

**FRAGILE STATES—GOOD PRACTICE IN
COUNTRY ASSISTANCE STRATEGIES**

OPERATIONS POLICY AND COUNTRY SERVICES

December 19, 2005

ABBREVIATIONS AND ACRONYMS

AML/CFT	Anti-Money Laundering/Combating of Financing of Terrorism	MAP	Multi-Country HIV/AIDS Program for Africa
ARFT	Afghanistan Reconstruction Trust Fund	MDTF	Multi-donor Trust Fund
AU	African Union	NGO	Non-Governmental Organization
BP	Bank Procedure	NSP	Emergency National Solidarity Project
CAR	Central African Republic	NTGL	National Transitional Government of Liberia
CAS	Country Assistance Strategy	OCP	Onchocerciasis Control Programme
CDC	Community Development Council	OECD	Organization for Economic Co-operation and Development
CDD	Community Driven Development	OECD-DAC	Development Assistance Committee of the Organization for Economic Co-operation and Development
CMC	Cash Management Committee	OED	Operations Evaluation Department
CPIA	Country Policy and Institutional Assessment	OP	Operational Policy
CPR	Conflict Prevention and Reconstruction Unit	OPCS	Operations Policy and Country Services
CPS	Country Partnership Strategy	PFM	Public Financial Management
CRN	Country Re-engagement Note	PNG	Papua New Guinea
DEC	Development Economics	PREM	Poverty Reduction and Economic Management
DFID	UK Department For International Development	PRS	Poverty Reduction Strategy
DPL	Development Policy Loan	PRSP	Poverty Reduction Strategy Paper
DPO	Development Policy Operation	RFTF	Results-Focused Transitional Framework
DRC	Democratic Republic of Congo	SMC	School Management Committees
ECOWAS	Economic Community of West African States	SME	Small and Medium Enterprise
EEMP	Emergency Economic Management Plan	SPLM	Sudan People's Liberation Movement
EITI	Extractive Industries Transparency Initiative	TA	Technical Assistance
ESW	Economic and Sector Work	TF	Trust Fund
EU	European Union	TFWBG	Trust Fund for West Bank and Gaza
FAS	Social Action Fund	TRM	Transitional Results Matrix
FY	Fiscal Year	TSP/CSP	Transition Support Program/Consolidated Support Program
GEMAP	Governance and Economic Management Program	UN	United Nations
GOA	Government of Afghanistan	UNDP	United Nations Development Programme
IBRD	International Bank of Reconstruction and Development		
ICF	Interim Cooperation Framework		
IDA	International Development Association		
IDB	Inter-American Development Bank		
IFC	International Finance Corporation		
IMF	International Monetary Fund		
ISN	Interim Strategy Note		
LEG	Legal Department		
LICUS	Low-Income Countries Under Stress		
LICUS TF	Low-Income Countries Under Stress Trust Fund		

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EXECUTIVE SUMMARY

1. Three years after the 2002 Report of the Low Income Countries Under Stress (LICUS) Task Force, this paper draws together lessons from country strategy development and implementation in fragile states. The principles and approaches presented here are not intended to be prescriptive, but rather to provide a basic framework and menu of tools to facilitate the sharing of lessons between countries and regions.

2. The Bank identifies fragile states by weak performance on the Country Policy and Institutional Assessment (CPIA). They share a common fragility, in two particular respects:

- State policies and institutions are weak in these countries: making them vulnerable in their capacity to deliver services to their citizens, to control corruption, or to provide for sufficient voice and accountability.
- They face risks of conflict and political instability. Of 26 countries with intermediate or worse civil conflicts between 1992 and 2002, 21 were also LICUS during this period.

3. These challenges are interlinked. Erosion of state capacity or accountability eventually results in failure to mediate competing interests, generate economic growth or provide services in an inclusive and accountable way, creating the space for political instability or conflict. Conflict in turn erodes state institutional strength and draws resources away from the productive sector and human development. The impact of this vicious circle is clearly seen in development outcomes in fragile states. LICUS have twice the income poverty and child mortality rates of other low income countries: they also pose a risk of negative spillovers for their neighbors and the wider global community, through spread of conflict and organized crime, refugee flows, epidemic diseases, and barriers to trade and investment. Improving the international response in these countries is a critical development challenge.

4. *Common themes.* Since 2002, the Bank has sponsored a differentiated approach to country strategy development in fragile states, and has participated actively in international debates on new research and its implications for development policy. Both practical country experience within the Bank and international policy discussions have highlighted an emerging consensus on a number of core themes which are important across the fragile state spectrum:

- the centrality of efforts to **build state capacity and accountability**, including strong attention to the most basic state administrative and delivery systems, complementing capacity investments with robust efforts to improve accountability, and balancing state capacity-building efforts with support for civil society and the private sector;

- interlinkages between **peace-building and development challenges**, including the need to design interventions which are sensitive to political and conflict dynamics, and the importance of efforts to reduce crime, instability or conflict as development goals in their own right in fragile situations;
- **international partnerships**, including aspects of ownership, alignment and harmonization particular to fragile states such as the need to aim at simplified overarching planning and monitoring tools, align with a broad group of stakeholders and work with differing compositions of international actors;
- the need for a **strong and flexible institutional response**, including the critical importance of field presence, specialized staff skills and knowledge, speed, adaptability, and long-term partnerships.

5. The first two common themes—state-building and peace-building—relate to the goals and activities undertaken in country assistance strategies. The report elaborates on ways in which the Bank can strengthen its approach in these areas, drawing on the lessons of practical country experiences. The last two areas—international partnerships and institutional response—relate to the supporting infrastructure which is necessary for the Bank to engage more systematically in support of state-building and peace-building in fragile states. Both aspects are important: there is scope to strengthen the strategic focus of the Bank’s work, but a strong focus on an integrated approach to state-building and peace-building will only work if the Bank is willing to engage in the international partnerships and reinforcement of organizational capacities necessary to deliver results. Section II of this paper elaborates on the implications of these common themes for country assistance strategies.

6. ***Differentiated approaches.*** A strengthened consensus on common themes is useful, but it is also critical to recognize that fragile states cannot be assisted through a uniform approach—they face very different challenges in the political environment, state capacity and accountability, and reform orientation. While state capacity and accountability, peace-building, new international partnerships and the need for institutional flexibility are common themes across the fragile state spectrum, the way in which these themes are applied will and should differ in different fragile state contexts. In situations of deteriorating governance or prolonged crisis, for example, efforts to build state accountability and transparency may be an important pre-requisite to efforts to build state capacity. Equally, states at the more stable end of the spectrum of fragility may no longer need to explicitly prioritize peace-building efforts—but strong analysis of conflict risks and efforts to ensure that resurgent crime and social disorder or renewed conflict do not undermine development progress are still important.

7. Experience in country strategy development and implementation have drawn out these differences: country teams have developed approaches which can be clustered into four emerging business models for engagement. Section III draws together good practice from across the regions in these different country situations, providing guidance on good practice as well as a series of country examples. The menu of tools and approaches identified are summarized in Table 1 overleaf.

Table 1. Differentiated Approaches across the Fragile States Spectrum

<p>Deterioration</p> <ul style="list-style-type: none"> • Interim strategy note, focusing on stemming decline in governance and social services, and contributing in economic and development areas to multi-donor conflict-prevention efforts. Limited new financing; focus on portfolio restructuring. • Increased use of CDD, private sector, NGO and ring-fenced mechanisms (including service delivery and local economic development in areas of insecurity). • State capacity and accountability: focus on transparency, dialogue and maintaining institutional capital to facilitate eventual turnaround. • Contributing to community level conflict prevention, and to multi-donor efforts for peace-building or governance reform at a national level. 	<p>Prolonged crisis or impasse</p> <ul style="list-style-type: none"> • Interim strategy note, focusing on maintaining operational readiness for re-engagement and providing economic inputs to early peace or reconciliation dialogue. • <i>Small grant-based finance, aiming at local economic development and protection of human capital, generally through non-government recipients (including service delivery and local economic development in areas of insecurity).</i> • Capacity and accountability: focus on institutional analysis, dialogue and counterpart training. • Use of socio-economic issues for restoration of dialogue/identification of entry points for change.
<p>Post-conflict or political transition</p> <ul style="list-style-type: none"> • Interim strategy note, focusing on rebuilding state capacity and accountability, and delivering rapid visible development results in support of peace-building. • Exceptional IDA allocation. • Joint needs assessment/recovery planning, linking political, security, economic, and social recovery. • State capacity and accountability: support for a broad state-building agenda, through institution-building and, where appropriate, development policy operations with robust oversight mechanisms and sector programs (including transitional projects working through CDD or NGO mechanisms). Leadership and civil society support. • Public administration, service delivery and economic development to address areas with crime, insecurity or conflict. 	<p>Gradual improvement</p> <ul style="list-style-type: none"> • Country Assistance Strategy, focusing on building state capacity and accountability, achieving selective development results, and boosting support for reform currents, supported by moderate IDA allocation. • Activities to boost domestic reform currents, including leadership support, communications initiatives, training and capacity-building. • State capacity and accountability: development policy operations (where appropriate and restricted in volume), supported by sector and capacity-building projects and with strong oversight mechanisms. Asymmetric reforms. • Public administration, service delivery and economic development to address areas with crime, insecurity or conflict.

8. None of these elements are intended to create a boilerplate for Bank assistance strategies. Assistance strategies must remain firmly rooted in country-specific analysis and dialogue—indeed, many of the recommendations focus on how to strengthen analysis and dialogue. The note does however aim to bring together examples of good practice from across regions and country teams after three years of implementation of the LICUS initiative, allowing for more systematic sharing of experiences to inform country strategies in future. The Bank, like other international partners, is still learning what approaches work in fragile state contexts. Going forward, it will be critical that the Bank continues to evaluate operational experiences carefully and adjust and improve approaches based on lessons learned.

FRAGILE STATES—GOOD PRACTICE IN COUNTRY ASSISTANCE STRATEGIES

I. INTRODUCTION

1. **Purpose.** Three years after the 2002 report of the LICUS task force, this report draws together lessons on country strategy development and implementation. The principles and approaches presented here are not intended to be prescriptive, but rather to provide a basic framework and menu of tools to facilitate the sharing of lessons between countries and Regions.¹

2. **Background.** In 2002, the Bank's Board endorsed the need to intensify engagement in Low Income Countries Under Stress (LICUS). The 2002 report highlighted some general principles for engagement but did not lay out operational guidance for staff, recognizing that more work was needed to identify effective approaches. During the last three years, Bank country teams have developed a number of promising approaches in country assistance strategies, and the Bank and other donors have conducted further research and policy discussions on aid effectiveness in fragile states. This report takes the opportunity to draw together some of these lessons on good practice to inform future country assistance strategies: it is intended as a working tool for operational guidance, and will continue to be updated and amended as further operational lessons emerge.

3. **Definitions.** Since the LICUS task force reported in 2002, there has been considerable international attention to countries under stress, with different terms adopted to describe these situations: difficult partnerships, countries at risk, difficult environments, failing states. The 2005 Senior Level Forum in London and March 2005 Paris High Level Forum on harmonization coalesced around the term "fragile states": in the interests of harmonization, the Bank proposes adopting the same term in its own work.

4. The Bank identifies fragile states by weak performance on the CPIA.² They share a common fragility, in two particular respects:

- State policies and institutions are weak in these countries: making them vulnerable in their capacity to deliver services to their citizens, to control corruption, or to provide for sufficient voice and accountability.
- They face risks of conflict and political instability. Of 26 countries with intermediate or worse civil conflicts between 1992 and 2002, 21 were also LICUS during this period.³

¹ The good practice note examines strategies, approaches and tools which may be useful within the Bank's existing policy framework: relevant policies include OP/BP 2.11, Country Assistance Strategies; OP/BP 2.30 Conflict and Cooperation and, in some cases, OP/BP 8.50 Emergency Recovery Assistance and OP/BP 7.30 De facto governments.

² Core LICUS are considered to be those countries at 3.0 or below in the CPIA overall and governance ratings; recognizing that the institutional and governance context changes gradually, the Bank also monitors marginal LICUS with ratings of 3.2 or below.

³ The remainder were sub national conflicts.

