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OVERVIEW

World Bank Group Assistance to Low-Income Fragile and Conflict-Affected States

AN INDEPENDENT EVALUATION

new deal
rule of law
transformation
reintegration
country ownership
peacebuilding
economic
institutional
human capital
equity
legitimacy
mobilization
reconstruction
statebuilding
access 2 opportunities
inclusive growth

development

inclusion
equitable social contract
civil society development
infrastructure development
justice political settlement

security
citizen voice
resilience
accountability
donor harmonization
transparency
reconciliation
transition
access 2 services

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The full evaluation is available on IEG's website at:
<http://ieg.worldbankgroup.org/publications>

Abbreviations

AS	advisory services	IEG	Independent Evaluation Group
CAS	country assistance strategy	IFC	International Finance Corporation
CASCR	Country Assistance Strategy Completion Report	IFC AS	IFC Advisory Services
CCSD	Center on Conflict, Security and Development	ISN	Interim Strategy Note
CDD	community-driven development	MDTF	multi-donor trust fund
CPIA	Country Policy and Institutional Assessment	MIGA	Multilateral Investment Guarantee Agency
DDR	demobilization, disarmament, and reintegration	NGO	nongovernmental organization
DPL	development policy lending	ODA	official development assistance
FCS	fragile and conflict-affected states	PCPI	Post-Conflict Performance Indicators
IBRD	International Bank for Reconstruction and Development	PIU	Program Implementation Unit
IDA	International Development Association	PSD	private sector development
		UN	United Nations
		WDR	World Development Report

All dollar amounts are in U.S. dollars unless otherwise indicated.

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Members of the core team included Victor Eduardo Macias Essedin, Ann Elizabeth Flanagan, Amnon Golan, Catherine Gwin, Hiro Hatashima, Shoghik Hovhannisyan, Lauren Kelly, Ali Khadr, Christopher Nelson, Nestor Ntungwanayo, Judith O'Connor, Jack van Holst Pellekaan, Inder Sud, Stephan Wegner, Emily Harwit Whewell, and Disha Zaidi. The case studies in six countries were undertaken by three- to four-person teams from among the core team to prepare background papers on each country.

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About 370 million people live in low-income fragile and conflict-affected states (FCS). They have higher poverty rates, lower growth rates, and weaker human development indicators than other low-income countries. The World Bank Group has identified support to FCS as a strategic priority, critical to achieving its mission of poverty alleviation and shared prosperity. Progress is evident in several areas, but Bank Group engagement in FCS is clearly a long-term agenda with several challenges and constraints yet to be overcome.

This review of International Development Association (IDA) countries establishes that the World Bank's portfolio performance in low-income FCS has improved since 2001 compared to low-income countries that are not fragile. The evaluation finds that:

- Country assistance strategies have lacked tailoring to fragility and conflict drivers and realism, and do not currently have contingencies based on political economy and conflict risks to adjust objectives and results if risks materialize.
- The Bank has been relatively effective in mainstreaming gender within the health and education and community-driven development portfolios, but has paid insufficient attention to conflict-related violence against women and economic empowerment of women in low-income fragile and conflict-affected states.
- Community-driven development has been a useful vehicle for short-term assistance to local communities in fragile and conflict-affected states; but in the absence of a mechanism to ensure sustainability their long-term viability remains questionable.
- The World Bank Group lacks a realistic framework for inclusive growth and jobs that is based on economic opportunities and constraints in fragile and conflict-affected states and effective coordination and synergies across World Bank Group institutions.
- The global shift in aid flows toward fragile states has not been matched by IDA, and fragile and conflict-affected states receive less aid per capita from IDA than do other low-income countries.

To enhance the relevance and effectiveness of its assistance to FCS, this evaluation recommends that the World Bank Group adjust its strategy, approach, and product mix by:

- Developing a more suitable and accurate mechanism to classify FCS;
- Tailoring country strategies to fragility and conflict contexts;

- Supporting institutional capacity building at national and subnational levels;
- Enhancing the institutional sustainability of community development programs;
- Addressing the effects of violence against women;
- Developing a more realistic framework for inclusive growth and jobs; and
- Adapting the business models, incentives, and systems of the International Finance Corporation and the Multilateral Investment Guarantee Agency to the needs of FCS.

Introduction

Fragile and conflict-affected states (FCS) have become an important focus of World Bank Group assistance in recent years as recognition of the linkages between fragility, conflict, violence, and poverty has grown. Addressing issues of recurring conflict and political violence and helping build legitimate and accountable state institutions are central to the Bank Group's poverty reduction mission.

The evaluation focuses on IDA-only countries, which are deemed to have certain characteristics such as very low average income and no access to private finance, making them eligible for special finance tools and programs. As the benchmark for measuring results, Bank Group performance is evaluated in 33 fragile and conflict-affected states against that of 31 IDA-only countries that have never been on the FCS list (i.e., Never FCS). The 33 countries (Table 1) include 21 that have always been on the Bank Group's FCS list (i.e., Always FCS), and 12 that were on the list for part of the review period (i.e., Partial FCS).

Among IDA-only countries, fragile and conflict-affected states are much poorer, grow more slowly, and have higher population growth rates than those that are non-FCS. Using the measure of \$1.25 a day, poverty is 57 percent in the 21 Always FCS, compared to 43 percent in the Never FCS. The population within the 33 FCS IDA-only countries alone is 370 million. Another 88 million live in FCS that are International Bank for Reconstruction and Development (IBRD) or blend countries; some of them will be covered by a separate Independent Evaluation Group (IEG) evaluation of fragile and conflict-affected situations.

Evaluation Approach

This evaluation assesses the relevance and effectiveness of World Bank Group country strategies and assistance

programs to FCS. The operationalization of the *World Development Report 2011: Conflict, Security, and Development* (2011 WDR) is also assessed, to see how the framework has been reflected in subsequent analytical work, country assistance strategies (CASs), and the assistance programs. The evaluation framework has been derived from the concepts and priorities articulated in recent WDRs, policy papers, and progress reports issued by management, based on past experience, to draw lessons from FCS. The framework is organized around the three major themes emerging from the 2011 WDR: building state capacity, building capacity of citizens, and promoting inclusive growth and jobs (Figure 1).

The evaluation comprises six new country case studies; analyses of Bank Group portfolios; human resources and budget data; secondary analysis of IEG evaluations; background studies including those on aid flows, gender, private sector development, and jobs; and surveys of Bank Group staffs and stakeholders.

Country Assistance Strategies in FCS

While Bank strategies in FCS have been relevant in the early stages of post-conflict reconstruction, they have generally not been designed appropriately for medium- and long-term development. The Bank is most responsive to FCS in the immediate aftermath of conflict. Relevance of the Bank's medium-term strategy has been lower because of a lack of adequate strategic underpinning and focus. The need for selectivity and strategic sequencing, while important for all countries, is particularly critical in FCS because of the severe limitations in state capacity. In practice the distinction between the Interim Strategy Note (ISN) and the CAS has been blurred with prolonged use of ISNs over several strategy cycles and much longer duration than prescribed in the policy. Lack of realism and selectivity in most FCS country strategies evaluated has

TABLE 1 Categorization of IDA-Only Countries

Always FCS		Partial FCS	Never FCS	
Afghanistan	Guinea-Bissau	Cambodia	Bangladesh	Mauritania
Angola	Haiti	Cameroon	Benin	Micronesia, Fed. Sts.
Burundi	Kosovo	Djibouti	Bhutan	Moldova
Central African Republic	Liberia	Gambia, The	Burkina Faso	Mongolia
Chad	Sierra Leone	Kiribati	Ethiopia	Mozambique
Comoros	Solomon Islands	Lao PDR	Ghana	Nicaragua
Congo, Dem. Rep.	Somalia	Nepal	Guyana	Niger
Congo, Rep.	Sudan	São Tomé and Príncipe	Honduras	Rwanda
Côte d'Ivoire	Timor-Leste	Tajikistan	Kenya	Samoa
Eritrea	Togo	Tonga	Kyrgyz Republic	Senegal
Guinea		Vanuatu	Lesotho	Sri Lanka
		Yemen, Rep.	Madagascar	Tanzania
			Malawi	Tuvalu
			Maldives	Uganda
			Mali	Zambia
Marshall Islands				

resulted in lower outcome ratings for CAS Completion Reports.

Recent CAS's show much more sensitivity to fragility and conflict drivers. However, in most of the FCS inadequate attention was given to dividing up areas of focus among donors and harmonization in practice in order to reduce demands on the limited capacity of the government and

to allow donors to have a greater impact. And there is little evidence yet of the 2011 WDR's impact on Bank Group operations. CASs are not the key determinants of engagement in FCS by the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) since their activities are based on alignment with corporate strategies and the availability of clients. The piloting of Bank Group Joint Business Plans

for several FCS appears to be a useful mechanism to foster more collaborative approaches.

There is a significant variation in total annual per capita official development assistance (ODA) to the FCS, and IDA and grant allocations by the World Bank largely mirror the distribution of overall ODA. Development policy lending (DPL) has been a significant part of support to FCS, averaging 15 to 25 percent of total IDA commitments. DPLs have helped to support institution building and policy reforms in FCS.

Portfolio Performance in the FCS

In commitment amounts, IDA financing to the FCS more than doubled since FY01. During the FY07–12 period, total commitment to all of the 33 FCS was \$11.5 billion from IDA and \$4.4 billion from trust funds. During the same period, total commitment to the 31 IDA countries that were not FCS

was \$32.9 billion from IDA resources and \$5.2 billion from trust funds. The sectoral composition of new commitments in FCS during FY07–12 shows the dominance of infrastructure sectors (\$5 billion), followed by the human development sectors (\$3.8 billion). Bank support for analytical and advisory activities has increased more substantially, with a five-fold increase in spending on technical assistance to build institutional capacity within FCS.

Direct financial support for private sector development (PSD) remained modest over the period FY01–12. Lending and grants from the Finance and Private Sector Development Network to FCS totaled \$1.1 billion during FY01–12, but Bank support to other sectors, including infrastructure and mining projects, which are also relevant to PSD, has been more substantial. IFC approved \$1.7 billion between FY01 and FY12, of which \$1.3 billion was invested during FY07–12. Investments in FCS are

FIGURE 1 Results Chain of World Bank Group Assistance to FCS



on average smaller and riskier than investments in other IDA countries. IFC's investments in FCS are highly concentrated in telecommunications, transportation, oil, gas, and mining. Advisory Services (AS) are more focused on FCS than investment projects, fragile states absorbing 14 percent of AS expenditures.

MIGA guarantees in FCS have been \$1.3 billion between FY01 and FY12, of which about \$1.1 billion was in FY07-12. But among providers of political risk insurance in FCS, MIGA played a modest role.

