to provide for the servicing or repayment of outstanding loans with its resources".

Similarly, Article 15(8) of the Agreement establishing the Fund provides that the Fund shall not engage in refinancing operations.

The above-mentioned provisions specifically prohibit the Bank and the Fund from engaging in refinancing in the course of their operations. Accordingly, given the arrears clearance activities of the TSF, and to ensure compliance with the prohibition against refinancing operations, it is important that the:

- TSF be functionally autonomous in its operations;
- Resources of the TSF for the financing of its activities should not be taken from the resources allocated to the financing of Bank Group's operations;
- Bank Group, as a further safeguard, would continue with the segregation policy implemented under the PCCF, pursuant to which the resources contributed by a Bank Group entity were not used in the clearance of the arrears owed by a beneficiary country to such Bank Group entity. Accordingly, such resources should not be co-mingled but kept in separate sub-accounts.

Application of Certain Bank Group Policies

Given the operationally and financially autonomous nature of the TSF, Bank Group operations policies would not necessarily be strictly applicable to the activities of the TSF but may, however, provide guidance. While these policies should be considered on a case-by-case basis, in the context of the activities of the TSF, certain of them are discussed below.

Bank Group Policy on Loan Arrears Recovery (the "Sanctions Policy")

The Sanctions Policy applies to borrowers and guarantors in arrears on Bank Group loans and prescribes sanctions including the prohibition of: (i) the approval of new loans or guarantees; (ii) the signing of new loan or guarantee agreements; and (iii) the disbursement of the proceeds of any loan.[8] The Policy is applied in the context of Bank Group operations to deter the accumulation of arrears as well as reduce the Bank Group's exposure to financially challenged borrowers and / or guarantors. The Policy,

[8] *See paragraphs 2.1 and 2.2 of the Sanctions Policy. Paragraph 2.2 provides that sanctions automatically enter into effect thirty (30) days after the due date of the payment, in the case of the borrower, and fifteen (15) days thereafter, in the case of the guarantor.*

however, exempts from sanctions certain activities including the provision of technical assistance.[9] It is widely accepted that the principles which have informed the exemptions to the Sanctions Policy are that activities which: (i) encourage continued dialogue with the challenged country; and (ii) facilitate the timely resolution of the country's socio-economic challenges as well as the resumption of the Bank-Group's core operations; should continue to be permitted.

The Sanctions Policy was adopted by the Boards of Directors of the Bank and the Fund. Accordingly, it is within their powers to create initiatives which would not be subject to the Policy or to approve additional exemptions. Given the principles which informed the exemptions to the Policy, as well as the operationally and financially autonomous nature of the PCCF, the Sanctions Policy was not applicable to the PCCF's arrears clearance programs.

In the case of the TSF, it is important to recall the initial premise that the TSF is a special initiative of the Bank Group and is both operationally and financially autonomous. Furthermore, its activities are separate from the regular operations of the Bank Group. Accordingly, the Sanctions Policy which is applied in the context of Bank Group operations would not necessarily be applicable. Furthermore, an analysis of the underlying principles of the Sanctions Policy further corroborates the exemption of the TSF from the application of the Policy, as indicated below.

Consistent with the previous arrangement under the PCCF, as well as the above-mentioned underlying principles for exemptions to the Policy, arrears clearance activities under the ACW would not be prohibited by the Sanctions Policy. Similarly, technical assistance may be provided to countries in arrears, under the TSW, and will not be considered prohibited, given the exemption of technical assistance activities and the principles underlying such exemption.

In the case of the SSW, the TSF Guidelines provide that a country may use all of its supplemental funding and a maximum of fifty percent (50%) of the PBA determined allocation, prior to debt regularization. This upfront use of the supplemental resources as well as PBA allocated resources may be for a wide range of activities including infrastructure rehabilitation and institutional support activities. Grant financed institutional support activities will be exempted similar to the technical assistance activities under the TSW.[10] In this regard, it may be recalled that the exemption of institutional support activities under the Sanctions Policy and specific authorization in the context of the ADF-X, formed the basis for previous institutional support grants for countries under sanctions, such as Côte d'Ivoire. Furthermore, the proposed budget

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[9] The Sanctions Policy exempted technical assistance provided through grants from the Fund's Technical Assistance Fund (TAF). The Fund, however, ceased to allocate resources to TAF from the Ninth General Replenishment of the Fund's Resources (ADF-IX), and from that period grant financed technical assistance was exempted, generally. See also the Legal Opinion of the General Counsel, dated June 24, 2005, contained in document ADF/BD/IF/2005/121.