5. These challenges are interlinked. Erosion of state capacity or accountability eventually results in failure to generate economic growth or provide services in an inclusive and accountable way, creating the space for political instability or conflict. Conflict in turn further erodes state institutional strength and draws resources away from productive sectors and human development. The Bank's LICUS initiative has thus worked closely with the Conflict Prevention and Reconstruction and PREM governance units, building on the substantial track record of research and operational engagement in these areas.

6. While the Bank's fragile states work focuses on a tightly defined group of countries at the bottom of the CPIA, operational experience has shown that fragility is less clear cut. First, fragility does not disappear when a country achieves a small increase in the CPIA: for this reason, the Bank has maintained close attention to 'marginal' LICUS who have made small performance improvements but remain fragile. Second, other countries outside the core fragile states group have found elements of the donor debate on fragile states to be useful. This has included higher income countries facing the aftermath of conflict, genocide or social instability (e.g. Balkans); more strongly performing countries facing rising conflict risks (e.g. Nepal), and strongly-performing states facing fragility in particular sub-national regions (e.g. India, Philippines). The Bank proposes a pragmatic approach to this spectrum of fragility: maintain a focus on a core group of countries where fragility is most pronounced, but encourage other clients or country teams to make use of tools and approaches developed for fragile states whenever this fits their needs and circumstances.

7. *Commonalities and differences.* Experience in country strategy implementation also indicates the need to take advantage of the opportunities for shared learning which arise from common challenges across the fragile state spectrum, while recognizing that fragile states face very different constraints. Section II of this report identifies a number of common themes which apply across the fragile state spectrum and elaborates key lessons learned on how to apply these themes within country assistance strategies. Section II goes on to describe four types of different fragile country contexts which have emerged across regions and looks at more specific tools and approaches which may be useful in these differing circumstances.

II. COMMON PRINCIPLES AND THEMES

A. Common Principles and Themes

8. Some principles are common to the fragile states group as a whole. The Bank's Board has endorsed the need to stay closely engaged in all fragile states, despite their volatility. The LICUS task force report of 2002 also laid out the need to anchor strategies in careful political analysis, promoting domestic demand and capacity for positive change, supporting simple entry level reforms, and working closely with other donors.

9. Over the last two years, the Bank has worked with other donors at the OECD DAC to develop and endorse a set of more detailed working principles for international engagement in fragile states, discussed with fragile state partner countries in March 2005. There are twelve principles, which can be clustered into four main themes which are used to structure this report.

First, a long-term focus on state capacity and accountability is critical in all fragile state contexts if these countries are ever to find a durable exit from crisis. Second, political, security and development linkages are particularly important in fragile state contexts. Third, particularly close partnerships between international actors are needed, since low counterpart capacity and difficult political environments mean that fragmented international dialogue or donor programs are unlikely to deliver results. Fourth, donor organizational responses must be calibrated to the specific needs of fragile states, acting faster and more flexibly, staying engaged for the long-term, and coordinating to address problems of aid orphans and donor-driven aid volatility.

Box 1. Paris Principles for International Engagement in Fragile States

(Summary, full text attached at annex A)

- Take context as the starting point: sound political analysis is needed, above and beyond quantitative indicators of governance, institutional strength or conflict.
- Move from reaction to prevention, sharing and responding to risk analysis, addressing the root causes of state fragility and strengthening capacity of regional organizations.
- Focus on state-building as the long-term vision, strengthening the capacity of state structures to perform core functions; their legitimacy and accountability; and ability to provide an enabling environment for strong economic performance.
- Align with local priorities where governments demonstrate political will to foster their countries' development; where donor/government consensus is lacking, seek wider consultations and partial or shadow alignment.
- Recognize the political-security-development nexus, moving to support national reformers in developing unified planning frameworks for political, security, humanitarian, economic and development activities at the country level.
- Promote coherence between donor agencies, involving those responsible for security, political and economic affairs as well as those responsible for development aid and humanitarian assistance.
- Agree on practical coordination mechanisms between international actors, including upstream analysis; joint assessments; shared strategies; coordination of political engagement; joint offices, multi-donor trust funds and common reporting frameworks.
- Do no harm, avoiding activities which undermine national institution-building, such as by-passing budget processes or setting high salaries for local staff.
- Mix and sequence instruments, including use of both state recurrent financing and non-government delivery to fit different contexts.
- Act fast and with flexibility at short notice when opportunities occur.
- ...but stay engaged long enough to give success a chance: capacity development in core institutions will take at least 10 years.
- Avoid pockets of exclusion, addressing "aid orphans" and coordinating to prevent excessive donor-driven aid volatility.

B. Building State Capacity and Accountability

10. Fragile states, as the name implies, are fragile because state institutions have limited capacity to deliver services to their citizens, to control corruption, or to provide for sufficient voice and accountability. In the long-term, therefore, a successful exit from fragility will only come about through stronger and more accountable state institutions which are resilient to political and economic shocks. Building state institutions means not only focusing on state capacity, but also on the responsiveness and accountability of state institutions to the population at large, civil society and the private sector.

11. Work on governance, public institutions and public finance management is a central part of Bank assistance to all client countries. In fragile states, however, this assistance needs to be calibrated to weaknesses in existing capacity and accountability and to the risk of conflict or instability. Efforts to build state capacity and accountability in all fragile states will tend to put particular emphasis on the prioritization needed to continue improvement in state performance or prevent failure of key functions; on the most basic administrative systems; the balance of visible

and invisible results; the balance of capacity and accountability; the politics of institutional reform; and calibrating assistance to the state with assistance to the private sector and civil society.

12. ***Consensus on strategy and expected results.*** It is important to work with national counterparts and other donors to identify institutional strengths and weaknesses and develop consensus on priorities and expected results, recognizing that institution-building needs to be embedded in a strong understanding of the political dynamics of reform and existing capacity constraints, and combined with on-going service delivery.⁴ In some contexts, (see *differentiated approaches*, below) priorities may focus primarily on increasing transparency and accountability in state functions, while in others strong capacity-building efforts are needed to support reform transitions and demonstrate that the state can improve the delivery of positive services to the population. Priorities may occur across the spectrum of core state functions: while the Bank focuses on economic management, public finances and service delivery, it is important to recognize the efforts of government and other donors to strengthen functions and results outside the Bank's core competences.

13. ***Balance of visible and invisible results.*** Where basic laws and administrative systems are very weak, there is often a temptation to focus efforts on establishing the basic legal, organizational and procedural frameworks necessary to regain administrative control. Many of these reforms, however are invisible to the population at large; and without popular understanding of the benefits of reform, domestic reformers may lose influence and ability to sustain reform efforts. It is therefore important in designing institution-building initiatives to ensure that these will generate some tangible, visible results within a reasonable time period, even if these are modest (for example, paying salaries more reliably; ensuring that procurement reform will deliver drugs to clinics or textbooks to schools). Transitional Results Matrices, established as part of a PRSP action plan or prior to development of a PRSP, are a useful tool to plan the achievement of short-term visible results alongside longer-term institution-building actions.

14. ***Transition strategies.*** Effective transitions within fragile states will often require exceptional institutional arrangements to fill temporary gaps in capacity or accountability, drawing on the potential for supplementary oversight, delivery capacity or technical assistance within the private sector and civil society or international partners. These institutional arrangements may form a critical part of a long-term strategy to build strong state institutions, but they are likely to be acceptable to national counterparts and realize sustainable results only when they are part of a systematic transition strategy to build capacity and enable the transfer of responsibilities to permanent state institutions over time. Clearly communicating the purpose and expected benefits of transitional institutional arrangements to stakeholders is also critical to build momentum for reform transitions.

⁴ Building on the zero generation reform approach laid out by the LICUS task force, parameters used to determine priorities in different fragile states have included: (i) actions necessary to lock in promising reforms or lay the basis for future improvements in state delivery; (ii) actions necessary to prevent potential instability; (iii) actions necessary to build popular momentum for reform by generating visible results. See also forthcoming working papers on core state functions available from OPCS.

15. **Capacity and accountability.** Initiatives to build capacity also need to move in tandem with efforts to build accountability. It is therefore particularly important in fragile states that efforts to strengthen state service provision are calibrated with robust economic governance initiatives to maintain adequate fiduciary controls and accountability over the targeting and use of funds. Reform-minded governments in fragile states will generally wish to deploy some measures of external oversight to demonstrate the effective use of public funds: these may include civil society oversight mechanisms for major revenue and expenditure actions, transparent budget and public expenditure tracking; the use of external procurement, financial management or audit services; or social accountability measures at the community level.

Box 2. Balancing Capacity and Accountability - Guinea Bissau

Following the establishment of the 2003 transitional government in Guinea Bissau, authorities prepared an Emergency Economic Management Plan (EEMP), which was supported by the international community through a UNDP-administered trust fund. The Cash Management Committee (CMC) was established as an oversight body for the donor-financed fund, to promote transparency, fiscal responsibility and accountability and reinforce the government's capacity to manage the budget. The fund covered civil service salaries for health and education sectors, as well as services in key areas, such as public utilities; and supported technical assistance for public financial management, civil service reform and human resource management.

As a result of the experience under the EEMP, the Treasury Committee authorities under the CMC have invited donor and civil society representatives to sit on this committee along with government officials. The CMC assists in drafting annual treasury plans and monthly cash flow plans in accordance with the budget law and provides both weekly and monthly reports to the Ministry of Finance, and to government as a whole, on receipts and disbursements.

The successful implementation of the cash management plan over the last two years helped the government establish transparent country systems, which served to establish a track record of the government's seriousness in addressing fiscal restructuring to return public finances to a sustainable level. As a result, donors' confidence and willingness to provide budget support to Guinea Bissau on a regular basis was renewed. The CMC example illustrates how donor support and fiduciary oversight in extremely fragile states can be established through country systems rather than parallel extra-budgetary structures, despite initially low institutional capacity.

16. **Basic economic, administrative and delivery systems.** Most fragile states face weaknesses in basic economic, administrative and delivery systems: setting and implementing priorities at a cabinet level; budgeting; expenditure management; customs and revenue collection; payroll and personnel attendance; and core service delivery systems. Bank teams working in these situations need to have direct experience in the establishment of basic administrative and delivery systems, both at a technical design level and in understanding the processes necessary for implementation.

17. **The politics of institutional reform.** In most fragile state contexts, developing technical suggestions for institutional reform is easy; managing the political process of reform is much more difficult. It is therefore important that institution-building initiatives avoid purely technocratic approaches, devoting considerable attention to the process of decision-making and implementation, and to well-designed participation and widespread communication of reform initiatives. The "fit" of institutional structures with local realities has also frequently been problematic in fragile states, due to ill-adapted colonial legacies or the imposition of inappropriate external models: remaining open to new ideas for locally-driven institutional reforms and supporting local debate and discussion on options is critical.

18. **Balancing assistance for state institution-building with assistance to civil society and the private sector.** A vibrant civil society and private sector are critical for effective governance: indeed, without a strong private sector to generate jobs, incomes and tax revenues, or without popular and civil society demand for accountable services, public sector reforms are unlikely to

be sustained. Assistance for “state-building” therefore includes support for private sector and civil society development, in all fragile state contexts.⁵ In some contexts there may also be a need for civil society (including faith-based institutions) to take on an unusually strong transitional role in providing social services, where the state lacks the capacity or accountability mechanisms to deliver the desired short-term development results to the population. This can be a perfectly valid part of a long-term state-building strategy: but where services are provided through these mechanisms, it is important to explicitly consider a transition strategy for the eventual transfer of those services which are most efficiently provided through the state to public sector responsibility.

19. *Approaches to decentralization.* Along with efforts to strengthen capacity and accountability at the central level, strengthening local or community capacity for service delivery is often a critical element of a state-building—and peace-building—strategy in fragile states. Well-designed community-based development approaches or efforts to strengthen local government capacity and accountability can often deliver positive visible results in service delivery, which in turn can help strengthen the credibility of a national reform transition.⁶ However, there is a complex interplay of political dynamics and incentives between national and local institutions: community-based approaches need to take account of evolving capacities and responsibilities of government; and state institution-building initiatives require the identification of the right balance between national and local responsibilities and capacities, taking into account political and conflict dynamics and the history of institutional development.