Since FY09, the World Bank's portfolio in FCS has had better outcome ratings than other IDA countries (Figure 2). FCS ratings are now comparable with Bankwide ratings. Outcome ratings lagged in the Africa Region, but by FY10 they had caught up with other FCS.

Although the number of observations is small, IFC investments in FCS have low outcome ratings, and are somewhat lower than those in non-FCS. IFC's Advisory Services in Always FCS perform at par with IDA-only countries that were not fragile. Despite higher country risk, MIGA's portfolio in FCS has not proven more risky than its overall portfolio.

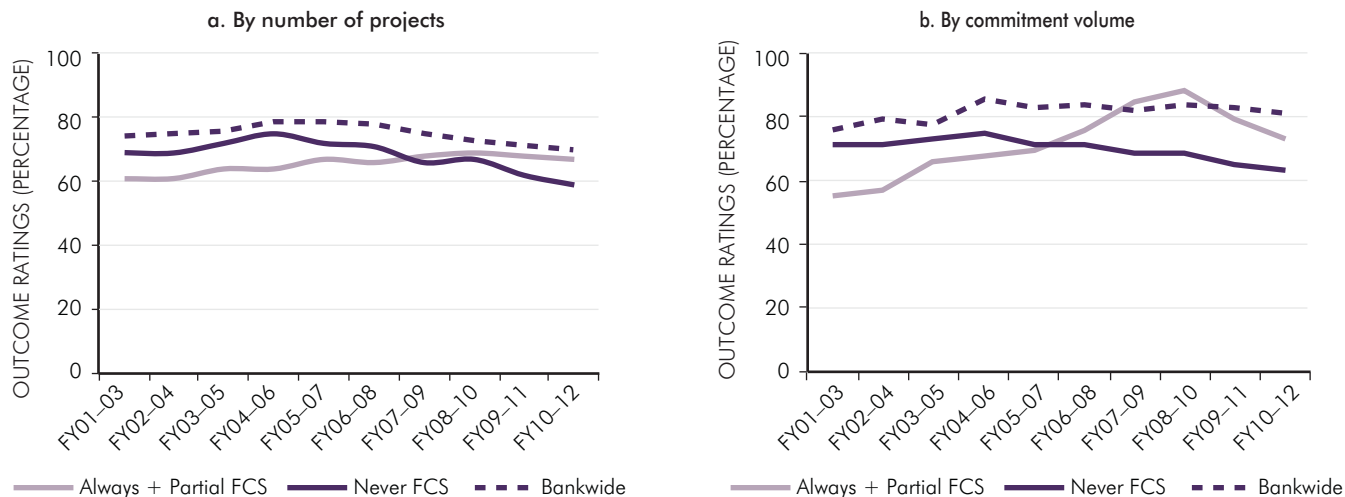
The FCS portfolio is riskier, but this risk has to be taken on and managed if improvements are to be sustained because they are central to delivering the Bank Group's strategic goals on poverty.

Building State Capacity

Building the capacity of the state in FCS requires a particularly strong understanding of conflict and fragility drivers. Understanding the criteria through which an effective, responsive, and accountable state can be supported is essential for successful World Bank engagement in FCS. Measures to build state capacity in FCS need to be sequenced and paced realistically. Priorities need to be based on the needs of governments, the needs of donors, the expectations of citizens, and the major political economy risks in the country.

World Bank support to public expenditure management in FCS has been good, but progress has been uneven across countries and reform areas. Procurement issues in Bank operations within FCS continue to face challenges, despite attempts to provide technical capacity in this area.

FIGURE 2 Percentage of Projects and Commitment Volume Rated Moderately Satisfactory or Higher



Overall, the performance on the efficiency of revenue mobilization in FCS has been good. Recognizing that mismanagement of mineral resources had contributed to conflict in several FCS, the Bank Group focused its support on reforming the regulatory framework in the mining sector. The World Bank has been effective in strengthening the regulatory framework in natural resource sectors but less effective in assisting its clients in FCS to accurately value and negotiate resource contracts. Monitoring and transparent reporting can lead to better revenue valuation, collection, and management of extractives, however, FCS countries perform less well than non-FCS in compliance with the standards set by the Extractive Industries Transparency Initiative.

The World Bank has made considerable effort, but there has been a lack of traction on civil service reform. Decentralization is widely recognized as an important means to improve service delivery and enhance citizen accountability. In FCS, where government responsiveness to citizens has been relatively weak, finding the right modality for reaching people with services is vital to avoiding further fragility and conflict. Decentralization is an important element to this approach. While some effort and results were recorded in the African Region, in other regions the Bank has been reticent to engage with decentralization until recently, despite substantial interest by other development partners.

Building Capacity of Citizens

Poverty reduction and shared prosperity among citizens are the strategic goals of the World Bank Group and the *raison d'être* of its engagement in reconstruction and development. Countries that are FCS typically suffer from some or all of the following traits—absence of political settlement, regional inequality, social exclusion, weak administrative capacity, risk of corruption and elite capture, absence of the rule of law, and lack of

accountability of citizens. Each of these traits affects citizens adversely by trapping them in vicious cycles of fragility, conflict, and violence that undermine their capabilities to demonstrate resilience in response to these crises. For that reason, assistance for human and social development is a critical dimension of Bank Group support to FCS.

Despite the concerns raised by the 2011 WDR, most fragile and conflict-affected IDA countries are likely to achieve at least one Millennium Development Goal target. Outcome ratings for the health sector have improved while those for the education sector have declined in FCS. Health projects were more likely than education projects to use innovative implementation arrangements through hiring service providers from the private and nonprofit sector, and to utilize performance-based contracting.

Community-driven development (CDD) projects have grown by number and commitment volume much faster in FCS than in IDA countries that were not FCS. They have been effective in providing essential short-term development assistance to local communities, but they have not evolved over time and lack institutional sustainability.

The Bank has little to show in FCS on the 2011 WDR priority of enhancing work on justice reforms. The evaluation team did not find any evidence of demand for a more proactive role by the Bank in the justice sector, nor did stakeholders feel the Bank had a comparative advantage in the justice sector.

Promoting Inclusive Growth and Jobs

In the FCS context, a focus on inclusive growth and employment is highly relevant to address drivers of fragility, with important linkages to state-building and peace-building activities. Vulnerability caused by low per capita income and high unemployment is a major driver of conflict.



PHOTO: © DOMINIC CHAVEZ / WORLD BANK

Community-driven programs, such as the Holy Family Center in Kinshasa, Democratic Republic of Congo, have played an important role in providing local benefits and services in FCS. The Holy Family Center assists street kids by helping them with school and reuniting them with their families.

Growth and job creation have been slow and face challenges in FCS. The sectors driving economic growth in FCS are not necessarily labor intensive, and in many cases growth has not been inclusive. Promoting inclusive growth and jobs needs sequencing and prioritizing customized to FCS contexts.

The private sector is constrained by lack of infrastructure, a business friendly environment, bankable projects, and skills. World Bank Group support for private sector development has been focused on investment climate reform.

In infrastructure, the Bank prioritized transport, urban, and energy and mining sectors, while IFC invested more in

telecommunications infrastructure. There is huge demand for infrastructure services, and a perception that the lack of infrastructure, especially in power and transport, remains a leading constraint to PSD and for growth. The telecommunications sector has attracted private sector investments early in conflict-affected countries, with catalytic support from IFC and MIGA, and is considered “transformational” due to its potential to spur growth, entrepreneurship, and service delivery.

Investment climate reforms are necessary but not sufficient for private sector development. Results of IFC and Bank



PHOTO COURTESY OF THE WORLD BANK

In Nepal, a stamp exemplifies country ownership of the progress made.

support for investment climate reform have been mixed, with challenges in implementation.

In some FCS, the World Bank Group was effective in helping establish commercially oriented microfinance institutions and in supporting institutions lending to small and medium enterprises. The Bank's lending to financial sector development in FCS was \$270 million. IFC supported small and micro finance institutions in Afghanistan, Cameroon, Democratic Republic of Congo, Haiti, Nepal, and the Republic of Yemen. MIGA also supported a micro finance institution in Afghanistan. Bank

Group support for the financial sector in Afghanistan was an example of effective coordination and synergies.

The share of MIGA's guarantee volume in FCS has reached 10 percent in the FY07–12 period and is more highly concentrated in infrastructure. MIGA's Small Investment Program appears to be relevant to supporting smaller size manufacturing, agribusiness, and services projects typical for FCS, but those projects in FCS have performed poorly.

Bank Group support for skills development has been limited and remains insufficient to address long-term human capital constraints.



PHOTO:

There is huge demand for infrastructure services in FCS, and a perception that the lack of infrastructure, especially in power and transport, remains a leading constraint to private sector development and for growth.

Agriculture is the largest sector in IDA countries, accounting for one-fourth of gross domestic product on average in FCS and Never FCS but for a much larger share of employment in FCS. Bank Group support for agriculture has not been commensurate with its effects on food security and employment in FCS. Lack of clarity on land rights can be a major cause of conflict, fragility, and stagnation in rural areas, and is a major constraint to private sector development.

Many FCS economies are highly dependent on extractive industries, yet the Bank Group has paid more attention to legislation and regulatory reform and less attention to the

distribution of benefits and local economic development. The fragility risks associated with natural resource management have not been sufficiently addressed.

The Bank Group lacks a strategic and effective framework for inclusive growth and job creation in FCS: Bank Group support for long-term jobs has focused on investment climate reforms, which are necessary but not sufficient for private sector development. Synergies across the Bank Group are lacking, and fragmented interventions reduce the potential effect on long-term employment generation.

The Bank has focused targeted support for jobs mainly on short-term jobs through projects supporting

community-driven development and public works programs over the FY01–12 period. International migration is another important livelihood strategy in many IDA countries—especially in the short-term when the local economy cannot provide a sufficient number of jobs.

Gender

In several conflict-affected countries, women and girls have been targeted as a tactic of war. The CAS documents that were reviewed recognize gender disparities but not necessarily in an FCS context. Most of the demobilization, disarmament, and reintegration programs were not gender sensitive and focused primarily

on ex-combatants, with few programs for victims of violence. Women in FCS affected by gender-based violence could benefit from targeted programs for economic empowerment.

Bank Group Inputs and Processes

Bank Group classification of FCS has not been consistent. The assumption that the Country Policy and Institutional Assessment (CPIA), which was designed primarily as an instrument to determine entitlements under the Performance-Based Allocation system, works equally well for FCS classification has proved to be problematic in



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In terms of women’s empowerment, girls face more limited access to education in FCS, with a 10 percent gap between male and female youth literacy in FCS countries compared to only a 2 percent gap in the Never FCS group.

recent years with the emergence of new drivers of fragility and conflict.

The World Bank has enhanced its capacity to engage in FCS through significant increases in administrative budgets and in-country staff resources.