[10] Under ADF 16, the use of SSW resources upfront allocations will be guided by the priorities agreed with the country and in line with the applicable country programming documents (country briefs, interim Country Strategy Papers (CSP) or full CSPs).The SSW resource upfront allocation can be used to support all programmes and projects, including Regional Operations and government participation in private sector operations, and use any of the Bank Group's financing instruments available to ADF countries.

support as well as infrastructure reconstruction and rehabilitation activities under the SSW may justifiably be exempted from the Sanctions Policy, given: (i) the fact that the TSF is a special initiative; (ii) these activities are essential to facilitating the timely resolution of the socio-economic challenges facing the target countries; and (iii) the activities are essential to the achievement of the objectives of the TSF.

Bank Group Budget Support Guidelines

Part of the resources from the SSW is provided in the form of budget support. Financing through budget support, in Bank Group operations, is carried out in accordance with the Bank Group Policy on Program- Based Operations dated 14 March 2012 (the "PBO Policy")[11], as well as Operational Guidelines on the Programming, Design and Management of Program- Based Operations[12] dated 3 March 2014.[13] The PBO Policy provides that Bank Group assistance using PBO would be guided by country ownership, results focus, alignment and predictability, harmonization and coordination, mutual accountability and flexibility and applied on a highly selective basis, each case evaluated on its merits[14]. In addition, the prerequisites for Bank Group funding of PBOs to RMCs include macro-economic and political stability and strong government commitment to poverty reduction, a satisfactory fiduciary risk assessment as well as harmonization.[15] In addition, the PBO Policy provides that countries affected by crisis or conflict may require an usually quick response from the Bank Group and PBO will be considered on an exceptional basis.[16]

Evidently, certain of the fragile states may not be able to meet the prerequisites set out in the PBO Policy. Accordingly, in order to achieve the objectives of the assistance to fragile states under the TSF, which includes the provision of prompt, predictable, multi-year financing through budget support, certain of the prerequisites for budget support loans and assumptions contained in the PBO Policy would not be applicable for budget support financing under the TSF. The PBO Policy provides that the PBO will be considered by the Bank Group on an exceptional basis under the Crisis Response Budget Support instrument.

Performance Based Allocations (PBA)

It will be recalled that the allocation of resources to countries for operations activities since the ADF 11 is based on the performance-based allocation system. Resource allocations, however, under the TSF are outside of the PBA allocation system and are based on the methodology and criteria defined under each ADF cycle on country eligibility and their respective allocations.

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[11] *This is contained in Document ADB/BD/WP/2011/68/Rev.3/Approved ADF/BD/WP/2011/38/Rev.3/Approved.*

[12] *This is contained in Document ADB/BD/IF/2014/40 ADF/BD/IF/2014/35.*

[13] *Previously contained in Guidelines on Development Budget Support Lending (DBSL) dated April 2004 and contained in Document ADB/BD/WP/2003/143/Rev.2- ADF/BD/WP/2003/182/Rev.2.*

[14] *See Paragraph 4 of the PBO Policy dated 14 March 2012.*

[15] *See Section 6.2 of the PBO Policy.*

[16] *See Section 6.3.2 of the PBO Policy.*

Approval, Modification and Termination for the Guidelines for the TSF

The approval of the Guidelines for the TSF (formerly FSF) is within the purview of the functions of the Boards of Directors, given their general and policy nature.

Modifications to the TSF Guidelines will require the approval of the Boards of Directors. The TSF may be terminated by Resolution of the Boards of Directors of the Fund and the Bank.

Conclusion

The TSF is a special initiative of the Bank and the Fund. It is administered as a trust and is operationally and financially autonomous from the operations of the Bank Group and the resources of the Bank Group as well as other trusts administered by the Bank Group. The TSF functions outside of the framework applicable to the operations of the Bank Group. Accordingly, the policies applicable to Bank Group operations, except otherwise provided, are not strictly applicable to the TSF.

Souley Amadou
General Counsel
June 2023

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