Box 3. Support to State-building and Peace-building Goals in Timor-Leste

The 1999 crisis in Timor-Leste resulted in the destruction of over 70 percent of public buildings, the collapse of the public administration, depletion of human capital in key sectors including education and health, and the displacement of over one quarter of the population. Timorese society faced a number of potential internal divisions, including between those who had supported independence and those who had supported autonomy; between returning exiles and those who had stayed within the country; and from historical tensions within the pro-independence movement.

The Bank’s strategy in the immediate aftermath of the crisis had two simple pillars: to support basic needs and to prepare for independence. To ensure a focus on state-building, the Bank helped the Timorese leadership draw up benchmarks for administrative handover from the United Nations Transitional Administration to new Timorese state structures. Transitional programs were developed in the key sectors to balance the need for immediate service delivery with state capacity-building: in health, for example, initial service provision through NGOs was brought under the coordination and funding of the new ministry of health, with Timorese management units progressively replacing NGO management as state systems and capacity increased. This allowed time for the establishment of state institutions, the development of policy, management and administrative systems, and staff training—whilst also providing for an acceptable level of service delivery during the transition.

The focus on preparing for administrative handover was balanced by a program which recognized the importance of the political and security aspects of the Timorese transition. In close cooperation with the UN and bilateral partners, the Bank supported the inclusion of a program of police capacity-building in the multi-donor budget support operation; the demobilization of ex-combatants; commissions to consider the role and reintegration support needed for veterans of the armed and clandestine struggle; and a series of leadership seminars bringing together leaders from different backgrounds to work on the challenges of maintaining national unity in a fragile transition, building a capable and accountable state and supporting economic recovery.

As the world’s newest state, Timor-Leste still faces many challenges, but with strong leadership has already succeeded in overcoming periods of social tension; establishing a transparent framework for the management of oil revenues; and making progress in the uphill struggle of establishing effective state systems and services against a legacy of institutional failure and under-development.

⁵ The recent Report of the World Bank Task Force on Capacity Development in Africa, for example, sees the creation of space and strengthening of capabilities of social actors to demand positive change and push for the effective execution of state functions as a key feature of the emerging paradigm for capacity development. This requires the political space for involving civil society and the private sector in decision making and holding the state accountable for its functions, and the enhanced capacity of civil society and the private sector to organize for these purposes.

⁶ “*Aid That Works: Effective Project Approaches in Fragile States*” (working title); World Bank/Institute of Development Studies, forthcoming.

C. Peace, Security and Development Linkages

20. As the linkages between poverty reduction and peace and security have become clearer in recent years, there have been increasing demands from both client governments and donors to develop a coherent analysis of progress on these aspects, and to consolidate plans and requests for external finance such as to recognize the links between the different spheres. This pressure coincided with strong donor commitments to the harmonization and coherence agenda after the Rome declaration of 2003. It is also commensurate with renewed international attention to the need for an integrated approach to peace-building and assistance to fragile states, embodied in the Principles for Good International Engagement in Fragile States (which include a focus on the political-security-development nexus) and the creation of the United Nations Peace-Building Commission.

21. Issues related to peace, security and development linkages are present in country-level development debates across the fragile state spectrum, from the need for an integrated approach to prevent the escalation of conflict, or support the implementation of peace agreements after civil war; to the need to enhance the capacity and accountability of security sector institutions in order to combat crime and violence, improve human security and create an enabling environment for development interventions. The Bank has already supported a number of operational approaches which recognize these linkages, including the development and use in many countries of an integrated conflict analysis framework; Bank co-coordination of integrated recovery planning processes which span the political, security, economic and social spectra (Haiti, Liberia, Timor-Leste, Sudan, Central African Republic); country assistance strategies which promote peace-building goals (Afghanistan and DRC); and incorporation of security related activities within integrated multi-donor operations administered by the Bank, through fiscal agent or other donor partnership arrangements (Afghanistan and Timor-Leste).

22. Three points are worth underlining with regard to these approaches. First, the Bank has continued to focus on its core economic and development competences, but has increasingly recognized that these areas cannot be addressed in isolation from developments in the wider peace and security sphere. Second, assistance has been provided at the request of client governments, recognizing that commitment to peace-building measures needs, like commitment to economic reform, to be nationally driven. Third, harmonization and coherence, rather than expansion of the Bank's core competences, have been the driving force for a more unified approach.⁷

23. Moving forwards, there is justification to extend successful country experiences in linking development and peace-building to a deeper and more systematic consideration of these linkages in the Bank's operational engagement. Recognizing the need for peace-building to be nationally-driven and the constraints posed by the Bank's mandate and expertise, an emphasis on responsiveness to requests from national counterparts for support; maintaining a focus on the Bank's

⁷ The Bank has agreed in the past, for example, to include financing of police expenditures in multi-sector/multi-donor trust funds which it administers on a fiscal agent basis, when excluding these expenditures would undermine the coherence of the multi-donor program (for example, the Afghanistan Reconstruction Trust Fund). We have not, however, agreed to set up specialized trust funds which would finance *only* police or other security expenditures, considering that other international agencies would be better placed to lead on these specialized endeavors.

core economic and development competences; and partnerships with other institutions should be the underlying principles of assistance in this area. In particular, experience from country programs indicates that:

- *Political economy and conflict analysis* are important to inform the selection and sequencing of priorities for country assistance strategies, as well as project design issues. The Bank should continue to encourage country teams to incorporate analysis of the political economy and conflict dynamics in both CAS/ISN processes and upstream project preparation.
- The Bank plays an important role in supporting various cross-cutting development processes where peace-building may emerge as a priority such as *post-conflict needs assessments, recovery plans and results frameworks, PRSPs, public expenditure and governance assessments, multi-donor budget support operations, multi-sector/multi-donor trust funds and donor coordination processes*. These processes are by their nature integrative: precluding peace and security issues⁸ and institutions from consideration, or placing them on a separate track, creates the real risk of diminishing their importance, missing opportunities for synergy, or ignoring factors which may undermine longer-term development outcomes. The Bank's role in engaging with political and security sector institutions should focus on its core economic and development competences (such as generic development planning or public finance capacity-building), developing as appropriate partnerships with other donors or institutions that have expertise in specialized technical reform or capacity building in the peace and security areas.⁹
- While retaining an emphasis on the Bank's core economic and development activities, there is scope to increase emphasis on *peace-building goals*. Peace-building is a valid goal to use in country assistance strategies, where sustaining a fragile peace, preventing escalation of conflict or addressing crime and violence which constrain the welfare and development opportunities of the poor have emerged as national priorities. Activities which contribute to peace-building goals are not only those which directly touch on the security sector, such as demobilization and reintegration of ex-combatants. All economic and development activities—infrastructure, human and social sector development, economic management, private sector and agricultural recovery, etc.—can potentially be selected or designed to contribute to peace-building goals.

24. Bank assistance strategies and programs can also include the development of partnerships with other donors and national counterparts which combine respective technical capacities to

⁸ Examples of peace and security issues which frequently arise include coverage of commitments arising from peace processes or security sector reform in post-conflict needs assessments, PRSPs, multi-donor trust funds and government-donor dialogue; or coverage of security sector institutions in analysis and capacity-building for programs to strengthen public financial management systems. These issues tend to be most important to the fragile states, although they may arise from time to time in stronger performers.

⁹ Bank engagement in the security sector will continue to be performed in accordance with current guidance on the treatment of military expenditures. Staff are encouraged to contact LEG and OPC on issues regarding military expenditures.

support peace-building priorities. For example, the Bank may work with the UN (or other institutions taking the lead on political governance and peace-building, including civil society organizations) to provide economic inputs or training to the parties to peace and national reconciliation talks; constitutional reform processes; or economic and development training to political parties and parliamentarians, provided that in all cases this dialogue is non-partisan and part of a multi-donor effort.

25. This approach allows the Bank to make a more systematic contribution to the evolving international partnership for peace-building. It acknowledges that the Bank is still learning about the linkages between peace-building and development; signals a respect for the mandate and expertise of other international institutions; and recognizes that close partnerships are needed.

Box 4. The Economic Dimension of the Search for Peace—West Bank and Gaza

In 1993, the Bank was asked by the international community to help build the economic foundations of a Palestinian/Israeli peace process. The past twelve years have featured periods of close bilateral engagement, open conflict and attempts to recreate a constructive bilateral relationship. The Bank has been particularly influential at two points in this volatile process—the first three years of the ‘Oslo’ period (1993-6), and the past five years of intifada (2000-2005). In the first era, one of positive political developments, the Bank analyzed the Palestinian economy, proposed a recovery and development strategy and helped lead it through a number of strategic instruments, including a multi-donor budget support facility and the first series of public infrastructure projects. This represented one of the Bank’s first ‘post-conflict’ engagements, and provided a model for many subsequent engagements. The last five years have been less conventional, with the Bank playing a pivotal role in the course of the conflict. During the initial ‘breakdown’ phase, featuring open conflict and the fracturing of all bilateral political relations, Bank annual omnibus reports measured the impact of conflict on the Palestinian economy and coalesced donors around an evolving emergency assistance strategy. In the current ‘disengagement’ phase, the Bank has been key in helping recreate a bilateral political relationship, which Israel has chosen to approach in large measure through the lens of the Palestinian economy.

In 2004 the Government of Israel, which at that point had no formal contact with the Palestinian Authority, asked the Bank to work with it on Palestinian economic stabilization. The Bank interfaced between the parties for several months, culminating in the publication of *Stagnation or Revival? Israeli Disengagement and Palestinian Economic Prospects*, adopted in December 2004 by the international community as an economic roadmap for reengagement between the parties. The report offers a detailed ‘street map’ for Palestinian economic revival, arguing that this depends on four interconnected factors—a cessation of violence, the gradual removal of the severe restrictions on Palestinian movement, deep Palestinian institutional reform, and, in response to these basic policy changes, a significant quantum of additional donor finance. As Quartet Special Envoy for Disengagement, Jim Wolfensohn adopted the report’s premises as the core of his mandate. Over the past several months, the Bank has been closely involved in chairing/participating in bilateral negotiations on an agenda for economic revival which closely follows the report’s prescriptions. The Bank’s promotion of peace through economic regeneration has been possible because the Bank is seen by all parties as technically rigorous and politically neutral, and thereby to be operating within its mandate.

D. Donor Coordination for Results

26. Donor alignment, policy coherence and harmonization are important in all developing country contexts, but gain particular urgency in fragile states where low capacity and (in some contexts) lack of cohesion within government mean that fragmented donor policy dialogue or aid projects are unlikely to deliver results. The Bank often takes a strong role in donor coordination. There are several areas of different emphasis in donor coordination efforts in fragile states which are worth underlining: working with different priorities and donor partners; addressing capacity

constraints; addressing fragmentation within government; and the need to be flexible over modalities to align with national priorities.

27. ***Working with different priorities and donor partners.*** Fragile situations often pose a range of priorities and international partnerships which are important for government-donor dialogue, including strong linkages between peace-building and development priorities and the presence of relatively unfamiliar partners for many Bank staff. In addition to DAC donors, neighboring countries, non-OECD donors, peace-keeping or peace-building missions frequently play an important role in fragile states: an inclusive approach to donor coordination processes where the Bank plays a central role is needed to take account of this. Building on the “results and resources” approach to Consultative Group mechanisms laid out in the Africa Action Plan, donor coordination processes in fragile states will often need to give strong recognition to results in the peace-building and institution-building areas, and to take a broad view of resource availability and gaps, including non-aid resources such as diplomatic attention and, in some cases, peace-keeping missions.

Box 5. Non-traditional Partnerships: the GEMAP in Liberia

Since the signing of the 2003 peace agreement, Liberia has made progress in re-establishing security across the country and preparing for democratic elections in 2005. Deterioration in the economic governance environment, however, has constrained economic and social reconstruction efforts and poses risks for the completion of a successful transition.

Recognizing these risks, Liberia’s key partners (UN, EU, ECOWAS, AU, United States, IMF and the Bank) have engaged in an intensive dialogue with the transitional government on the urgent need to improve economic governance. This partnership has brought unusually strong links between: regional initiatives under the auspices of ECOWAS and the African Union to bring a durable peace to Liberia; discussions at the Security Council on the links between the success of the UN peace-keeping mission and the underlying economic and governance situation; and technical work carried out by the IMF, the Bank, the EU and ECOWAS.