The Bank has redeployed administrative budgets for country and operational expenditures in favor of FCS compared with non-FCS. In real terms preparation and supervision expenditures per project have increased since FY07 in the Always FCS group. Projects in these countries have received 9 percent more on average in real terms for project preparation and 19 percent more for supervision than projects in IDA countries that were Never FCS.

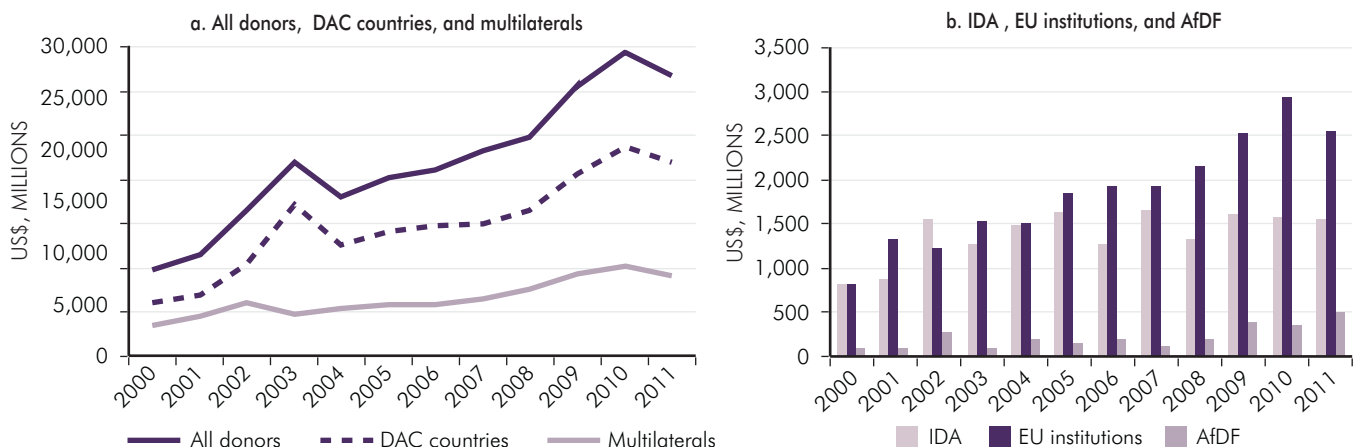
World Bank staff numbers in FCS country offices have increased by 68 percent from FY06 to FY12. Internationally recruited staff in FCS grew by 100 percent globally and by 150 percent in the Africa Region. Half of all new international hires to FCS between FY06–12 were women. However, the staff working in FCS remain unconvinced about the adequacy of human resources incentives.

IFC deploys its standard instruments with little adaptation or product innovation in FCS contexts; its conventional products may not be conducive to work with the largely informal economies of FCS. IFC has increased its staffing in FCS, as part of internal reforms intended to align its organizational structure, processes, and incentives with its strategic priorities. Staffing in FCS doubled in FY06 to 124 by FY13. Most of the staff in FCS are from Advisory Services. Nevertheless, IFC performance incentives are not well aligned with supporting its strategy of increasing engagement in FCS.

Aid Flows and Donor Coordination

The share of overall ODA flows in IDA-only countries has changed in favor of FCS; however, the share of IDA flows to FCS remains much lower than that to non-FCS IDA countries (Figure 3). Since 2002, overall ODA per capita to FCS has exceeded per capita ODA to other IDA countries, and ODA to FCS continued to grow. Despite the exceptional allocations that supplement Performance-Based Allocations, FCS IDA-only countries still receive less ODA per capita from IDA than countries that are not FCS.

FIGURE 3 Overall Per Capita ODA to IDA Countries and ODA Disbursements to IDA FCS



The evaluation also assesses the World Bank's management of multi-donor trust funds (MDTFs) in FCS. MDTFs with active involvement of recipient governments, clear governance protocols and responsibilities, and complementarity with Bank country programs were more effective. The main conclusion from the analysis is that the Bank should look more carefully at the contribution of multi-donor trust funds to FCS development beyond the financial contribution. They can also be a highly effective tool for government engagement, harmonization, and strategic alignment, but these outcomes require structures and skillful management to ensure the process is not compromised by unrealistic expectations.

Conclusions and Recommendations

The World Bank Group has made significant efforts in understanding fragility and conflict drivers, enhancing its capacity to address these issues in some of the poorest and most challenging environments among its client countries. The response to the FCS challenge in IDA-only countries has included scaling up of investments and technical assistance, larger investment of staff and administrative budget resources since 2007, and greater managerial attention leading to improvements in quality of the World Bank's portfolio. It has also included strategic commitments by IFC and MIGA to scale up their support to FCS, the production of the 2011 WDR, and the establishment of the Center on Conflict, Security and Development as well as the Hive, a knowledge-sharing platform designed to connect practitioners, researchers, policy makers, and organizations working on issues of fragility, conflict, and violence around the world.

This evaluation finds the efforts and results to date to be commendable and moving in the right direction. But this is clearly work in progress, with several challenges and constraints identified by this evaluation that are yet to be overcome. In terms of operationalizing the 2011

WDR, the evaluation finds that progress has been made in enhancing support to country teams and achieving greater Bank inputs and improvement in portfolio quality in the FCS, but at least at two levels more clarity and work is needed. First, there is a need to clarify the Bank Group's role on security, justice, and jobs. Second, while considerable efforts have been made to undertake and draw on fragility and conflict analyses to formulate country assistance strategies, the insights and lessons have not yet been applied to Bank Group operations.

On jobs, there was unanimity among clients and development partners that the Bank Group needs to play a leading role. But there was also agreement that a jobs strategy appropriate to high-risk FCS environments has yet to be developed. The evaluation found demand for specialized services such as public expenditure reviews of the security sector conducted in partnership with United Nations (UN) agencies but little demand for Bank work on justice from clients or country departments, and concludes that partnerships are likely to be the principal means of engagement in these two areas.

The Center on Conflict, Security and Development (CCSD) was established by the World Bank in 2011 to strengthen corporate support to the FCS agenda. Progress has undoubtedly been made in the two years since the 2011 WDR but this effort needs to be sustained and in some areas even intensified. CCSD has successfully raised the profile and visibility of Bank Group support to FCS and established a community of practice for FCS work.

At the corporate level, both in preparing the 2011 WDR and during subsequent implementation, the relationship on FCS issues between the World Bank Group and the UN appears to have improved. Significant challenges remain at the country and operational level. A recent independent review concludes that progress in strengthening the UN–World Bank Partnership in FCS

has been mixed. CCSD could help to clarify with its UN counterparts the respective roles and boundaries of work, especially on governance and rule of law, and on security and justice.

Lessons

The World Bank Group has made significant efforts in understanding fragility and conflict drivers, in enhancing its capacity to address these issues in some of the poorest and most challenging environments among its client countries. The evaluation finds the efforts and results to date to be commendable and moving in the right direction. A few key lessons have emerged from the evaluation:

- Country assistance strategies are more relevant and realistic when they integrate analysis of fragility and conflict drivers which often persist in FCS for many years, making it imperative that country teams draw on these analyses and adapt to them in the design and implementation of assistance programs.
- Bank Group operations in FCS are more resource intensive, but enhanced financial and staff resources and greater managerial attention can lead to better performance outcomes in FCS.
- Fragile and conflict-affected states are constrained by a lack of capacity, weak infrastructure and services, and social tensions that weaken the effectiveness of public sector reforms. To be effective, Bank Group support for state-building needs to be sustained through careful sequencing, better use of political economy analysis, and prioritization of long-term reforms. This is best achieved by a mix of predictable, programmatic budget support, investment projects and technical assistance to build country capacity and country ownership for reforms.
- Community-driven programs have played an important role in providing local benefits and services in FCS. In

the absence of attention to ensure the institutional and financial sustainability of CDD programs, the viability of the community institutions and benefits will remain at risk.

- Inclusive growth and jobs has been constrained by the absence of clearly prioritized and sequenced support for a focused medium- to long-term strategy. Linkages and synergies across the World Bank Group were not systematically developed in critical areas, such as linkages between education, skills development, infrastructure, and private sector development. Many FCS lacked adequate analysis of the conflict and fragility drivers and of the binding constraints and opportunities for the private sector.
- Mainstreaming of gender in country programs is feasible in FCS, but in countries where the conflict affects women disproportionately, deliberately targeted programs by the Bank Group can help to address the social and economic consequences of conflict.
- When the private sector adapts its product mix—as it has done with microfinance—to the social and institutional conditions in FCS, it can provide services relevant to the needs of those countries.
- Multi-donor trust funds are more than a source of finance in FCS and play a central role in donor coordination, policy dialogue, and institution building. MDTFs with active involvement of recipient governments, clear governance protocols and responsibilities, and complementarity with Bank country programs, as in Afghanistan and Liberia, were more effective than those in Haiti and Sudan.

Recommendations

The following recommendations are put forward to strengthen these efforts.

- The Bank Group should develop a more suitable and accurate mechanism to define FCS status. This would involve, at a minimum, integration of indicators of conflict, violence, and political risks within the current system that serves as the basis for FCS classification.
- Country assistance strategies should be tailored better to FCS, with clear articulation and monitoring of risks and contingencies for rapid adjustment of strategic objectives, implementation mechanisms, and results frameworks if those risks materialize.
- To enhance state-building outcomes, the Bank should provide increased support to reform-oriented FCS for capacity building at national and subnational levels through predictable, programmatic budget support, complemented by technical assistance, and investment lending.
- The Bank should develop and implement a plan to ensure the institutional sustainability of the community-driven development programs through which large volumes of investments have been channeled within FCS.
- In post-conflict countries, programs addressing gender issues need to be more responsive to the conflict context and help the government address the effects of violence against women and the legal constraints on economic empowerment.
- The World Bank Group should develop a more realistic medium- to long-term framework for inclusive growth and jobs in FCS and ensure synergies and collaboration across the three Bank Group institutions.
- IFC and MIGA should adapt their business models, risk tolerances, product mix, sources of funds, staff incentives, procedures, and processes to be more responsive to the special needs of FCS and to achieve their strategic priorities of increasing engagement in FCS.

Introduction

World Bank Group management welcomes this Independent Evaluation Group (IEG) review of World Bank Group assistance to low-income fragile and conflict-affected states (FCS), focusing on International Development Association (IDA)-only countries and covering the period FY2001 to FY2012. This report could not have come at a better time. The World Bank Group recently designated fragility, conflict, and violence as a cross-cutting solutions area to accelerate learning, collaboration, and support to FCS. Given the high poverty levels in many FCS, more effective support to development efforts in FCS is critical to achieving the World Bank Group goals of eradicating extreme poverty and promoting shared prosperity and consistent with the World Bank Group Strategy.

International Finance Corporation (IFC) management notes that the report coincides with the implementation of a new strategic approach to FCS and its plans to increase IFC's engagement in this group of countries through transformative investments. IFC is also pleased to note that its new initiatives for FCS are closely aligned with the report's recommendations for IFC.