The collaboration has resulted in the recent initiation of the Governance and Economic Management Assistance Program (GEMAP). Implementation of the GEMAP will be guided and monitored by a committee comprised of both national and international community representatives. The situation in Liberia remains fragile, but the interaction of diverse country, regional, and global partners with the transitional government is producing an inclusive, closely coordinated effort to support the transition.

28. ***Addressing capacity constraints.*** Many fragile state governments lack capacity to coordinate the complex range of donor-financed interventions in their country, in particular when data on these is not readily available. Rather than using lack of government capacity to set coordinated strategies and sector plans as a pretext for why donor activities are not harmonized, donors can assist in these situations by working together to harmonize between their own activities, for example by providing consolidated reports on activities in each sector. Fragile states need overarching plans to guide donor activities just as much if not more as more stable development contexts: transitional results frameworks and PRSPs remain an important tool. It is critical, however, that donors keep their expectations on the depth and comprehensiveness of these plans realistic: it is much better to have a simple, operational PRS action plan which clearly identifies expected results and will be frequently used by government, civil society and donors than to have a complex and lengthy planning document which will be ignored.

29. ***Addressing fragmentation within government.*** Due to their difficult political and security environment, fragile states will often face low cohesion within government and weak

collective decision-making processes. It is important in these environments that donors respect government decision-making processes, avoiding making assistance agreements with individual ministers, for example, which bypass government procedures on cabinet or ministry of finance authorization of projects.

30. ***Flexibility over alignment mechanisms—donor compacts versus broad consultation mechanisms.*** Some fragile states have strong reform movements in government who, while facing capacity constraints or political barriers to reform, can drive an overarching plan and process of donor coordination. In these countries, particularly when they are highly aid-dependent, a shared donor-government compact which lays out the key actions on both sides which are necessary to support a fragile transition may be a useful tool. In other fragile state situations, however, government and donors have difficulty in coming together to agree on a shared development framework. In these situations, the Bank and other donors should not ignore the issue of alignment with national priorities, but should seek flexible mechanisms for alignment: broadening the group of national stakeholders consulted, for example, or reaching agreement on particular sector frameworks where consensus is achievable.

E. Institutional Flexibility and Responsiveness

31. Assistance programs in fragile states require strong institutional flexibility and responsiveness to support national counterparts and Bank staff who are working under difficult conditions on the ground. The following common themes to guide institutional commitments in country assistance strategies have emerged as important across fragile states in the past three years.

32. ***Field presence.*** There are substantial limitations in fragile states to the “mission model” traditionally used by the Bank. Providing technical advice in written form and leaving follow-up action to government counterparts is rarely sufficient to ensure implementation in these contexts: hands-on support to policy formulation and implementation processes is more likely to generate results, and can only be ensured by the presence of staff in the field. An accurate understanding of local political dynamics is difficult to gain from a distance. Low state capacity means that ongoing support to client counterparts is often necessary throughout the project cycle. In some fragile states, volatile institutional dynamics mean that institutional processes and counterparts may change rapidly, between the interludes of traditional Bank missions. Field-based donor coordination processes are critical to ensuring a flexible and harmonized international response. For all these reasons, fragile state programs require a strong field presence.

33. ***Staff knowledge, training and access to specialized “surge capacity.”*** Because the Bank’s standard tools and development approaches are not always relevant in a fragile state context, country teams will often need to explicitly plan to access experiences from other countries and regions. Country teams may also need to tap specialized expertise for intensive periods when faced with new demands, such as post-conflict needs assessments and recovery plans, arrears clearance and international re-engagement, the launch of major new reform programs in a fragile context, or rising conflict risks which require rapid adjustment in the country program.

34. **Speed.** The timing of initiatives to support emerging reforms or prevent deterioration in a fragile situation is often critical. Speed is particularly important in post-conflict recovery operations, but delays in Bank responses can also undermine tentative reform initiatives in other fragile states. Bank preparation and review processes in fragile states need to recognize that adverse development impact and reputational risk can arise from fiduciary risks or project quality problems—but also from delays in response to requests for assistance which are highly time-dependent.

35. **Adaptability.** Circumstances may change rapidly in fragile states: Bank programs need to be flexible in response. Uncertainties in the development environment mean that the majority of fragile states will develop Interim Strategy Notes for a one–two year period rather than longer-term assistance strategies. Even in the gradual reformer group where three—four year Country Assistance Strategies are used, flexibility of program design and allocation of resources within the CAS envelope to take advantage of new openings for reform is often important. Amending Bank-financed projects to adapt to changing circumstances on the ground may be a positive sign of the Bank’s responsiveness in a fragile context, rather than highlighting weaknesses in project preparation.

36. **Long-term partnerships.** While donors need to be prepared to adapt assistance rapidly to country circumstances, there is also a need to indicate commitment to long-term partnerships in fragile states. Bank assistance strategies need to recognize that carrying through reform processes to produce improved development outcomes takes time, and often requires sustained engagement in the face of temporary setbacks. Even in the most severe situations where countries have fallen into non-accrual with the Bank, the Bank will maintain on-going dialogue and an operational readiness to provide assistance as the situation improves. One option to increase the focus on long-term partnerships is to include in CAS documentation a section which is not limited to the standard CAS period, but outlines the long-term vision for recovery and development over a period of a decade or more: each CAS can then be judged against this long-term vision rather than focusing solely on short-term results.

Box 6. Long-term Engagement—the Tajikistan CAS

Building effective institutions, while essential to sustainable development, takes time- years, even decades. Capacity building, knowledge creation and knowledge sharing will play a central role in Tajikistan’s development, and the Bank is engaged for the long-term.

In the FY03-05 CAS, program specifics are built around a conventional 3 year CAS period, but the strategy itself took a medium-term perspective, focusing on three goals: generating growth through private sector development; addressing social needs through community involvement; and building the institutions needed for a functioning market economy. The strategy was aligned with intermediary CAS benchmarks, but the longer-term approach allowed for a focus on efforts which would realize many results only after the period of the CAS.

III. DIFFERENTIATING APPROACHES

A. Differentiating Approaches

37. The LICUS task force noted the need to differentiate constraints of capacity versus problems of lack of consensus between donor and governments on development strategy, and the need for a differentiated strategy to support turnaround due to political changes or the end of civil wars, ushering in a period of strong policy change. Emerging experience with country strategy implementation has borne out and built upon these distinctions: across different regions, country teams have developed strategies and approaches which tend to be clustered in four main business models for engagement: (a) prolonged political crisis; (b) fast turnaround (post-conflict or political transition); (c) gradual improvers, and (d) deteriorating governance (see Table 2).

Table 2. Differentiating LICUS Contexts

<p>Deterioration Characterized by deterioration in CPIA or rising conflict risk. Frequently lack of clear consensus between donors and government on development strategy.</p>	<p>Prolonged political crisis Characterized by prolonged conflict or domestic political impasse, often with arrears to the international financial institutions. Lack of consensus between donors and government on development strategy.</p>
<p>Post-conflict and political transition Characterized by high fluidity in the policy environment and opportunities for rapid reform, due to the successful conclusion of a peace or national reconciliation process, or renewed international engagement.</p>	<p>Gradual improvers Characterized by presence of some government reform leadership, but facing entrenched systems where change is often difficult, slow and liable to periodic setbacks. Includes some of the “post-post-conflict” countries.</p>

38. This typology is dynamic rather than static, focusing on the direction and pace of changes in governance. The dynamic nature of fragile state environments is important: it implies that country assistance strategies must aim to look ahead at the direction of reform dynamics, avoiding an over-simplistic design of assistance based on past performance. However, a highly dynamic environment also means that the direction of performance may itself change rapidly: situations of prolonged crisis may achieve a rapid turnaround or, conversely, post-conflict or gradual reform situations may shift into renewed risk of political instability or blocked reform. Hence it may often be desirable for country assistance strategies to identify not only the country’s current performance and direction, but also the probability of a shift in scenario within the basic typology above, requiring adaption to a rapid turnaround or deterioration in the environment.

39. Operational experience and research highlight a number of good practice approaches which may be useful in these different country circumstances (see Table 3). These approaches and tools are described below: they are not intended to be prescriptive (each country strategy will and should look very different), but rather to provide a menu of tools and a basic framework to facilitate the sharing of lessons between countries and regions. They draw on the lessons of programs financed by other donors as well as the Bank, but focus on the Bank’s particular contribution and comparative advantage in these situations.

40. This typology covers some of the key parameters which affect the Bank's strategy and operational planning. It does not preclude the need to base strategy development on strong analysis of other factors, such as the history of state institutional development and conflict; lack of commitment to reform versus capacity constraints; the presence of centrifugal and centripetal forces; the presence of natural resources; or the freedom and relevance of information flows.

Table 3. Differentiated Approaches across the Fragile States Spectrum

<p>Deterioration</p> <ul style="list-style-type: none"> • Interim strategy note, focusing on stemming decline in governance and social services, and contributing in economic and development areas to multi-donor conflict-prevention efforts. Limited new financing; focus on portfolio restructuring. • Increased use of CDD, private sector, NGO and ring-fenced mechanisms (including service delivery and local economic development in areas of insecurity). • State capacity and accountability: focus on transparency, dialogue and maintaining institutional capital to facilitate eventual turnaround. • <i>Contributing to community level conflict prevention, and to multi-donor efforts for peace-building or governance reform at a national level.</i> 	<p>Prolonged crisis or impasse</p> <ul style="list-style-type: none"> • Interim strategy note, focusing on maintaining operational readiness for re-engagement, and providing economic inputs to early peace or reconciliation dialogue. • Small grant-based finance, aiming at local economic development and protection of human capital, generally through non-government recipients (including service delivery and local economic development in areas of insecurity). • Capacity and accountability: focus on institutional analysis, dialogue and counterpart training. • Use of socio-economic issues for restoration of dialogue/identification of entry points for change.
<p>Post-conflict or political transition</p> <ul style="list-style-type: none"> • Interim strategy note, focusing on rebuilding state capacity and accountability; and delivering rapid visible development results in support of peace-building • Exceptional IDA allocation. • Joint needs assessment/recovery planning, linking political, security, economic, and social recovery. • State capacity and accountability: support for a broad state-building agenda, through institution-building and, where appropriate, development policy operations with robust oversight mechanisms and sector programs (including transitional projects working through CDD or NGO mechanisms). Leadership and civil society support. • Public administration, service delivery and economic development to address areas with crime, insecurity or conflict. 	<p>Gradual improvement</p> <ul style="list-style-type: none"> • Country Assistance Strategy, focusing on building state capacity and accountability, achieving selective development results, and boosting support for reform currents, supported by moderate IDA allocation. • Activities to boost domestic reform currents, including leadership support, communications initiatives, training and capacity-building. • State capacity and accountability: development policy operations (where appropriate and restricted in volume), supported by sector and capacity-building projects and with <i>strong oversight mechanisms</i>. Asymmetric reforms. • Public administration, service delivery and economic development to address areas with crime, insecurity or conflict.

B. Prolonged Crisis or Impasse

41. Prolonged crisis or impasse includes states in long-duration conflict or those facing domestic political impasse and international sanctions, with arrears to the international financial institutions. Diplomatic interventions tend to be particularly important in these contexts, with development agencies playing a subsidiary role. Because of the presence of arrears, severe insecurity, or lack of consensus on international engagement, the Bank's role tends to focus on maintaining operational readiness in order to be able to re-engage rapidly in the event of a turnaround. Experience under the LICUS initiative has shown that, in order to maintain operational readiness, the following types of activities are critical:

- **Country analysis.** The Bank is now regularly updating country analysis even in countries in non-accrual. Initial country engagement in these contexts has shown that, while formal ESW plays a role, targeted shorter notes on specific issues may often be more useful in dialogue with other donors or national counterparts. Joint analysis and scenario planning with other donors should be given high priority. Analytical work can also help build a domestic constituency for change, as when it demonstrates that conflict or poor governance have resulted in dramatic increases in poverty.
- **Small grants through local institutions.** Even in the most severe conflict, working with local institutions is both possible and critical to maintain a real understanding of local dynamics, which cannot be gained from data analysis alone. Small grants will generally be targeted at protection of human capital (health and education services) and local economic development, aiming to create demonstration projects which act as a model for more effective governance. Awareness of potential conflict tensions and political dynamics is important in selecting recipients.
- **Training.** Providing international exposure and training can be important both in increasing the prospects for nationally-driven reform and to provide the Bank with a stronger understanding of local conditions.
- **Restarting dialogue.** In some situations of prolonged conflict or political impasse, relatively non-controversial development issues may provide an entry point for constructive dialogue between the parties to a conflict. Where the Bank contributes to this type of activity, it should generally be done within the ambit of a multi-donor effort involving international or regional institutions with a more direct political mandate.
- **Providing economic and development inputs to peace talks.** At the request of international mediators and the parties to a conflict, the Bank may provide specialized input on economic and development issues to a recognized peace process. Economic and development issues are often at the heart of peace discussions; upstream technical input can ensure that the right information is available to parties to the talks and mediators, and that options considered are economically and fiscally sustainable in the longer-term.

Box 7. Ensuring Operational Readiness during Prolonged Crisis

The Central African Republic has experienced repeated waves of political instability together with periods of non-accrual to the Bank. The Bank restarted a comprehensive program of analytical work in 2003-04, including a multi-donor mission to develop a Transitional Results Framework covering key development challenges in the areas of security, governance and natural resource management, economic management and the social sectors. The Bank's Country Re-engagement Note (CRN) supported this program through small grant-based programs addressing demobilization and reintegration, social services and HIV-AIDS, basic economic management capacity, and leadership dialogue. These grant-based initiatives were critical in maintaining operational readiness; a dialogue between donors, national authorities and civil society; and a sense of hope through international attention to one of the most marginalized countries of the world. After a difficult period between the 2003 coup d'état and the 2005 elections, the Bank is now working with Government, civil society and other donors to prepare for a new poverty reduction strategy.

Haiti fell into non-accrual status to the Bank in 2001, and cleared arrears in January 2005. Throughout this period, the Bank stayed engaged through dialogue with the government and civil society, donor coordination and tracking disbursements, and analytical work on poverty, public finances, social services and economic governance. In 2003, the Bank approved a Post-Conflict Fund grant to support a two year Emergency Health and Schools Project and the piloting of a Community Driven Development Project. In collaboration with the IMF, IDB and the Caribbean Technical Assistance Center, the Bank provided technical assistance for the design and launch of an economic governance reform program supported by IDA upon clearance of arrears. In 2004 as the Haitian transition unfolded, the LICUS Trust Fund approved \$6.4 million for urgent activities which addressed the joint priorities of initial reforms to strengthen economic governance and the delivery of quick, visible results at the community level. These activities provided critical support for initial capacity-building and visible results while larger IDA programs were under preparation. Financing from the LICUS TF also enabled the Bank to better participate in sector dialogue with donors and the government during and following the preparation of the Interim Cooperation Framework through which aid is coordinated.

In Somalia a precarious security situation and significant arrears on past debt-servicing obligations had resulted in the Bank's absence for over a decade. In June 2003, a joint World Bank/UNDP Country Re-engagement Note was drafted for the country, with a focus on four strategic entry points—macroeconomic data collection and analysis; the development of Somali consensus on a program of support to livestock certification, a coordinated action plan to address HIV/AIDS; and skills development and training. Analytical work was also undertaken, including a conflict analysis framework and a country economic report. The Bank also provided technical inputs on economic issues to the peace talks. As the peace process moved forward, this mix of operational and analytical work and engagement has positioned the Bank to react rapidly now that a transition government is in place, including co-chairing the overall planning processes for Somalia and engaging in a joint needs assessment exercise with the UN and Somali counterparts.

In Sudan, the 2003 interim strategy note enabled the Bank to engage the Government and the SPLM on analytical work, training and capacity-building and community-based initiatives. During 2004, the Bank co-coordinated the Joint Assessment mission with the parties and the UN, providing a critical underpinning to the on-going peace talks and preparing for the implementation period. Early engagement proved crucial in gaining knowledge of institutions and counterparts in Sudan and in helping to galvanize a coordinated donor approach. Sudan remains in arrears: a \$4.5 million LICUS Trust Fund grant has enabled the Bank to put in place urgent, early capacity-building initiatives to support the structures established by the peace agreement, including the two Bank-administered multi-donor trust funds to support reconstruction.

C. Post-conflict and Political Transition

42. Post-conflict countries have experienced a sudden, significant change in the development environment and the degree of international engagement, due to the successful conclusion of a peace or national reconciliation process. The majority of post-conflict countries also have international peace-keeping missions. The main characteristic of these situations is high fluidity in the policy and governance environment, offering the opportunity for much faster and more wide-ranging change than is present in other LICUS situations. Together with the one-off costs associated with the rehabilitation of physical capital, this change in the governance environment means that there can be unusually high returns to aid investments in post-conflict situations—recognized in IDA's exceptional post-conflict allocation. Despite the relatively favorable context, post-conflict situations are high risk: over 50% of countries fall back into conflict within 5 years, and there are often high risks of corruption due to weak state capacity.

43. The Bank has a wealth of experience in support of post-conflict transitions, as well as substantial research and analytical work supported by DEC, the Conflict Prevention and Reconstruction unit and, more recently, the LICUS initiative. While there are still areas which can be strengthened, the business model for post-conflict assistance is well proven and generally includes:

- **Post-conflict recovery planning.** The Bank often plays a central role in developing reconstruction and recovery frameworks. The Bank is usually asked to co-lead with national authorities, UNDP (and other partners) post-conflict needs assessments and recovery planning: the Bank has now introduced a simple new planning tool, the transitional results matrix, to encompass priority results needed across the political, security, economic and social spheres. Recovery frameworks need to be specifically oriented to deal with the differing strengths (in capacity and accountability) of post-conflict transitional governments. Some post-conflict situations will allow for relatively rapid transition from humanitarian relief and non-government services to the provision of services through the state: others will require a longer period of building capacity and accountability mechanisms before the state can resume provision of the full range of services.

Box 8. Transitional Results Frameworks—Liberia

Following the peace accord in Liberia in 2003, the Bank worked with Liberian counterparts and other donors to develop a results-focused transitional framework (RFTF), integrating the political, security, economic, and development areas of reconstruction into one simple planning tool. With specific, time bound results, the RFTF has enabled government and donors to prioritize and sequence key actions in the transition, and to pinpoint problem areas. It has also become an excellent public communication and transparency tool, helping to promote dialogue on development plans, manage expectations and foster accountability. The framework was recently updated based on implementation experience and broad-based stakeholder consultations across Liberia, further simplifying the format and incorporating UN humanitarian activities. The RFTF has proven its worth even under adverse conditions, in enabling Liberia's partners to rapidly identify risks caused by lack of progress in economic governance, and agree on a framework to address these.

For information on transitional results frameworks in other countries, see the TRM Guidance Note¹⁰.

- **Bank's assistance strategy.** The Bank's interim strategy note will normally focus on a subset of activities within this overarching framework and will have a greater specific emphasis on the contributions of economic and development activities to *peace-building* than is the case with regular IDA clients.
- **Rebuilding state capacity.** In close collaboration with the IMF, the Bank plays a key role in rebuilding capacity on economic policy, public financial management systems and civil service reform or strengthening. It is therefore critical that the Bank is involved in the immediate post-conflict period (and indeed prior to this), when many critical decisions on the size, scope and parameters of public administration will be taken. Assistance in this area may include policy dialogue, analytical work, capacity-building and support to recurrent expenditures: since state institutions are often new or extremely weak, much stronger knowledge of basic public financial and

¹⁰ See:

<http://siteresources.worldbank.org/INTLICUS/PoliciesandGuidance/20330632/Operational%20Note%20on%20TRMs.pdf>

administrative systems is needed than in the Bank's regular IDA clients. The Bank is also engaging more closely with leadership capacity building in the early stages of post-conflict transitions, in recognition that leadership that is new to peace-time government may require exceptional support to make this transition successfully.

Box 9. Development Policy Operations in Fragile States—Timor-Leste

In Timor-Leste, development of an effective, inclusive and accountable policy and planning process has been critical to the success of the country's state-building agenda. The Transition Support Program/Consolidated Support Program (TSP/CSP) has focused on an annual, cross-Government results matrix, including coverage of economic governance, justice and police capacity-building, anti-corruption measures and key service sector outcomes. The TSP/CSP is financed by grants from ten partners and supported by several other observers and has been the principal instrument for policy dialogue between the Government and its development partners. The Government has praised the TSP/CSP budget support operation and associated action matrix for respecting ownership, building capacity in identifying priorities, exploiting the synergies among development partners, and providing a framework for government and donor accountability.

Besides its use for policy-based aid and policy development, the budget support process became an important capacity building exercise, helping Government agencies identify and schedule work programs, while also introducing more durable mechanisms for donor coordination as part of their planning routines. Most importantly the process not only helped to strengthen and legitimize national institutions, but also reinforced the involvement of civil society groups.

(For further information see *Good Practice Note for Development Policy Lending: Development Policy Operations and Program Conditionality in Fragile States*, World Bank, Operations Policy and Country Services, June 7, 2005 on the Intranet at opcs.worldbank.org. See also the Good Practice Note available at: www.worldbank.org/conditionality

- **Development policy operations.** DPOs in post-conflict countries will typically seek to mobilize a multi-donor effort around a fairly broad state-building agenda and pay particular attention to mechanisms of oversight and fiduciary controls, including robust measures for fiduciary oversight. Action matrices for DPOs- which should be drawn from transitional results matrices where these exist- will generally seek to balance some rapid, visible actions which can help generate a peace dividend and less tangible, medium-term institutional reforms which are critical for longer term governance and successful poverty reduction. The Bank has developed a detailed good practice note on development policy operations in fragile states.
- **Sector reconstruction.** Bank projects in post-conflict situations may cover a wide range of areas and sectors, including: economic and community infrastructure, private sector recovery, service delivery in health and education, HIV/AIDS, demobilization and reintegration of ex-combatants, de-mining, judicial modernization, and safety nets for vulnerable groups. All projects in post-conflict environments are prepared and implemented under emergency procedures, which are currently under revision to increase the Bank's speed of response. Choice of sector programs will vary depending on country needs and priorities and the capacity of the Bank and other donors. As in other fragile state contexts, sector programs need to reflect a strong understanding of political economy issues and conflict dynamics, such that they support and do not undermine peace-building goals. They also need to prevent collateral damage to state institutions, by avoiding establishing parallel structures such as PIUs or ensuring that these are integrated over time into permanent state structures.

Box 10. Development Programs in Insecure areas- Afghanistan

The Emergency National Solidarity Project (NSP) - The NSP provides block grants to community councils around Afghanistan to support local economic and social reconstruction, strengthen community level governance, supporting capacity-building within Community Development Councils (CDCs) and linking local institutions to government administration and donor agencies. It has established: rapid and transparent fund disbursement and service delivery mechanisms in remote conflict-affected areas; a strong operational partnership between the government, NGOs and CDCs, with the government facilitating implementation by civil society and the private sector; and strong institutional arrangements at the village level for participatory decision making, planning and implementation of rehabilitation activities.

The Emergency Customs Modernization and Trade Facilitation Project- Afghanistan's customs revenue collection has been severely hampered by insecurity, poor communications and infrastructure, and widespread smuggling and corruption, among other problems. The Customs Modernization Project provides emergency assistance- through the financing of improvements in key transit infrastructure and communications and capacity-building within the administration- to establish a more efficient customs and transit regime, particularly in border zones under warlord influence. To ensure effective implementation, the Bank works closely with the International Security Assistance Force, which supports border management and internal transit of goods in its larger security operation.