FCS has been a strategic priority for the Multilateral Investment Guarantee Agency (MIGA) since 2005 and has become even more important with the (FY13) launch of the multi-donor trust fund Conflict-Affected and Fragile Economies Facility (CAFEF). MIGA's own survey of foreign corporate investors has shown political risk to be their principal concern when investing in FCS.

World Bank Group Management Comments

OVERALL COMMENTS:

Broad Concurrence with Analysis and Conclusions. Management broadly concurs with the findings and conclusions of the evaluation and welcomes the overall conclusion that progress has been made in

operationalizing the World Development Report (WDR) 2011: Conflict, Security and Development, though many challenges remain. In particular, management concurs that (i) Country Assistance Strategies (CASs) in FCS could have better incorporated an understanding of drivers of fragility and conflict as well as contingencies based on political economy and conflict risks, though concerted support to FCS country teams in the last two years has resulted in substantial improvements; (ii) there has been a notable increase in the quality of the overall FCS portfolio associated with significantly enhanced investments in staffing and budget resources for project design and supervision in FCS (the overall FCS portfolio is now performing on par with other IDA countries, despite the considerably higher risks); (iii) the Bank has made considerable efforts in support of building state capacity, especially in areas of the Bank's comparative advantage, such as public financial management, public sector management, and decentralization, although the results have been uneven across regions; (iv) the Bank has made considerable efforts in support of human development outcomes through community-driven development (CDD) projects, although the sustainability of these delivery

mechanisms remains a challenge; (v) World Bank Group attention to gender issues in FCS has improved, but requires more concerted action, especially gender-based violence and economic opportunities for women, in both strategies and programming; and, (vi) the World Bank Group needs to do more in the area of jobs, particularly to more effectively adapt to and utilize World Bank Group instruments in addressing the specific challenges of job creation and livelihoods support in FCS contexts.

IFC's focus on FCS. IFC management recognizes FCS as an urgent development priority and following the publication of the WDR 2011 has further increased emphasis on FCS. As part of this increased focus, in 2012 IFC formed an FCS Coordination Unit led by two directors representing both Advisory and Investment Services, and has developed a formal strategy for increased investment in FCS. IFC's latest strategic document, IFC's Roadmap FY14-16, outlines plans to increase the volume of investments in FCS by 50 percent compared to the FY12 levels, and the share of its advisory expenditure to at least 20 percent of total. The report acknowledges these developments and provides a very useful overview of IFC's activities in low-income FCS.

IFC management is pleased that the report recognizes the high value of many programs, such as IFC's support for small and micro finance institutions in FCS and the role that IFC played in transformational impact of telecommunications in many FCS, including Afghanistan. The report also accurately reflects IFC's efforts to improve its presence on the ground, which resulted in doubling of its staff based in FCS between FY06 and FY13. In 2013, IFC rolled out a new approach designed to reduce these barriers and increase investments and development impact in FCS.

MIGA's contributions to FCS. MIGA management welcomes the report and agrees with its findings and

conclusions. However, it finds that the overall analysis and discussion in the report provides only a partial analysis of MIGA contributions in FCS. The report notes that MIGA's guarantee volume in FCS has increased significantly since FY11. MIGA's guarantee volume of \$1.3 billion during the FY01-12 period is concentrated in infrastructure (74 percent) and agribusiness, manufacturing, and service (21 percent). MIGA notes that the discussion in the report on the infrastructure projects is limited, presumably due to the lack of evaluative evidence.

The report acknowledges correctly that too few guarantees have been evaluated to draw conclusions, since there are only five completed Project Evaluation Reports (PERs), of which four had Satisfactory Development Outcomes. MIGA notes that the report makes no further reference to the evidence presented in the PERs, though they provide important lessons and insights into the Development Outcomes of MIGA-supported projects in Low-income FCS as well as MIGA's effectiveness. For example, the Dikulushi Copper-Silver Mining Project in the Democratic Republic of Congo was the first mining project in the country following the civil war. Overall, MIGA played a critical role in facilitating foreign direct investment (FDI) which supported the country's post-conflict reconstruction and development. The project also provided important knowledge transfer benefits to employees from local communities.

On the other hand, the report discusses the performance of projects supported by the Small Investment Program (SIP) in some detail, even though the underlying data is not presented, nor has the assessment been shared with MIGA. As noted in the report, SIP projects made up only 3 percent of the guarantee volume, but 49 percent (17/35) of the number of projects.

THEMATIC COMMENTS:

Strong Alignment with the proposed IDA17 Commitments and World Bank Group Change Management Agenda.

Since the publication of the WDR 2011 and associated operationalization paper, Bank management has launched a series of measures to address the main issues covered in the evaluation; Bank management recognizes that it is still too early for this IEG evaluation (which covers FY01 to FY12) to measure the impact of many of these interventions. Moreover, the World Bank Group's enhanced commitment to FCS is reflected in the proposed IDA17 commitments on the special theme of fragility and conflict and the related financing scenarios, which could significantly increase the share of IDA resources invested in FCS. The proposed IDA17 commitments are closely aligned with the key recommendations of the evaluation. The planned establishment of a cross-cutting solutions area on fragility, conflict, and violence as part of the global practices reform -- based on the recently created Fragility and Conflict Hub in Nairobi and the FCS Unit in IFC -- may ensure effective implementation of these commitments across the World Bank Group. The IDA17 Results Management System (RMS), along with regular reporting to the Board on progress on operationalizing the WDR, will allow for close monitoring of the implementation of these commitments

World Bank Group Engagement on Fragility, Conflict, and Violence beyond IDA.

Though the evaluation focuses exclusively on IDA-only countries, management would point to some important innovations and results on fragility, conflict, and violence in other client segments that have implications for the World Bank Group's overall engagement in these areas. There is an increasing demand for the World Bank Group to address issues of violence and insecurity in low-income and middle-income countries, especially in the Latin

and Central America region, often as part of a broader agenda related to urbanization or security sector reform. Many International Bank for Reconstruction and Development (IBRD) and blend countries are also seeking World Bank Group assistance to confront the drivers of conflict and violence at a sub-national level as part of a broader agenda on decentralization and shared prosperity. While these developments are outside of IDA countries, they form an important part of the broader fragility, conflict, and violence focus within the World Bank Group and lessons from these engagements need to be considered together with the experience in working in IDA countries.

World Bank Group Promotion of Private Sector Development and Jobs in FCS.

Management agrees that inclusive economic growth and creation of employment opportunities is the most important pathway out of poverty in FCS. Furthermore, management welcomes the findings on private sector development and agrees with IEG that "investment climate is necessary but is not a sufficient condition for the growth of private sector and of jobs." World Bank Group support to private sector development reflects the complexity of this important area for poverty reduction and shared growth. As the report states, the inclusive growth and jobs agenda encompasses infrastructure, private sector development, natural resources management, agriculture, skills development, and support to both the private and public sectors. World Bank Group interventions have been designed in this vein and have therefore included many interventions, including development policy operations, skills development, and trade, as well as IFC advisory and investment, and MIGA guarantees. Management has recently initiated activities supporting job creation (e.g., WDR 2013 on jobs, which is only mildly referenced in the report, a new Cross Cutting Solutions Area on Jobs) and welcomes the

recommendation to develop a more realistic medium- to long-term framework for inclusive growth and jobs in FCS.

IFC's approach—as highlighted in IFC's FCS strategy—focuses on alleviating the barriers to business growth, specifically access to power, access to finance, access to markets, enabling environments for business, and transparency/rule of law. In particular, access to power—identified as a number one constraint for firms operating in most FCS—holds a transformational potential and can play a key role in unlocking the economic potential and can help lead to the creation of employment opportunities in FCS.

The IEG report also recommends development of a framework for inclusive growth and jobs in FCS. Both the recent WDR 2013 on Jobs and IFC's 2013 Jobs Study focused on this issue, and the World Bank Group is working on implementing the findings from both. This process is now likely to be accelerated and facilitated through the implementation of the Cross-cutting Solutions Area on Jobs. IFC's FCS Coordination Unit will work closely with the Cross-cutting Solutions Area on Jobs and the Cross-cutting Solutions Area on Fragility, Conflict, and Violence to formulate the FCS-specific angle of the World Bank Group approach to inclusive growth and job creation. In the interim, IFC had already started implementing the findings of the WDR 2013 and the 2013 Jobs Study by forming a Global Partnership to create more and better private sector jobs—"Let's Work." Part of the work program under "Let's Work" includes applying a jobs lens at the country level, in collaboration with other partners across the World Bank Group and beyond (e.g., private sector companies, international financial institutions (IFIs), donors, and other stakeholders). FCS will be one of the areas of focus of this program, and the initiative will be piloted in selected FCS.

The report states that the private sector in FCS countries presents different types of opportunities and challenges to MIGA. It also states that MIGA has approached doing business in FCS in much the same way as in non-FCS countries. However, MIGA notes the absence of any underlying evaluative evidence in the report and feels that a more detailed discussion of these aspects would have been helpful.

MIGA has taken a number of steps already to address the challenges that are unique to FCS (i) introducing the SIP program in 2005, with streamlined procedures for clients and MIGA, which the IEG report has acknowledged as being useful and relevant in FCS, despite challenges; (ii) managing the Japan-MIGA Trust Fund for environmental and social support and capacity building in Africa, which has a high concentration of FCS, and (iii) the new Conflict-Affected and Fragile Economies Facility (CAFEEF) initiative and previous FCS-focused trust funds (Afghanistan, West Bank & Gaza, and Bosnia-Herzegovina).

Determinants of Success in the FCS World Bank Portfolio. Bank management welcomes the finding that there has been a notable increase in the quality of the FCS portfolio associated with significantly enhanced investments in staffing and budget resources for project design and supervision in FCS. Bank management also considers that there are other factors that could have contributed to this improved portfolio quality. These include reforms of the enabling World Bank Group policy framework for FCS operations (e.g., the adoption of OP8.0 or new policies on small grants, restructuring, additional financing, and risk), increased reliance on country systems, increased emphasis on the simplification of project design and implementation arrangements, and greater focus on definition of achievable results recognizing the long time frames for institutional change in such contexts. Further work is needed to deepen the

analysis of the factors affecting quality in FCS to ensure that recent trends are maintained and strengthened as well as to draw lessons for the rest of the World Bank Group portfolio. Of particular concern is the finding that improvements in performance at the project level have not yet been reflected in improved outcomes at country level as indicated in CAS completion reports. Bank management intends to carry out further analysis of the determinants of success in the FCS portfolio to build upon the work in the current evaluation.

Recent IFC Initiatives. IFC notes that there are recent significant developments that were outside of the report’s review period. Firstly, IFC has already recognized that investment opportunities in FCS are often smaller than in non-FCS, and face higher risks, longer gestation periods, and more complex due diligence processes. Accordingly, in 2013 IFC has rolled out a new approach designed to reduce these barriers and increase investments and development impact in FCS. The program will support projects of \$10 million or less in FCS, primarily in the manufacturing, agribusiness, services, and financial markets sectors. Secondly, IFC is actively exploring new ways to address inadequate access to power—the number one constraint for private sector development in most low-income FCS countries—through World Bank Group collaboration and exploring blended finance solutions with donors. Thirdly, IFC continues to undertake other initiatives including: the Joint World Bank, IFC, and MIGA business plans in FCS, dialogue on private sector investment with the g7+ group of fragile states, and increased networking and knowledge-sharing.

MIGA’s Share of Political Risk Insurance (PRI) Coverage. Based on Berne Union data, the report states that MIGA’s share of political risk insurance coverage provided in FCS was 6 percent vs. 10 percent in Never-FCS and therefore concludes that MIGA played a more modest role among PRI providers in FCS. MIGA disagrees

with this conclusion and finds the analysis simplistic. MIGA notes that it targets a market segment different from Export Credit Agencies and the private sector, in particular the longer end of the PRI market in FCS.

MIGA also notes that its role in FCS is always likely to be “modest” compared to the public sector Export Credit Agencies, with larger balance sheets and distinct mandates to support national interests, as well as lighter administrative processes and policies. In addition, there are specific sectoral (e.g., extractive industries) and country factors (e.g., resource-rich) as well as policy considerations that create opportunities for the private sector in FCS.

MIGA’s analysis of Berne Union data shows the Export Credit Agencies share of PRI coverage in FCS to be 60 percent (with the share of one Asian export credit agency referred to in the report at 44 percent) and the private sector’s share, 34 percent. On the other hand, the share of Export Credit Agencies in Never-FCS is only 27 percent, compared to 62 percent for the private sector. Given these considerations, MIGA notes the need for a deeper analysis to understand better the structure, conduct, and performance of the PRI market in FCS.

MIGA also notes the need to recognize the longer tenor it provides compared to other PRI providers, in the context of MIGA’s FCS role discussion. For example, an IEG evaluation of a mining project in an African country found that very few insurers provided 10+ years PRI insurance and the investor regarded MIGA’s participation as critical. Also, IEG’s evaluation of a telecom project in another African country showed that the host country ranked near the bottom of the Doing Business report at the time of the MIGA guarantee and was the only PRI provider in the country and served as a catalyst for facilitating investments in the country’s telecom sector. In addition, the investor made MIGA’s guarantee a condition precedent for

its equity investment in the project, based on its good experience with MIGA elsewhere.

The report states that even though FCS have higher country risk profiles than Never FCS, in practice, MIGA's portfolio in FCS has not proved to be more risky than the overall portfolio. The report therefore concludes that the perception of high risk was not borne out by actual portfolio risk. MIGA would note that the primary reason for the lower-than-expected portfolio risk is MIGA's superior project-level risk management, alluded to in the report, as well as the MIGA deterrence effect. MIGA agrees with the analysis in the report regarding the mediation function—the ability to resolve investment disputes related to insured risks—distinguishing MIGA from other PRI insurers and a central element of MIGA's value-added proposition for long-term investors.

Bank Support in Building State Capacity.

Bank management welcomes the focus on building state capacity, a key step toward eradicating poverty and managing conflict. Bank management agrees with the recommendation to support reform-oriented FCS for capacity building at national and subnational levels through predictable, programmatic budget support, complemented by technical assistance, and investment lending, in response to client demand and when conditions are conducive to such an instrument. At the same time, there is need for caution in drawing definitive conclusions on key areas of state capacity building that remain subject to considerable debate. On the use of parallel structures in the civil service, these can be very heterogeneous in their design with different impacts on performance and sustainability. Bank management takes a differentiated view on the topic of parallel structures and commits to continue to more actively and consciously manage the challenge of balancing and integrating parallel structures with sustainable institution building, in line with the World Bank Group commitment to use,

or build capacity toward the eventual use, of country systems. On decentralization, Bank management has pursued a nuanced approach. The report describes the Bank's stance as "ambiguous" and in this regard there is need to recognize that there is still insufficient evidence on the impact of decentralization in FCS contexts to draw definitive conclusions for practice. Decentralization is a fundamentally political decision—and often one that is at the center of the conflict. In these situations, the Bank has focused on facilitating sub-national service delivery within the prevailing political settlement.

IFC Advisory Services in FCS. IFC is continuing the delivery of targeted Advisory Services to clients in FCS, focusing on greater alignment of Advisory Services with investments in priority sectors that hold transformational potential. In Sub-Saharan Africa, where most IDA FCS exists, IFC Advisory Services will continue working through its Conflict Affected States in Africa (CASA) program. IFC would also like to note that the report underestimates the reach of its Advisory Services to offer firm-level capacity building to non-investee companies. In fact, a large majority of Advisory Services engagements at the firm level in FCS are with non-investees. However, when working with individual firms IFC finds greater synergies as they are more likely to implement our advice and they have the resources to implement to scale. Finally, IFC would like to point out that because of the methodology used by the report, the data and numbers presented in the report vary from those typically reported by IFC for FCS. For example, the investment commitment numbers that IFC is reporting are higher than the numbers quoted in the report, as they also include short-term finance (Global Trade Finance Program), rights issues and swaps

Community Driven Development in FCS. Bank management agrees that there is need to strengthen the link between community driven development (CDD) and local governance structures. It should be noted that

in most FCS contexts, CDD is used as quick and visible delivery mechanism that bolster public confidence in the context of extreme institutional weakness or active conflict. CDD programs can directly reach down to local communities to provide access to public goods and a point of contact with the state. The opportunities to develop linkages with local government structures are often limited, given the nascent status of these institutions. Bank management appreciates IEG's examination of CDD from the perspective of the sustainability of the program, results, and institutions and World Bank notes that CDD operations are not the only ones that face challenges of sustainability and use of country systems, especially in FCS.

Gender. Management appreciates the report's examination of World Bank Group responses to gender issues in FCS, which is focused on the impact of various issues on women and girls and focuses on gender-based violence, economic empowerment of women and legal constraints. Management notes that the Bank's record in addressing gender issues in FCS is strong. The IDA 16 Mid-Term Report shows that the share of gender-informed operations in FCS has been at least as high as those in non-FCS. In the Sub-Saharan Africa region almost nine out of ten World Bank operations in FY12 were gender-informed, which include gender analysis or consultations, specific actions to narrow gender disparities, and gender-specific monitoring and evaluation. Management also recognizes that the substantial efforts to enhance the analysis and awareness of gender issues in Bank operations in FCS have not had the expected impact on outcomes of the FCS portfolio. Management is proposing under the IDA 17 replenishment to further integrate gender issues into country strategies, drawing on and discussing the findings of gender assessments. Management is also enhancing the integration of gender in projects, so that

IDA operations go beyond gender analysis in project design and include the tracking of follow-up actions (in terms of project activities and/or monitoring and evaluation). Furthermore, management is proposing to strengthen its efforts to address gender-based violence during IDA. 17. While the IEG evaluation focuses on women and girls, it is important to address both sides of gender. The World Bank program addresses issues such as young men at risk and conflict-related impacts on health, education, voice, and participation that are not fully recognized in the report. Management notes that although gender sensitive programming in disarmament, demobilization and reintegration programs (DDR) has been limited, progress has also been made in, for example, the on-going Burundi and Rwanda DDR programs where differentiated needs of male and female ex-combatants have been addressed, partners of ex-combatants included in reintegration training, and sensitization on Gender Based Violence (GBV) offered.

Justice. Bank management considers justice as essential to achieving the new World Bank Group strategic goals of eradicating extreme poverty and boosting shared prosperity: economic growth without equity and justice does not necessarily benefit the poorest or translate into shared prosperity. While justice is a cross-cutting issue in development practice, the IEG discussion considers only judicial reform and law enforcement, excluding other World Bank Group engagement aimed at promoting justice. While justice projects, as stand-alone initiatives, are limited in number, the themes of justice and rule of law are integrated in a range of public administration areas as well as water, transport, health, and other programs. By this count, there have been at least 48 operations in the 33 FCS countries reviewed in the report since 2000 (including ESW and TA work) that incorporate substantial justice or rule-of-law activities. Since the WDR 2011, the Bank's justice team has worked to define a

strategic approach to justice in FCS, focusing on three key business lines: strengthening justice service delivery; criminal justice and citizen security; and mitigating and managing justice stresses arising from land and natural resource management. Bank management believes and demand shows that the Bank has a significant comparative advantage in several areas related to justice: capacity for high quality analytics; ability to apply broad public sector expertise toward a more comprehensive institutional approach; modalities of client engagement that promote ownership; ability to integrate justice and grievance management in a range of sectors; and global knowledge and convening power. These comparative advantages account for partner and client requests for Bank engagement on justice and have indeed led to concrete partnerships on justice in FCS.

Security Sector Work. Bank management agrees with IEG that there could be greater clarity on the Bank's ability to engage in the security sector and with security actors where there is country demand. Bank management would caution about the finding that there is little demand from clients or country departments for Bank work on security. Given that the IEG evaluation is limited to IDA-only countries, the report draws this strong conclusion but only briefly discusses the Bank's work on the security sector in three paragraphs, two of which are on disarmament, demobilization, and reintegration (DDR). Due to the narrow scope on IDA countries, the report does not consider the well-established citizen security program in Latin and Central America region. An increasing number of IDA and non-IDA clients are demanding technical support in policy dialogue around security and justice, particularly through the public expenditure and public financial management AAA instruments (for example, in El Salvador, Mali, Niger, and Central African Republic). This work has typically been carried out in partnership with United Nations (UN) agencies given the sensitivity in this

area and in order to stay within the World Bank Group mandate. The Bank through the Legal Vice Presidency, has been providing guidance as needed to teams on addressing security issues in a way that is consistent with the Bank's mandate, in the context of fragile and conflict situations, and emphasizing the importance of partnerships with other agencies in undertaking support for security sector reforms.

The report refers to a MIGA-supported project experiencing local conflict heightening the need for MIGA to include security and conflict risks in its due diligence. However, MIGA notes that conflict and security issues are explicitly considered in the risk analysis of the War and Civil Disturbance cover. This aspect was also recognized in the CAO report on the project. MIGA agrees with the need for deepening security and conflict risks analysis and notes that this is a key element of the CAFEF initiative.

Disarmament, Demobilization, and Reintegration Programs. A key area in security-related issues where the Bank has established leadership is in support of disarmament, demobilization, and rehabilitation (DDR) programs, always in partnership with government and other agencies, such as the UN. The report's analysis of Bank support to DDR programs focuses exclusively on gender, while the core development objective of DDR is a focus on ex-combatants rather than victims. Project beneficiaries of DDR programs are often linked to national policies guiding eligibility for rehabilitation. If these policies focus on armed combatants, the programs by nature will focus on disarmed ex-combatants. Addressing issues of other community members, such as victims, including women and girls, should be considered in broader post-conflict programming. The key issue is not if victims of conflict are included in DDR, but if overall programming in a country addresses these issues.