- **Development programs in insecure areas.** Post-conflict countries include a growing number of “no war no peace” transitions, where governments lack full control of some territory. This is a relatively new area of engagement for the Bank and other development institutions, which are still learning about effective tools. Several country operations show that it is important—and possible—to find ways to provide services and economic development in insecure areas, but that this must be carried out carefully to ensure development activities prevent rather than exacerbate the risks of conflict escalation, and to provide for the security of staff and project workers. Operational tools include the use of community driven recovery in areas under active conflict, and collaboration with peace-keeping operations over the extension of public finance systems (for example, payroll, customs and provincial revenue collection) into insecure areas.

Box 11. Multi-donor Trust Funds for Post-conflict Recovery

In West Bank and Gaza, the Bank administered the multi-donor Holst Fund (\$270 million) for recurrent and start up costs of the Palestinian Administration as well as emergency employment. It also administered the donor financed Technical Assistance Trust Fund (\$23 million) and from its own resources established a Trust Fund for West Bank and Gaza (TFWBG) mobilizing donor funding in excess of \$325 million. OED concluded that the Bank's performance in a highly politicized context had been “timely and relevant” without which both PA administration and donor coordination would have been weaker.

The Afghanistan Reconstruction Trust Fund was established in May 2002 to serve as a coordinated financing mechanism for the Government's recurrent budget and priority reconstruction programs and projects. Total contributions to date exceed \$1 billion. A recent external evaluation of the ARTF rated its operation highly satisfactory. The evaluation noted: “the ARTF Recurrent Window has been a response to the Government's strong, systematic and continuous request to the donor community to put its resources together in ARTF. GOA has wanted a single, predictable, accountable source of funding that would ensure mobilization of sufficient funds for the recurrent budget. It needed to provide key public services on a continuous basis in those areas where the population can see and benefit from them, such as basic health, education and infrastructure. The ARTF has been able to deliver this...” To enhance the strategic use of the ARTF resources, the Government is preparing a National Development Strategy which will include a medium term fiscal and expenditure framework to underpin resource allocations for priority programs.

- **Donor coordination and aid management.** Many post-conflict situations are highly aid dependent and face, for a transitional period, a substantial proportion of aid flows

which flow outside state delivery mechanisms. Specific support from the Bank and other donors is likely to be necessary to enable government to track and coordinate these aid flows. Where government has a strong reform orientation but lacks capacity, it may be useful to develop a specific government-donor compact, centered around a clear results framework such as the Transitional Results Matrix, which lays out the key actions and expectations from both government and donors to support the early stages of the transition. The Bank is also frequently asked to administer multi donor trust funds (MDTFs): MDTFs in post-conflict situations have included use of fiscal agent arrangements to address areas outside the Bank's traditional purview, such as police-capacity-building, and have developed specific arrangements to provide for direct financing of UN agency activities.

44. **Political transitions.** Operational experience has shown that some states which have experienced renewed international engagement following a peaceful political transition (such as a national political agreement which averts an escalation of conflict or a return to constitutional government after a coup d'état) have similarities with post-conflict transitions in the operational strategy required. Like post-conflict transitions, these situations often offer a fluid environment with significant opportunity for rapid and positive reform, together with exceptional one-off financial needs for transitional support to recurrent expenditures or to restart service delivery. They differ from classic post-conflict environments, however, in that the scale of physical destruction tends to be less extreme and the returns to large scale capital investments are therefore lower: institutional rather than physical rehabilitation tends to be paramount. Provisions under IDA 14 recognize that these country situations, in the presence of arrears, may require exceptional financial support to restart government services.¹¹

D. Gradual Reform

45. **Gradual reformers** may be in a post-post-conflict scenario, or under-going a slower, longer-term reform process. Countries in this situation often have some degree of reform leadership within government, but face entrenched barriers of corruption or inefficiency in the state which can make reform difficult, slow and liable to periodic setback. The Bank is increasing its knowledge of how to provide effective assistance in these situations: strategies focus on selective results and activities to boost support for reform currents in society:

- **CAS results selectivity.** In country assistance strategies, there is a move to focus more selectively on results in these situations—based on a stronger analysis of the political economy of reform. Targeted results should: (i) balance governance and institutional strengthening, which tends to be invisible to the population, with visible outputs which will strengthen support for the reform process; (ii) be politically feasible and capable of garnering domestic support. One promising approach is to focus several instruments in a CAS on the same, selective results. For example, the objective of improving teacher attendance and enrollment may be supported by an education sector project dealing with education management and teacher training; a DPO dealing with school budget allocations; and a community-driven program supporting parent-teacher committees.

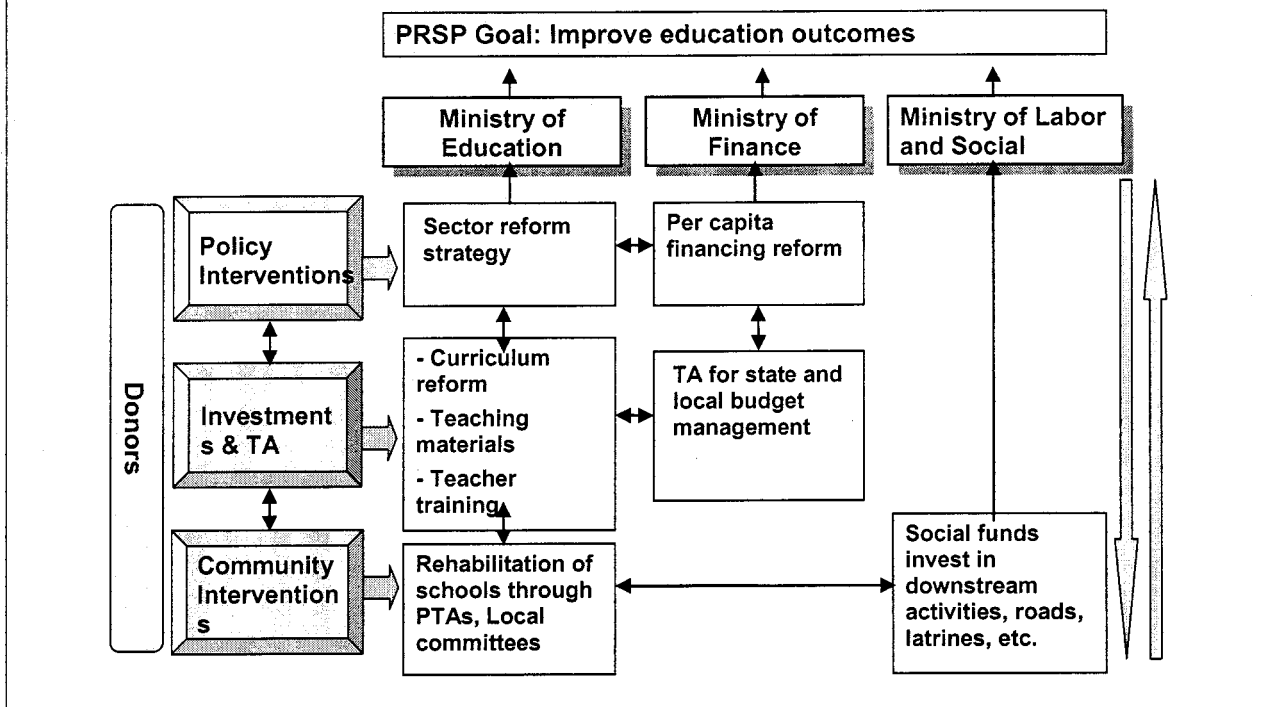
¹¹ In the case of political transitions involving de facto governments, OP 7.30 applies.

Box 12. Results Selectivity and Long-term Partnership –Tajikistan

Country Context- Since the signing of the peace accord in 1997, Tajikistan has moved quickly from civil war to internal stability and to a functioning government. It has achieved remarkable economic success, averaging 10% growth a year for the past four years. However, such factors as unfavorable geography, challenging demography and weak governance, pose significant challenges to its future development.

The Country Partnership Strategy (CPS) - The recently endorsed CPS is selective in terms of the results it seeks to achieve, but brings multiple instruments to bear on each of these results. It also links interventions at different levels of public service 'supply chains' to ensure coordination among instruments and an effective process that delivers on the ground, exemplified below with the education sector:

Multiple Level Interventions and Cross Linkages to Deliver the Maximum Impact in a Sector: Example of Education Reform



- **Long-term partnerships.** CAS results in these circumstances also need to be specified realistically: reform in entrenched low capacity environments is a long haul, and expectations of results need to be modest, with a commensurate commitment to long-term partnership from the Bank. In some cases key outcomes may be specified over a period longer than the term of the CAS, with the CAS itself focusing primarily on intermediate outputs within this long-term vision (see para 2.28). Gradual improvers are the only category of the fragile states group where full Country Assistance Strategies rather than Interim Strategy Notes will typically be developed.
- **Activities to boost support for reform currents and strengthen social accountability.** Sustainable reform processes, in fragile states as in other countries, will depend on domestic leadership and demand for accountability and effective service provision from government by broader society. Activities which have proven useful include:

- **Leadership support.** Many fragile states have highly centralized decision-making: without leadership support, reform processes will be blocked. Seminars for political leadership can help build inclusive support for reform;

Box 13. Leadership Support

Political leadership to mobilize positive change is critical in fragile state settings. Recognizing that reform programs will only succeed with leadership support, the Bank has supported leadership seminars and retreats in Timor Leste, Burundi, the Central African Republic and Tajikistan. These events have brought together a range of political leaders from different backgrounds, including previous parties to a conflict, government and civil society leaders, to work on national vision, problem solving approaches and technical issues linked to post-conflict or reform transitions.

See OPCS note on leadership support in fragile states.¹²

- **Targeted analytical work.** Short notes analyzing problems and presenting policy options can often play a useful role in strengthening the quality of internal dialogue on reform issues;
- **Communications strategies for reform.** Communicating the need for reform, reform successes and providing a feedback loop on problems is critical to maintain momentum on reform;
- **Training and capacity-building** for civil society and private sector actors to increase their capacity to influence policy choices, and hold the state accountable for reforms;

Box 14. Building State Institutions and Civil Society: the Nigeria CPS

New reform-oriented leadership in Nigeria has demonstrated strong political will to implement governance improvements after decades of civil conflict, mismanagement of oil revenues and weak formal accountability. The Bank-DFID Nigeria Country Partnership Strategy (CPS) is supporting the government's reform program through three pillars- strengthening of governance and transparency, advancing growth in the non-oil economy and improving public service delivery for human development.

The CPS also recognizes that sustaining the current reform momentum will require efforts to increase popular support and demand for reform. A strong communications and civil society capacity-building effort aims to strengthen the capacity of the media, private sector, academia, trade unions and other groups to demand change, dialogue with the government, and build coalitions for economic reform, transparency and accountability. Bank-DFID support to the Extractive Industry Transparency Initiative (EITI), for example, seeks to involve civil society and build consensus on how to manage and use oil revenues in a transparent fashion. As a result of efforts such as these, a vibrant press and civil society are gaining strength in Nigeria, building demand for improved service delivery and better governance, and creating an environment conducive for economic growth and social cohesion after decades of public mistrust of state institutions under military rule.

¹² See:

http://siteresources.worldbank.org/INTLICUS/64137337-1094491940414/20362982/Note_on_Leadership_Workshops_Jan_2005.pdf

- **Strengthening state capacity and accountability.** In gradual improver situations where capacity is the binding constraint, assistance strategies need to apply the same selectivity to capacity building as to policy reform: overly ambitious, administration-wide capacity-building efforts are generally not feasible. It is better to link efforts to key sector outcomes and policy efforts where there is popular demand and political support for improved state capacity. Corruption is still a systemic problem for many LICUS countries in the gradual improver category. CASs should include a frank assessment of corruption issues and measures to address them. Specific activities should generally balance capacity-building for public financial management and measures to increase social accountability, such as civil society oversight structures, national and local budget transparency, and anti-corruption advocacy activities.¹³

Box 15. Anti-corruption Efforts in Cambodia

Country Context. Progress in poverty reduction has been moderate, and could be accelerated by tackling weaknesses in governance. The Bank's new Country Assistance Strategy provides support to the Government's efforts in selected key areas of governance and its fight against corruption. More specifically the CAS focuses on:

- Improving the environment for private sector development because cumbersome, non-transparent and corruption-prone legal and regulatory frameworks impose unnecessary costs on firms and are currently a key obstacle to competitiveness, investment, employment and profit in Cambodia.
- Continuing to engage in natural resources management because the major constraints upon sustainable pro-poor management of such resources are rooted in weak transparency of state processes and lack of accountability on the part of state actors.
- Supporting public financial management reform (PFM) because institutionalization of rent-seeking (as a consequence of a system-wide inadequacy in public sector salaries) is a fundamental weakness in PFM and constitutes a major bottleneck to improved service delivery for the poor. Because of its importance to the overall anti-corruption effort and to building confidence in the public policy environment as a whole, several donors and international NGOs are providing assistance for the drafting of an anti-corruption law.
- Supporting decentralization and interventions designed to build civil society capacity and citizens' partnerships for better governance because decentralization could potentially improve governance across a broad range of state functions, by bringing decisions about planning and budgeting closer to those affected, and shortening the links in the chain of accountability. Strengthening civil society capacity and the demand side aspects of governance is also critical.