Multi-Donor Trust Funds (MDTF) and FCS

Operations. Given that MDTFs now channel more funds to FCS than IDA, Bank management would have welcomed a deeper and more detailed analysis of the role, results, and risks of MDTFs in World Bank Group support to FCS. Bank management considers MDTFs a strategic tool that is critical to World Bank Group support to FCS beyond financing. MDTFs have helped advance frontier work—both analytic and operational—on FCS issues, including piloting operational approaches that have later been scaled up through IDA financing (e.g., CDD, land rights, justice issues); allowed the World Bank Group to continue its engagement in countries such as Somalia, Sudan, Zimbabwe, and West Bank and Gaza, where IDA is inactive, and in new states or countries emerging from isolation, such as Timor Leste, South Sudan, and Myanmar. While this is not evident from the evaluation report, it is important to note this holistic role of trust funds in the World Bank Group’s engagement with FCS given their critical importance relative to IDA. Bank management would have welcomed an assessment that distinguishes MDTFs in terms of size and function recognizing important differences between global MDTFs, such as the Bank’s State and Peace-building Fund, which was recently evaluated, and country-focused MDTFs.

IFC Donor Engagement in FCS. IFC has also been working closely with donors to diversify sources of funding available for investments in FCS allowing IFC to do projects in higher risk environments. In 2012, IFC launched a \$200 million investment in the new Global SME Finance Facility, the first global platform of its kind to blend donor funding with funding from international development institutions to expand lending to small businesses in emerging markets. The United Kingdom’s Department for International Development (DFID), with an investment of \$63 million, was the facility’s first donor. The facility is supporting high-impact projects with higher risk

profiles, such as in conflict-affected areas of Africa and South Asia and women-owned businesses. Similarly, the private sector window of the Global Agriculture and Food Security Program (GAFSP)—available to all IDA FCS that are not in non-accrual status—brings together IFC and five donors (Canada, Japan, the Netherlands, the United Kingdom, and the United States) to support increasing the commercial potential of small and medium-sized agribusinesses and farmers by connecting them with local, national, and global value chains.

Recommendations. Management broadly agrees with all seven recommendations, with the caveats described in the attached Management Response matrix. As the evaluation notes, work undertaken in the last two years has improved the attention CAS/ISNs give to drivers of fragility and conflict and has led to the formulation of more realistic country strategies. These initiatives, among others, are part of management follow-through on World Bank Group-wide post-WDR 2011 commitments to dramatically improve support to FCS. Management commits to continue this process and welcomes further systematic review. Management will develop specific approaches to operationalize the report’s recommendations, building on the ongoing implementation of the WDR 2011 Operationalization Paper and taking into account the new World Bank Group strategy and the establishment of global practices and cross-cutting solutions areas to spearhead integrated support for FCS. Consistent with the report’s recommendation, IFC has embarked on a number of special initiatives to adapt its business model to better serve its clients in FCS. MIGA management agrees with the overall spirit of the last recommendation for MIGA to do more in FCS, but notes the various initiatives that have been taken and are ongoing, as noted above. In particular, MIGA’s focus on FCS has sharpened in recent

years, with an emphasis on large transformative projects in the infrastructure and energy sectors.

Conclusion. Management shares IEG's commitment to maximize the World Bank Group's relevance and effectiveness in operating in FCS, and believes that by working effectively together in FCS, the World Bank Group can make a great contribution to achieving the goal of eliminating extreme poverty and promoting shared prosperity for all.

Management Action Record

Definition of FCS Status

<p>IEG Findings and Conclusions</p>	<p>With the evolution in the nature of fragility and conflict drivers over the last few years, the reliance on Country Policy and Institutional Assessment (CPIA) ratings to determine FCS status results in considerable errors of exclusion and inclusion in FCS classification. The Bank applies a set of Post-Conflict Performance Indicators (PCPI) to determine the size of exceptional allocations to countries deemed eligible for this support. However, the PCPI indicators are applied ex-post, after countries have been deemed eligible for exceptional allocations, rather than to determine if countries should be eligible for them. Indicators of conflict, violence and political instability are not currently used to identify fragile and conflict status.</p>
<p>IEG Recommendation</p>	<p>The Bank Group should develop a more suitable and accurate mechanism to define FCS status. This would involve, at a minimum, integration of indicators of conflict, violence and political risks within the current system that serves as the basis for FCS classification.</p>
<p>Acceptance by Management</p>	<p>World Bank Group: Agree</p>
<p>Management Response</p>	<p>World Bank Group management agrees that the present mechanism to define FCS status and to determine eligibility for IDA Exceptional Allocations presents challenges.</p> <p>Rigorous conflict indicators are important for robust decisions. In this regard, management is continuing to invest in indicator development and statistical systems that support monitoring and evaluation of relevant indicators, including through the PCPI process, and continued support to the g7+ in developing peace and state-building indicators.</p> <p>In order to capture aspects related to conflict and violence that might otherwise be excluded from the selection of FCS, management currently complements harmonized average CPIA country rating of 3.2 or less with the presence of a UN and/or regional peace-keeping or peace-building mission during the past three years. It is to be noted that the list excludes IBRD only countries for which the CPIA scores are not currently disclosed.</p> <p>World Bank Group management commits to review the criteria for classification of FCS and work to develop improved methods for FCS classification that are relevant to the Group. Such a review would need to engage with a wider range of actors, including the UN, other MDBs, OECD/INCAF, and the g7+.</p>

Tailoring of Country Assistance Strategies

IEG Findings and Conclusions	<p>Project level outcome ratings have improved in FCS. However, lack of realism and selectivity in most FCS country strategies evaluated has resulted in lower-outcome ratings for Country Assistance Strategy Completion Reports (CASCR). Most FCS strategies have not been underpinned by systematic analysis of the drivers of fragility, conflict, and violence. Recent CAS documents in FCS make greater use of fragility and conflict analysis but even so, FCS strategies do not include scenarios based on political economy and conflict risks, with built-in contingencies to adjust objectives and results if risks materialize.</p>
IEG Recommendation	<p>Country assistance strategies should be tailored better to FCS, with clear articulation and monitoring of risks and contingencies for rapid adjustment of strategic objectives, implementation mechanisms and results frameworks if those risks materialize. This would enable formulation of more realistic country strategies and tailored performance assessments when risks that are monitored lead to changes in strategic objectives.</p>
Acceptance by Management	<p>WB: Agree</p>
Management Response	<p>Implementation of this recommendation is already underway. Recent analysis by the Bank shows that strategies finalized after the publication of the 2011 WDR performed better in integrating sensitivity to drivers of fragility, conflict, and violence than those finalized prior to the WDR.</p> <p>Additionally, within the framework of IDA 17, management is proposing to incorporate commitments leading to better understanding of the underlying drivers of conflict and fragility in new FCS strategies, including through the analysis of the new country diagnostic assessments.</p> <p>Management will actively track in CASs, the analysis of drivers of fragility and conflict and ensuring strategy documents are responsive to such analysis.</p> <p>Likewise, due regard will be given to contingency planning to adjust development objectives and results expectations as opportunities and risks materialize in FCS.</p>

Enhancing State-Building Outcomes

<p>IEG Findings and Conclusions</p>	<p>The Bank has made considerable effort on civil service reform but there has been lack of traction due to political economy interests which weaken client ownership. In several FCS, Bank attempts to build capacity of the civil service reform have been adversely affected by the substitution of civil servants by externally-funded advisers who function as a “second civil service,” the recruitment of civil servants to project implementation units implementing donor-financed projects, and the competition for skilled national staff among donor agencies and international nongovernmental organizations (NGOs). These measures are often necessary to provide urgent humanitarian and reconstruction assistance, and to rejuvenate the government and the economy in the immediate aftermath of conflict. However, in the medium term, unless they are absorbed within the public sector, they also weaken, rather than strengthen the capacity of the civil service. Building sustainable civil service capacity is in keeping with the G7+ objective of aligning donor assistance with national programs and country systems under the New Deal.</p> <p>Regular and predictable budget support has been found to be correlated with improvements in policy and institutional reforms, especially when the reforms have been complemented by related investment lending and technical assistance. Among the CPIA indicators, regular budget support is most highly associated with improvement in the ratings for governance reforms in public sector management..</p>
<p>IEG Recommendation</p>	<p>To enhance state building outcomes, the Bank should provide increased support to reform-oriented FCS for capacity building at national and subnational levels through predictable, programmatic budget support, complemented by technical assistance, and investment lending. This would involve more systematic dialog with other development partners to reach agreement on measures to build capacity and sustain reforms.</p>
<p>Acceptance by Management</p>	<p>WB: Agree</p>

Enhancing State-Building Outcomes—continued

Management Response

In relation to the findings, management would like to point out that the debate on how to balance reliance on parallel structures (including PIUs) with efforts to strengthen government systems in FCS is complex and highly controversial. Parallel structures are very heterogeneous in their design and impact on performance and sustainability. Management takes a differentiated view on the topic of parallel structures and commits to continue to more actively and consciously manage the challenge of balancing and integrating parallel structures with sustainable institution building, in line with the World Bank Group commitment to use, or build capacity toward the eventual use, of country systems.

In relation to the recommendation, management commits to consider the appropriate use of programmatic development policy operations to support the country policy and reform priorities, in response to client demand and when conditions are conducive to such an instrument.

On the recommendation to improve donor-coordination in public administration reform, management action is already underway. A proposal has been developed to pilot a joint UN-WB diagnostic framework for (re-) establishing core-government functions in post-conflict situations.

Management will continue to encourage coordination at the country level as part of the broader post-WDR 2011 commitment on greater partnership with UN agencies. To this end, the Bank and UN operate a Partnership Trust Fund that supports joint work, a Partnership Framework, and the UN-WB Fiduciary Principles that allow for close coordination in implementation, including execution of each other's projects.