Improving the policy and institutional environment to reduce potential corruption in World Bank projects because reducing the potential for corruption is part of the Bank's overall strategy to strengthen its supervisory and fiduciary responsibilities to its shareholders, the Cambodia program will strengthen public disclosure of fiduciary processes and develop a system to incorporate anti-corruption measures into all project designs and implementation procedures.

- **Combination of financing instruments.** Some gradual reformer countries are resource rich; and projects rather than development policy operations will be appropriate assistance instruments. There are however circumstances where development policy operations may play an important role as part of the CAS: where

¹³ According to international standards, corruption is a predicate offense for Money Laundering. Therefore an effective Anti-Money Laundering and Combating of Financing of Terrorism (AML/CFT) regime could provide additional tools to LICUS authorities to strengthen the legal and financial framework, increasing transparency and accountability, and consequently reduce corruption.

a reforming government has low revenue potential for a transitional period and may face instability if it cannot cover its recurrent expenditures; or where a small programmatic DPL has proven crucial in generating policy and institutional changes. Experience indicates that in these circumstances DPOs should not be stand-alone instruments, but should be closely supported by sector and capacity-building projects and give strong attention to fiduciary oversight (OPCS Good Practice Note on DPOs in fragile states).

- *Asymmetric reforms.* In particular in gradual reform environments where some geographic regions of the country or functions of the state have stronger governance and institutions than others, an asymmetric approach may create incentives to broaden governance improvements. Asymmetric reforms target aid through public administration systems (either to national government functions or regional or local entities) where there is a will for reform, under a rules-based system which creates incentives for other functions or geographical areas to join the reform process. To avoid marginalization, weaker-performing functions or geographic areas may be supported through more ring-fenced or non-governmental channels, until a successful transition to core standards of state capacity and accountability in these areas is completed.

Box 16. Differentiating Strategies within Large States—Nigeria and India

In Nigeria, the Bank and DFID have adopted a ‘lead states’ approach to target several well-performing states with a demonstrated commitment to reform. Financial and technical assistance is used to increase the capacity in these states to deliver services through deepening reforms, sharpening incentives for both public officials and civil society, while strengthening systems. The approach also encourages states to work with local governments in developing medium-term plans, and through efforts to strengthen accountability and efficiency of public expenditures across all levels of government, establishes a basis for the use of more flexible instruments for assistance, such as budget support. The strategy sees its impact in helping develop and rewarding a number of ‘models’ for development and growth in lead states, and leveraging improvements in the effectiveness and efficiency of public expenditure to broaden and sustain impact.

In stronger performing countries there may also be the need to adopt a differentiated approach in the Country Assistance Strategy for weaker sub-national governments. In India, the Bank has been working to initiate dialogue on cross-cutting reforms and build productive relationships with the four states where poverty is most prevalent and where public institutions may be at their weakest—Bihar, Jharkhand, Orissa, and Uttar Pradesh. This engagement takes several forms, including non-lending technical assistance in key foundational areas (such as financial and budget management) needed across all activities of government, knowledge transfers, institutional capacity-building, support for civil society, piloting service delivery innovations, and where appropriate, investment lending. The pace and scope of engagement varies between these states depending on the domestic climate and readiness for reform—Orissa, for example, receives development policy loans but the others do not.

E. Deteriorating Governance

46. Fragile states with deteriorating governance are characterized by significantly declining CPIA scores and rising conflict risk: while state capacity may differ, these environments commonly share a decline in the credibility of state institutions and weak accountability of government to society, together with lack of consensus between government and donors on development strategy. Within the fragile state grouping, this is the category where the Bank and

other donors have had most difficulty in reorienting assistance strategies effectively. There are however some basic lessons emerging from country strategies implementation in these situations.

- ***Reorienting the assistance strategy.*** It is important in situations of deteriorating governance to avoid “business as usual” and reorient the assistance strategy to meet new circumstances. Objectives will depend on the country context, but may cover some or all of four basic pillars: (i) stemming the decline in governance; (ii) maintaining institutional capital; (iii) stemming the decline in social indicators; (iv) supporting efforts to prevent conflict escalation and restart dialogue. In general, situations of significantly deteriorating governance will indicate use of an interim strategy note rather than full CAS.

Box 17. Reorienting Strategies to Adapt to Deteriorating Governance—PNG

Chronic political instability, along with problems in governance and deteriorating law and order, has contributed to a steady decline in key social indicators in PNG, and to an increase in poverty and unemployment. Political instability also made sustained dialogue difficult on the development/reform agenda or on a common assistance strategy with development partners. Acknowledging these challenges, the Interim Strategy for PNG focuses on:

Promoting a development dialogue and mitigating the decline in social indicators by deepening the relationship with Government at all levels, reaching out to stakeholders in broader society and enhancing coordination with other development partners through leadership retreats/workshops, dissemination of recent analytical work on human development, public expenditure review, and targeted capacity building and small grants support for strengthening the government’s response to the HIV/AIDS epidemic.

Building the foundation for improved governance and sustained recovery through analytical work on alternative modes of assistance, selective capacity building, and targeted priority investments which, in addition to generating high social and economic returns, would also contribute to local/community level engagement, strengthen donor coordination, improve income-generating opportunities and service delivery, and enhance sustainability through institutional reforms.

- ***Stemming the decline in governance.*** One of the more beneficial external interventions which can be made in situations of declining governance is to focus on the transparency of government decision-making and financial management: this may not be successful in reversing the decline, but does provide potential to check more severe financial abuses and create a space for internal actors to demand more accountability.
- ***Maintaining institutional capital.*** A second key challenge, in particular in states with historically strong public administration capacity, is finding mechanisms to maintain institutional capital to facilitate eventual turnaround without exacerbating unaccountable government: direct support for social service delivery (for example, protection of health and education expenditures); continued training of service delivery workers; or use of mechanisms such as social funds which can provide a positive role for lower level governmental service delivery workers, may provide an appropriate channel.
- ***Stemming the decline in social indicators.*** A significant decline in social indicators can cause long-term damage which spans generations and impacts neighboring

countries, hence continued investment in human capital and social protection is important. Contexts of deteriorating governance may mean, however, that development programs are operating either under conditions of significantly increased centralization of decision-making and lack of transparency within government, or active conflict and insecurity, or both. In these conditions, new development programs should generally make increasing use of non-government, private sector and community-driven mechanisms; or should insulate financial flows and decisions on beneficiary targeting from political interference, as in the case of social funds; or should ensure broad-based ownership of government-executed programs amongst both government and non-government stakeholders.

- ***Contributing to peace-building initiatives in a situation of rising conflict risk.*** The Bank does not have the mandate or expertise to play a leading role in peace-building initiatives, but there are opportunities for economic and developmental interventions to provide a contribution to peace-building goals. Three particular areas of intervention deserve attention in Bank strategies and dialogue: (i) combining efforts with diplomatic actors to clearly signal to national counterparts the risks of any actions which may escalate conflict risk, and the economic benefits of commitment to peace-building; (ii) input on specific economic issues which are important for mediation efforts and may serve as a way to restart dialogue; (iii) use of community driven initiatives to contribute to local conflict prevention. Where the Bank contributes to such peace-building initiatives, it should generally work within the ambit of a multi-donor effort involving international or regional institutions with a more direct political mandate.

Box 18. Community-driven Development Programs in Volatile Country Contexts

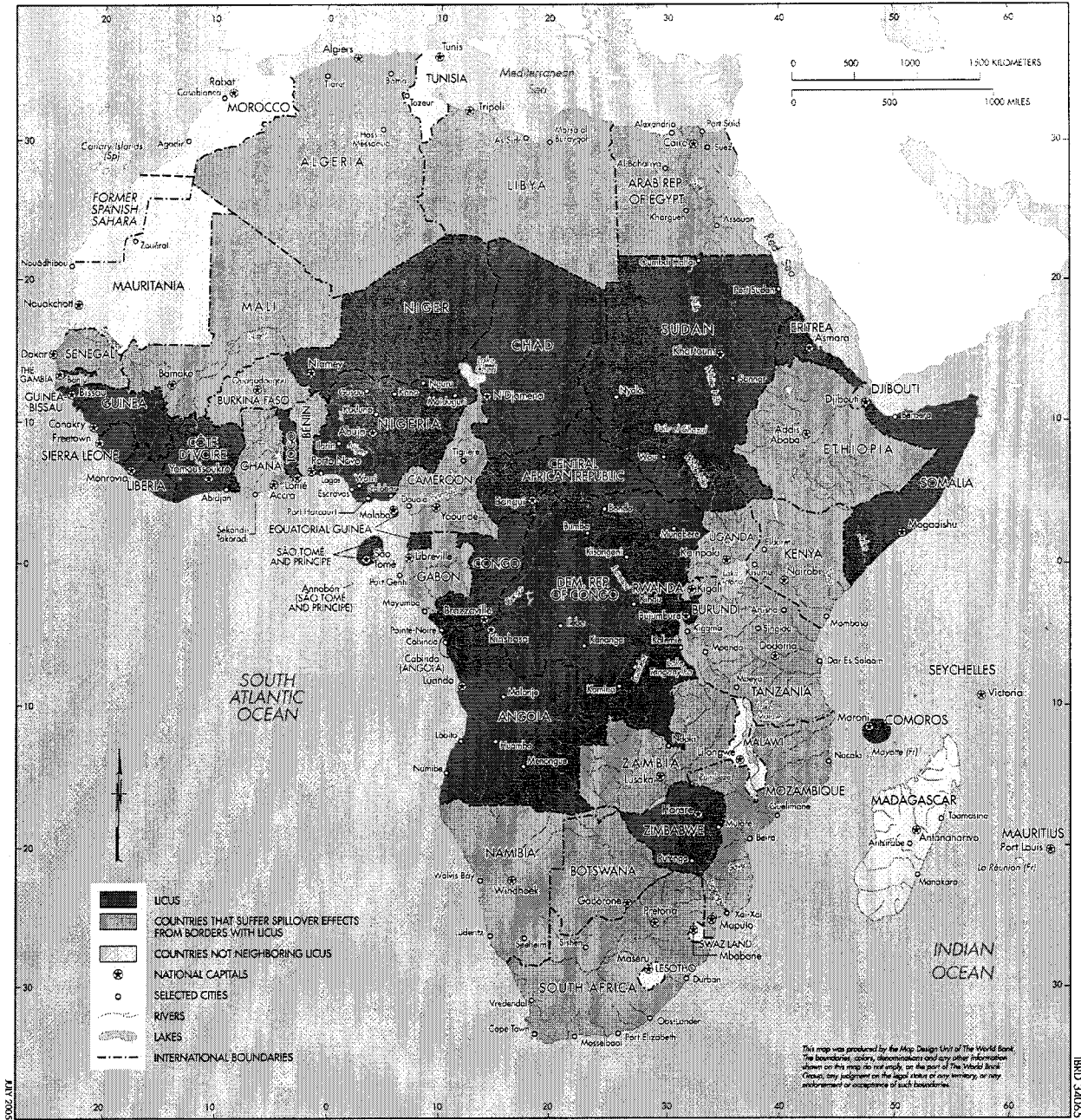
In Angola, the Social Action Fund (FAS) encourages community based management of assets and the development of partnerships between communities, local governments and civil society organizations. The fund supports small and medium scale social and economic projects, identified by poor communities and implemented in collaboration with local government and sectoral agencies in the provinces. From initiation in 1995, the FAS projects have proved highly successful despite dramatic changes in the country context. Designed in expectation of peace, the social fund structure remained flexible enough to deliver results and implement all project activities satisfactorily, despite renewed insecurity in many parts of the country.

In Comoros, the Social Fund Project, begun in 1998, supported demand driven initiatives developed by communities to create employment and improve access to basic services. Despite a suspension of disbursements within two weeks of project initiation as a result of deteriorating security, the task team remained closely engaged in continuous dialogue with the country on project preparation. When the suspension of disbursements was lifted, the Bank and project team had already agreed upon a work program, and within four months, 22 projects were under implementation. Despite continued political and institutional strife and severe socio-economic difficulties throughout the implementation period, by completion sub-projects had benefited almost 70% of the population, with 3,700 jobs and 360 SMEs created.

In Nepal, community-driven development is a critical instrument for social protection and to address the exclusion which has fuelled conflict. Bank projects have supported the empowerment of local school management committees (SMCs) and health facilities have been devolved to local communities, working increasingly with the private sector and NGOs. Access to safe water is being improved through the use of demand-driven user group participation and empowerment approaches. As the level of conflict risk in Nepal has risen, close monitoring of community-based programs to avoid interference by the security forces or the insurgents is critical, but provided program design is adapted to ensure conflict sensitivity, these instruments have the potential to maintain openings for improvements in governance and service delivery at local level and avoid a shift into full-scale humanitarian crisis.

F. "Neighborhood" Spillovers and Regional Programs

47. The impact of state fragility does not remain confined within the borders of the most fragile states: debilitating effects are also suffered within neighboring countries, through spillovers of conflict; organized crime; epidemic diseases; barriers to transit and trade; and decreased investment and growth. Bank research estimates that neighboring states lose on average 1.6% of GDP per year as a result of these spillovers. The map below indicates the extent of potential spillover effects in Africa.



48. There are two primary ways in which the Bank can use its instruments to assist in overcoming these spillover effects. The first is within each individual CAS or ISN process. There is scope for country strategy processes to make a more systematic assessment of spillover risks from neighboring states, and consider the actions which national authorities, the Bank and other partners can take to minimize the impact of such spillovers. This applies both within fragile states (that are often bordered by other fragile states) and within stronger performers.

49. The second instrument with potential to address spillover affects is regional programming. Regional programs can create valuable synergies and a means to bring neighboring states together to address concrete development issues despite a legacy of conflict or on-going instability, and can act across territory with marked differences in the governance strengths and weaknesses.

50. The health sector has the longest history of successful regional development initiatives (see Box 19 below), but recent years have demonstrated the potential for regional programs in other sectors. Two areas are of particular relevance to the Bank's work. The first is support to regional infrastructure programs. By definition, many infrastructure sectors involve economic factors which cannot be addressed on a single-country basis: in addition, control over economic resources and infrastructure is often at the heart of historic inter-state conflicts. Initiatives such as the Nile Basin and the Sub-Saharan transport policy program provide an institutional forum for countries to release mutual gains from economic development despite the differing institutional strengths of participants. The second area is the demobilization and reintegration of ex-combatants, where the multi-country demobilization and reintegration program in Africa has—despite many start-up difficulties—demonstrated some gains in regional capacity-building and the harmonization of approaches between countries.

Box 19. The Onchocerciasis Control Programme (OCP)

The OCP was initiated in 1974 to control river blindness in seven countries in West Africa: Benin, Burkina Faso, Cote d'Ivoire, Ghana, Mali, Niger, and Togo. Later, the program was expanded to include Guinea, Guinea-Bissau, Senegal, and Sierra Leone. The majority of these countries would now be considered to be fragile states. Today, twenty years after the inception of control, the OCP is widely regarded as one of the most effective regional programs ever launched. River blindness is no longer a public health threat in the original control zone, and many of the river basins are being resettled. 600,000 cases of river blindness have been prevented, and 25 million hectares of formerly evacuated arable lands have been made safe for resettlement and agriculture. These lands have the potential to feed an additional 17 million people per year. Increased agricultural production from these lands has transformed the region from aid-dependent to food exporting. These programs have added over a million years of productive labor to the economies of the participating countries.

Building on this success, a new program (African Program for Onchocerciasis Control) is now covering another 19 African countries, and these experiences have informed other multi-country health interventions such as the Multi-Country HIV/AIDS Program for Africa (MAP) and the campaign to roll-back malaria.

IV. CONCLUSION

51. This note identifies a strengthened assistance strategy framework for fragile states. It describes four common themes for the Bank's work in fragile states: peace, security and development linkages; building state capacity and accountability; international partnerships; and institutional flexibility and responsiveness. The note also highlights the need to differentiate approaches and tools in different contexts: prolonged crisis or impasse; post-conflict and political transition; gradual reform processes; and deteriorating governance. Finally, the note highlights the important role of regional initiatives.

52. None of these elements are intended to create a boilerplate for Bank assistance strategies. Assistance strategies must remain firmly rooted in country-specific analysis and dialogue—indeed, many of the recommendations focus on how to strengthen analysis and dialogue. The note does however aim to bring together examples of good practice from across regions and country teams after three years of implementation of the LICUS initiative, allowing for more systematic sharing of experiences to inform country strategies in future. The Bank, like other international partners, is still learning what approaches work in fragile state contexts. Going forward, it will be critical that the Bank continues to evaluate operational experiences carefully and adjust and improve approaches based on lessons learned.

ANNEX A. ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT, LEARNING
AND ADVISORY PROCESS ON DIFFICULT PARTNERSHIPS

Draft Principles for Good International Engagement in Fragile States

A durable exit from poverty and insecurity for the world's most fragile states will need to be driven by their own leadership and people. International actors can affect outcomes in fragile states in both positive and negative ways. International engagement will not by itself put an end to state fragility, but the adoption of the following shared principles can help maximize the positive impact of engagement and minimize unintentional harm.¹

The long-term vision for international engagement in fragile states is to help national reformers to build legitimate, effective and resilient state institutions. Realization of this objective requires taking account of and acting according to the following principles:

1. ***Take context as the starting point.*** All fragile states require sustained international engagement, but analysis and action must be calibrated to particular country circumstances. It is particularly important to recognize different constraints of capacity and political will and the different needs of: (i) countries recovering from conflict, political crisis or poor governance; (ii) those facing declining governance environments, and; (iii) those where the state has partially or wholly collapsed. Sound political analysis is needed to adapt international responses to country context, above and beyond quantitative indicators of conflict, governance or institutional strength.
2. ***Move from reaction to prevention.*** Action today can reduce the risk of future outbreaks of conflict and other types of crises, and contribute to long-term global development and security. A shift from reaction to prevention should include sharing risk analyses; acting rapidly where risk is high; looking beyond quick-fix solutions to address the root causes of state fragility; strengthening the capacity of regional organizations to prevent and resolve conflicts; and helping fragile states themselves to establish resilient institutions which can withstand political and economic pressures.
3. ***Focus on state-building as the central objective.*** States are fragile when governments and state structures lack capacity—or in some cases, political will—to deliver public safety and security, good governance and poverty reduction to their citizens. The long-term vision for international engagement in these situations must focus on supporting viable sovereign states. State-building rests on three pillars: the capacity of state structures to perform core functions; their legitimacy and accountability; and ability to provide an enabling environment for strong economic performance to generate incomes, employment and domestic revenues. Demand for good governance from civil society is a vital component of a healthy state. State-building in the most fragile countries is about depth, not breadth—international engagement should maintain a

¹ The piloting of the Principles will draw on the experience of the Good Humanitarian Donorship Principles endorsed in Stockholm (June 2003).

tight focus on improving governance and capacity in the most basic security, justice, economic and service delivery functions.²

4. ***Align with local priorities and/or systems.*** Where governments demonstrate political will to foster their countries' development but lack capacity, international actors should fully align assistance behind government strategies. Where alignment behind government-led strategies is not possible due to particularly weak governance, international actors should nevertheless consult with a range of national stakeholders in the partner country, and seek opportunities for partial alignment at the sectoral or regional level. Another approach is to use 'shadow alignment'—which helps to build the base for fuller government ownership and alignment in the future - by ensuring that donor programs comply as far as possible with government procedures and systems. This can be done for example by providing information in appropriate budget years and classifications, or by operating within existing administrative boundaries.

5. ***Recognize the political-security-development nexus.*** The political, security, economic and social spheres are interdependent: failure in one risks failure in all others. International actors should move to support national reformers in developing unified planning frameworks for political, security, humanitarian, economic and development activities at a country level. The use of simple integrated planning tools in fragile states, such as the transitional results matrix, can help set and monitor realistic priorities and improve the coherence of international support across the political, security, economic, development and humanitarian arenas.

6. ***Promote coherence between donor government agencies.*** Close links on the ground between the political, security, economic and social spheres also require policy coherence within the administration of each international actor. What is necessary is a whole of government approach, involving those responsible for security, political and economic affairs, as well as those responsible for development aid and humanitarian assistance. Recipient governments too need to ensure coherence between different government ministries in the priorities they convey to the international community.

7. ***Agree on practical coordination mechanisms between international actors.*** This can happen even in the absence of strong government leadership. In these fragile contexts, it is important to work together on upstream analysis; joint assessments; shared strategies; coordination of political engagement; multi-donor trust funds; and practical initiatives such as the establishment of joint donor offices and common reporting and financial requirements. Wherever possible, international actors should work jointly with national reformers in government and civil society to develop a shared analysis of challenges and priorities.

² For governments where political will exists and capacity is the main constraint, supporting state-building means direct support for government plans, budgets, decision-making processes and implementing structures. In countries where political will is the main constraint, support for long-term state-building does not necessarily imply short-term support for government - but it does mean moving beyond repeated waves of humanitarian responses to a focus on how to support and strengthen viable national institutions which will be resilient in the longer-term. A vibrant civil society is also important for healthy government and may play a critical transitional role in providing services, particularly when government lacks will and/or capacity.

8. ***Do no harm.*** International actors should especially seek to avoid activities which undermine national institution-building, such as bypassing national budget processes³ or setting high salaries for local staff which undermine recruitment and retention in national institutions. Donors should work out cost norms for local staff remuneration in consultation with government and other national stakeholders.

9. ***Mix and sequence aid instruments to fit the context.*** Fragile states require a mix of aid instruments, including, in particular for countries in promising but high risk transitions, support to recurrent financing. Instruments to provide long-term support to health, education and other basic services are needed in countries facing stalled or deteriorating governance—but careful consideration must be given to how service delivery channels are designed to avoid long-term dependence on parallel, unsustainable structures while at the same time providing sufficient scaling up to meet urgent basic and humanitarian needs. A vibrant civil society is important for healthy government and may also play a critical transitional role in providing services, particularly when the government lacks will and/or capacity.

10. ***Act fast...*** Assistance to fragile states needs to be capable of flexibility at short notice to take advantage of windows of opportunity and respond to changing conditions on the ground.

11. ***...but stay engaged long enough to give success a chance.*** Given low capacity and the extent of the challenges facing fragile states, investments in development, diplomatic and security engagement may need to be of longer-duration than in other low-income countries: capacity development in core institutions will normally require an engagement of at least ten years. Since volatility of engagement (not only aid volumes, but also diplomatic engagement and field presence) is potentially destabilizing for fragile states, international actors commit to improving aid predictability in these countries, by developing a system of mutual consultation and coordination prior to a significant reduction in programming.

12. ***Avoid pockets of exclusion.*** International engagement in fragile states needs to address the problems of “aid orphans”—states where there are no significant political barriers to engagement but few donors are now engaged and aid volumes are low. To avoid an unintentional exclusionary effect of moves by many donors to be more selective in the partner countries for their aid programs, coordination on field presence and aid flows, and mechanisms to finance promising developments in these countries are essential.

³ The Addis Ababa principle developed in November 2001 as part of the Strategic Partnership for Africa Initiative states: “All donor assistance should be delivered through government systems unless there are compelling reasons to the contrary; where this is not possible, any alternative mechanisms or safeguards must be time-limited and develop and build, rather than undermine or bypass, governmental systems.”