Community-Driven Development Programs

<p>IEG Findings and Conclusions</p>	<p>Community-driven development (CDD) programs have been a major feature of Bank assistance to FCS and have been effective in providing essential short-term development assistance to local communities. However, these programs have not evolved over time and institutional sustainability has not received adequate attention. In FCS these programs are still projectized and not joined up with local government, and do not receive regular fiscal transfers. Nor has the Bank instituted alternate financing and governance mechanisms to ensure their viability beyond the life of the projects supporting them. As a result, their institutional sustainability is questionable.</p>
<p>IEG Recommendation</p>	<p>The Bank should develop and implement a plan to ensure the institutional sustainability of the community-driven development programs through which large volumes of investments have been channeled within FCS. This could involve either more systematic linkages between CDD programs and local government organizations, or the development of an alternative time-bound plan for financial and institutional sustainability of CDD programs.</p>
<p>Acceptance by Management</p>	<p>WB: Agree</p>
<p>Management Response</p>	<p>Management agrees that there is need to strengthen the link between community driven development (CDD) and local governance structures. However, in many FCS, local governments and the national/sub-national systems necessary for sustainable service delivery at community level often do not exist.</p> <p>While working to build government capacity, the Bank focuses increasingly on helping local communities and citizen-beneficiaries become effective stakeholders for poverty reduction.</p> <p>Thus, management commitment to this recommendation is limited to making sure that the Bank’s approach to sustainability will include more knowledge generation and learning on reinforcing state-citizen linkages and durable structural connections between local government institutions (where they exist) and CDD operations.</p>

Gender Programs

<p>IEG Findings and Conclusions</p>	<p>Gender issues in FCS are often even more acute than in other IDA countries. Women are more vulnerable to gender-based violence and often also face greater economic burden than in more stable societies. The Bank has been relatively effective in mainstreaming gender in FCS within the health and education portfolios and in CDD projects. But gender analysis has often been delayed, and the Bank has not responded adequately or in a timely manner to conflict-related violence against women. The Bank Group as a whole has paid insufficient attention to legal discrimination against women and economic empowerment of women. Both conflict-related violence and legal constraints on business activities of women are more acute in the Africa Region.</p>
<p>IEG Recommendation</p>	<p>In post-conflict countries gender programs need to be more responsive to the conflict context and help the government address the effects of violence against women and the legal constraints on economic empowerment. This would involve timely gender analysis in FCS to assess the effects of conflict and violence, and implementation of measures to address, conflict-related violence against women and the legal constraints against women’s engagement in economic activities.</p>
<p>Acceptance by Management</p>	<p>WB: Agree</p>
<p>Management Response</p>	<p>Management concurs that strategies for FCS should indeed be more responsive to gender disparities and specific gender issues related to conflict in both analysis and programming, including addressing the effects of violence against women and legal constraints on economic development.</p> <p>Implementation of this recommendation is already underway. The IDA 16 mid-term report shows that the share of gender-informed operations in FCS has been at least as high as that in non-FCS.</p> <p>Under IDA 17, management is proposing to deepen integration of gender considerations into country strategies drawing on and discussing the findings of gender assessments. In addition, management is now raising the bar for the integration of gender in projects, requiring that IDA operations go beyond gender analysis in project design and include the tracking of follow-up actions (in terms of project activities and/or monitoring and evaluation).</p> <p>Management welcomes the recommendation to pay more attention to Sexual and Gender Based Violence (GBV) in the context of conflict as well as specific actions to address the legal constraints against women’s engagement in economic activities. Management will carry out the following: (a) proposing an IDA policy commitment on GBV for FCS for IDA 17; (b) planning to conduct a systematic review of what the Bank is currently doing related to GBV; and (c) planning to launch a cross-regional strategic initiative on GBV aimed at building on lessons learned from experiences in FCS (including in AFR, ECA, EAP, and SAR) to strengthen the delivery of services to survivors of GBV and prevention of GBV.</p>

Inclusive Growth and Jobs

<p>IEG Findings and Conclusions</p>	<p>The 2011 World Development Report (WDR) identified jobs as one of the priority areas to break the cycles of violence in FCS; however, Bank group support has not been effective particularly in creating long-term jobs in FCS. Direct World Bank support for job creation has been primarily in the form of short-term jobs through CDD, DDR (demobilization, disarmament, and reintegration), and public works programs and microfinance programs. Employment in agriculture, which absorbs 50-80 percent of the FCS workforce, has received inadequate attention, and the potential for leveraging natural resources management and migration toward job creation remains untapped.</p> <p>World Bank Group support was not clearly prioritized and sequenced around a focused medium- to long-term agenda specifically on jobs and growth. It did not systematically develop the linkages and synergies across World Bank Group entities and activities for effective engagement by the World Bank Group in FCS. The Independent Evaluation Group (IEG) found that a lack of Bank Group coordination in critical areas, such as linkages between education, skills development, infrastructure, and private sector development, weakened its effectiveness in achieving the Bank Group’s poverty reduction objectives. Many FCS lacked adequate analysis of the conflict and fragility drivers and of the constraints and opportunities for the private sector. When analyses were available, it was often not utilized by staff from other Bank Group entities.</p>
<p>IEG Recommendation</p>	<p>The World Bank Group should develop a more realistic medium- to long-term framework for inclusive growth and jobs in FCS and ensure synergies and collaboration across the three Bank Group institutions. Such an approach should be based on sound country diagnostics of conflict and fragility drivers, and should address the main constraints and opportunities for job creation, including the role of the private sector. It should systematically explore linkages and synergies among Bank Group activities for job creation in order to accelerate progress toward the Bank Group’s strategic goals of poverty reduction and shared prosperity.</p>
<p>Acceptance by Management</p>	<p>World Bank Group: Agree</p>
<p>Management Response</p>	<p>Management agrees with the report findings about the centrality of private sector growth and jobs creation for development in FCS. It also agrees that World Bank Group management should strengthen collaboration across the organization and promote systematic linkages and synergies to enhance growth and job creation in FCS.</p> <p>The new Cross Cutting Solutions Area on Fragility, Conflict, and Violence will further strengthen the efforts in the FCS context. Additionally, with the creation of a new Cross Cutting Solutions Area on Jobs, management has signaled a serious commitment to World Bank Group-wide action to support job growth globally, including in FCS. Finally, management continues to promote concrete Joint Business Plans in individual sectors between the World Bank, IFC, and MIGA to focus on policy action and investments that accelerate growth, a prerequisite to shared prosperity.</p>

Private Sector Engagement

<p>IEG Findings and Conclusions</p>	<p>The private sector in FCS countries presents different types of opportunities and business challenges to the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). IFC and MIGA have approached doing business in FCS in much the same way as in non-FCS countries even though sponsor quality is lower and capacity is weak; project risks are higher than in IDA countries. IFC projects that integrated tailored capacity building for clients into project appraisal, design, and implementation of investments to account for the weak capacity environment tended to have a better chance of success. But IFC lacked the resources to offer firm-level capacity building to noninvestee companies which have the potential for local private sector development or future IFC financial engagement.</p> <p>IFC and MIGA's products are not specifically tailored to needs and conditions in FCS; IFC's business model as a development financier may not be conducive to reaching private firms in FCS, which are on average smaller, with weaker capacity, and more informal compared with other types of organizations. IFC and MIGA lack flexibility similar to the Bank's OP 8.0, and appraisal and approval processes are perceived as cumbersome and lengthy.</p> <p>Staff incentives and performance measurement systems linked to project performance and volume targets are not aligned with increasing IFC engagement in FCS. Similarly, results measurement frameworks may not be fully adapted to FCS contexts. IFC has relatively few investment officers deployed to country or regional offices dedicated to working on FCS; and MIGA has not developed specialized staff expertise with knowledge of FCS markets for business development and risk assessment and underwriting. Both IFC and MIGA have little specialized training and knowledge management products to support learning from experience and, over time, improving portfolio performance.</p>
<p>IEG Recommendation</p>	<p>IFC and MIGA should adapt their business models, risk tolerances, product mix, sources of funds, staff incentives, procedures, and processes to be more responsive to the special needs of FCS and to achieve their strategic priorities of increasing engagement in FCS.</p>
<p>Acceptance by Management</p>	<p>IFC: Agree</p>

(Continues on the following page.)

Private Sector Engagement—continued

Management Response

IFC recognizes that FCS face different types of challenges than other client countries, and since 2012 it has embarked on a number of special initiatives to adapt its business model to better serve FCS. In October 2013, IFC management rolled out a new approach designed to reduce these barriers and increase investments and development impact in FCS. This pilot program consists of an allocation of \$70 million in economic capital and up to \$250 million in nominal capital depending on investment product type to support projects of \$10 million or less in FCS, primarily in the manufacturing, agribusiness, services, and financial markets sectors. It will enable IFC to take more risk in FCS by funding projects that fall outside the organization’s typical risk tolerance. The program will also provide operational flexibility needed to complete investments in the challenging conditions of FCS, such as streamlined procedures and documentation. As an additional aspect of the program, IFC will be creating dedicated support within legal and credit teams to guide and facilitate these investments, and aligning Advisory Services with investee companies to increase the development impact of these projects. .

IFC is also making concerted efforts to address inadequate access to power, the number one constraint for firms in most FCS, as highlighted by the World Bank Group’s Enterprise Surveys. IFC has identified numerous barriers to attracting private investment in the power sector in FCS, including: lack of a creditworthy off-taker; lack of operational competence (such as poor collection rates); low tariffs that prevent cost (investments plus operating) recovery; lack of adequate regulatory environment enabling private sector investments in the power sector; lack of ability to regulate effectively, in many cases; and lack of government buy-in or private sector champions, which are necessary for tariff increases and sector planning. To address these challenges, IFC is now working in conjunction with the World Bank Group to identify opportunities for private sector power investments in FCS, and to develop the solutions necessary to enable these investments. IFC also realizes that in some situations, the additional risk involved in power projects may need to be covered through a separate funding source. IFC is actively exploring ways to work with development partners and donors to develop the funding stream that can address the factors that contribute to the lack of commercially viable power projects in FCS.

In addition, Advisory Services will continue to support the CASA program, currently present in eight Sub-Saharan African FCS. The second phase, CASA II, has just commenced and will expand the program to additional FCS in the region and focus on delivery of advisory services in alignment with investments in priority areas.

IFC will also continue exploring additional staff incentives to encourage greater staff engagement in FCS.

Private Sector Engagement—continued

<p>Acceptance by Management</p>	<p>MIGA: Agree</p>
<p>Management Response</p>	<p>MIGA already recognizes that FCS face different types of challenges than other client countries, and since FY05 has embarked on a number of special initiatives to adapt its business model to better serve FCS. In 2005 MIGA rolled out the Small Investment Program (SIP) with streamlined processes to specifically cater to smaller investors, many of which are operating in FCS.</p> <p>The Agency’s support of projects in FCS has grown significantly due to proactive business development, increased risk appetite, and the comfort provided by MIGA as a multilateral institution. Over the five year period ending in June 2010, MIGA averaged approximately US\$50 million of new guarantees (5 projects) per annum. However, MIGA’s new guarantees in FCS increased to US\$ 228 million (8 projects) in FY11, and US\$327 million (12 projects) in FY12.</p> <p>MIGA has historically used country-specific trust funds to help provide first loss cover for MIGA, and facilitate greater engagement in specific FCS. Trust Funds are (i) Bosnia and Herzegovina Investment Guarantee Fund (1997); (ii) West Bank and Gaza Facility (1997) (iii) Afghanistan Investment Guarantee Facility. In fact MIGA has recruited a Business Development (BD) officer in Jerusalem for the West Bank Gaza Trust Fund, with specific knowledge of investors in this area.</p> <p>The ‘Japan-MIGA Trust Fund to Address Environmental and Social Challenges in MIGA-Guaranteed Projects in Africa’ (2007) – helps companies in Africa (many of which are FCS) to meet MIGA’s Environmental and Social Performance Standards.</p> <p>In FY13 MIGA launched the multi-country Conflict Affected and Fragile Economies Facility (CAFEF) to further expand our operations in FCS.</p> <p>MIGA has recently developed a BD strategy for FCS, which will be rolled out over the next few years with the help of CAFEF. MIGA is planning to place a BD officer in Africa and to further strengthen our partnership with IFC/WB in FCS.</p> <p>MIGA will continue to use evaluations (self-evaluations & IEG evaluations) to generate lessons of experience from FCS operations.</p> <p>MIGA already has incentive programs in place to recognize work in FCS. The EVP Award program (non-monetary) recognizes challenging projects which address MIGA’s strategic goals, including working in FCS. MIGA also has a Staff Incentive program, which does have a monetary component, which is used by MIGA to recognize Staff who has delivered on departmental initiatives above and beyond expectations, and this includes working on FCS initiatives. MIGA will also continue exploring additional staff incentives to encourage greater staff engagement in FCS.</p>

Chairperson's Summary: Committee on Development Effectiveness

On October 21, 2013, the Committee on Development Effectiveness (CODE) met to discuss the evaluation entitled *World Bank Group Assistance to Low-Income Fragile and Conflict-Affected States: An Independent Evaluation and Draft Management Response*.

The Committee welcomed the Independent Evaluation Group's (IEG) evaluation on the relevance and effectiveness of World Bank Group assistance to International Development Association (IDA)-only low-income and conflict-affected states (FCS), and expressed appreciation for the constructive engagement between IEG and management. The committee agreed with the findings and recommendations, noting that the evaluation will provide valuable inputs for the IDA17 discussions and the implementation of the World Bank Group strategy. Members were pleased that progress is being made in operationalizing the World Development Report (WDR) 2011.

Members agreed that the World Bank Group was moving in the right direction but acknowledged that there is room for improvement. They noted that the World Bank Group should ensure a long-term perspective for World Bank Group engagement in FCS. Members welcomed the integration of FCS work into the Global Practices (GP), and the potential for collaboration of the cross-cutting solution area on fragility, conflict, and violence with other cross-cutting solution areas; they concurred that this should help the World Bank Group deliver better operational solutions to clients. They underscored the need for more in-depth fragility and conflict analysis during the Systematic Country Diagnostics (SCD) to identify impediments and strategic areas of intervention for success in FCS. The committee urged management to better incorporate fragility and conflict drivers, contingency provisions, jobs, and gender in Country Partnership Frameworks (CPF). Furthermore, members called for

a review of the mechanism defining fragility status to incorporate conflict, violence, and other pertinent criteria.

Members highlighted the importance of enhanced synergies within the World Bank Group, greater donor coordination, more effective use of partnerships, and a more strategic division of labor to efficiently address the drivers of fragility. They underscored the need to build institutional capacity in FCS to foster sustainable delivery of services through legitimate public institutions. Members urged increased attention to gender issues and improved performance and impact in the area of jobs and inclusive growth. The committee appreciated that management intends to continue strengthening and aligning staff incentives, and addressing staffing and career development issues, to ensure the right mix of staff on the ground. They agreed that this could go a long way to improve the institution's performance in FCS.

Members looked forward to the future IEG evaluation that will review other client countries affected by situations of fragility, conflict, and violence.

Juan Jose Bravo
CHAIR

Statement of the External Advisory Panel

The External Advisory Panel welcomes this evaluation of the World Bank Group's assistance program over the last 12 years in low-income fragile and conflict-affected states (FCS). We found the Independent Evaluation Group (IEG) report exhaustive and candid. The report acknowledges the World Bank's efforts, especially in recent years, and notes the progress made in seeking to contribute to FCS recovery and development. The report, then, points to inadequacies that have marked the World Bank Group's work in the FCS, and identifies ways of moving forward. The Advisory Panel discussed the earlier draft of the report on September 10, 2013. Since the IEG has agreed to incorporate most of our suggestions, this final statement is brief.

Let us first call attention to the significance of the FCS in international development. Not only is it true, as the report notes, that poverty rates are significantly higher in the FCS than in countries not affected by fragility and conflict, it is also highly likely that as poverty rates rapidly decline in countries and regions, which used to have the largest concentrations of the poor (e.g., India, China, Indonesia, Bangladesh), poverty in the FCS will acquire even greater significance for development agencies in the coming years. This report, thus, deals with a set of countries and problems, which are not simply of current significance. Their importance is likely to increase in the future. We know from the available research that the risk of conflict is highest at low levels of income. Conflicts can surely exist at higher levels of income, but their incidence is significantly greater at lower incomes.

Traditionally, development and conflict were viewed as two separate fields of inquiry and practice, with a distinct set of experts in each, who rarely overlapped. The two fields are increasingly connected in many parts of the world. In the FCS, restoration of order and development must go together. In non-FCS settings, order is less of a factor. Unlike the United Nations (UN), the World Bank Group was set up to deal with economic reconstruction

and development, not with issues of conflict and political settlements. The nature of development challenge in the FCS, therefore, requires fresh and deep thinking on the part of the World Bank Group.

Based on our discussions, we would like to draw attention to nine issues.

- **Partnerships.** For effective development interventions in the FCS, three kinds of partnerships are necessary: with the UN, with governments and inter-government groupings (like the G7+), and with civil society. UN agencies have greater experience dealing with conflict than the World Bank Group; governments have intimate knowledge of their societies and need to co-own World Bank Group programs in order for the programs to be successful; and the nongovernmental organizations also have a lot of on-the-ground experience in conflict settings, which can be leveraged not only for health projects, which the report mentions, but also in the field of education. Special mention should be made of national ownership of projects and programs. Right after the conflict, the FCS may not have the capacity to undertake analysis and implement programs, but the World Bank Group can help build such capacity as a partner. As conflict becomes progressively distant and normalcy deepens, less help is necessary. Partnership with governments is critical for country ownership, which in turn is a vital determinant of program success. Synergy at the operational level between donors is also crucial.
- **Classificatory Scheme.** As the report rightly points out, how the World Bank Group defines fragility and classifies countries as FCS remains problematic. The current classification is primarily a function of the Country Policy and Institutional Assessment (CPIA) except when UN peacekeeping forces are deployed in a country. This is supplemented by Post-Conflict Performance Indicators (PCPI) for countries deemed

eligible for exceptional allocations. CPIA is an indicator of aid effectiveness, not of fragility and conflict. FCS classification should be based on, or should at least include, direct indicators of violence and conflict, which exist in the field of conflict research but have not been used by the World Bank Group. The absence of countries like Nigeria, Pakistan and Sri Lanka from the FCS list is hard to understand, given how the world of research has classified them over the last decade or so. The World Bank Group should investigate alternative ways of defining fragility, including those being used by the G7+. Essentially, classificatory criteria should rely heavily on conflict data.

- **Security and Justice.** Two different kinds of comparative advantages can be combined for better results. The UN and bi-lateral government partnerships have a comparative advantage in the fields of security and justice. Except in very specialized areas like demobilization and reintegration of armed combatants, or contract law, the World Bank Group does not have much prior experience in, or great current expertise on, how to think about security and justice. As an institution created primarily for economic development, however, it does have expertise in public expenditure analysis, optimal budgeting, and infrastructure investments and should continue to work in these areas. The external panel recommends that the Bank consider formulation of a specific plan relating to how its areas of comparative advantage can apply to the security and justice sector. If the UN and the World Bank Group can work together with governments on the basis of their respective expertise, the outcomes are likely to be better in the FCS.
- **Growth and Jobs.** As the report notes, improving investment climates might kick off the growth process, but that on its own may not generate sufficient employment in the short run. Post-conflict years

are often marked by huge unemployment. World Bank Group projects need to pay special attention to strategies that enhance productive skills and employment. This too is an area where partnership opportunities abound, including with the UN and international financial institutions, which can draw on the World Bank Group expertise.

- **Gender.** Given that women are often special targets of sexual violence in conflict and given also that due to the high mortality of men in wars, female-headed households are very common in post-conflict settings, special attention needs to be paid to women's needs, participation, and welfare in World Bank Group projects. The report notes this, and we would like to underline its significance.
- **Analytic Capacity.** Historically, the World Bank Group has not had expertise in conflict analysis. However, as the report puts it, an analysis of the drivers of fragility and conflict is absolutely necessary in developing projects and assessing their viability and impact in the FCS. The World Bank Group needs to develop, or have access to, this expertise, so conflict analysis can be brought into country assistance strategies more systematically to make them more effective. With the establishment of the Center for Conflict, Security and Development (Nairobi), perhaps the World Bank Group will start addressing this analytic gap seriously.
- **The ISNs.** The Bank's use of Interim Strategy Notes (ISNs) is perfectly understandable in immediate post-conflict years, when the situation is fluid, the knowledge base limited, and strategic planning inherently difficult. However, since the ISNs, as opposed to the Country Assistance Strategies (CASs), are not subject to evaluation, the World Bank Group should limit their use, or they should be subject to evaluations like other

country assistance programs whenever ISNs are used repeatedly beyond the initial crisis period of 2-3 years. Furthermore, the CASs and ISNs should be aligned with the government's own development strategy where it exists.

- **The MDTFs.** The evaluation team rightly points out that its terms of reference with regard to the multi-donor trust funds (MDTFs) did not include the impact of World Bank Group MDTFs on other partners such as the UN. However, given the importance of the MDTFs, we do believe that such an examination is necessary. The MDTFs need to leverage the comparative advantages of all partners concerned, reduce transaction costs, and speed up delivery. While the MDTFs have been useful short term tools, the panel notes that as government capacity increases, governments ought to be given greater voice in decisions about how to use these funds.

- **Capacity Building.** The evaluation team felt that capacity constraints of the FCS are a problem that needs to be resolved. There needs to be a gradual phasing out of PIUs with the staff being integrated into the government structure. For that to happen the challenges of the government structure need to be thoroughly analyzed and solutions developed. The need for flexible civil service regimes that allow for the retention of local talent is a problem that the donors and governments can jointly solve in a partnership.

To conclude, we are greatly in accord with the IEG's report, and we hope that its recommendations will be given the attention they deserve. Since the report is about working in fragile states, where things need to be implemented quickly, it will be vital for the World Bank Group to develop a credible plan of how these recommendations will be operationalized.

Minister Emilia Pires, Minister of Finance, Timor-Leste (Chair)

Mr. Jordan Ryan, Assistant Secretary-General and Director, Bureau of Crisis Prevention and Recovery, United Nations Development Programme

Dr. Ahmed Mushtaque Chowdhury, Vice Chair, BRAC Board of Governors, Dhaka

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