KEY POINTS

- International financing for development in fragile and conflict-affected situations (FCS) has not yet produced good enough peace and development results: billions of dollars have been spent yet positive impacts on people’s lives have been limited.
- The World Bank is amongst those taking a pro-active approach to addressing the FCS development challenge. It has embarked on reforms and pilot initiatives to inform its approach to financing development more effectively in FCS.
- Pilot initiatives designed to integrate conflict-sensitive approaches into Bank operations confirm that the Bank needs to reform its policies, systems and structures. Political commitments to see reforms become mainstream Bank approaches to engagement in FCS need to be matched with further shifts in performance measurement, human resourcing and financing. The Bank-wide reform process that is already underway is a valuable opportunity to consolidate and strengthen Bank capacity to support peace and development.
- The International Development Association’s (IDA) 17th replenishment negotiations are a critical opportunity for Bank shareholders to ensure IDA 17, a key instrument for funding international development, is fit for the FCS development challenge.
- To maximise development impacts in FCS, Bank shareholders should:
  - Increase financing to FCS by supporting the Bank’s proposed revised IDA allocation framework for FCS (published in March 2013) and fully replenishing IDA.
  - Match increased financing to FCS with commitment from the Bank’s management to revise how IDA is used, specifically request reforms to stimulate a more systematic and scaled-up implementation of new Bank approaches to working in FCS. Many current Bank approaches pay too little attention to conflict dynamics, and risk doing more harm than good, setting back development progress.
  - Ensure sufficient Bank budget is allocated to enable Bank teams to apply new approaches to working in FCS. Bank economists calculate that the Bank spends almost three times as much on project preparation and supervision per dollar in FCS than in non-FCS.
- Maintain focus on the Bank’s progress in developing and implementing new approaches to engagement in FCS. Get behind and sustain the momentum of new Bank approaches, work especially to ensure the wider institutional framework within which they fit is itself efficient and fit for purpose, this is critical to meeting the Bank’s goals of promoting shared prosperity and ending extreme poverty by 2030 in a tight economic climate.

INTRODUCTION

The World Bank’s International Development Association (IDA) will soon agree the size and terms of its 17th replenishment, in effect determining the reach of IDA financing to the world’s poorest countries for the next four years. Given the challenges involved in stimulating sustainable development in fragile and conflict-affected situations (FCS), a strong focus of IDA 17 will be on maximising development impacts in these contexts. Drawing on our knowledge of World Bank operations in FCS and expertise in peacebuilding, International Alert contributes these recommendations for IDA 17 in support of efforts to strengthen the effectiveness of aid channelled via the Bank to FCS.

CONTEXT OF IDA REPLENISHMENT

There is intense pressure on development financing mechanisms like IDA as the global economic crisis makes the needs of the most vulnerable communities more acute and tightens pressure in donor countries on the resources available for international aid. Meanwhile, as IDA graduations take place, there is an urgent need to reform how IDA works as the majority of partner countries that will remain in the IDA portfolio will be low income FCS where development results under current development financing systems are hard to achieve. In line with global policy commitments to implementing the New Deal for Effective Engagement in FCS, development financing institutions need to revisit their operational approaches to ensure they are fit for purpose.

PRIORITIES FOR IDA REPLENISHMENT

1) Sustain the urgency of and momentum behind the Bank’s FCS reforms. With the publication of the World Development Report 2011 on Conflict, Security and Development (WDR 2011), the Bank’s plan to operationalise the findings of WDR 2011 and the IDA 16 special theme of FCS, progress has been made within the Bank to better address the FCS development challenge. New approaches to engagement in FCS have been developed and piloted. Given that both development progress in FCS and institutional reform in the Bank require a marathon mentality, it is imperative that the current momentum behind institutional reform is sustained. Success will be when new approaches to operating

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1 World Bank IDA Deputies and IDA Borrower Representatives will meet on 14-15 October in Washington DC and on 16-17 December in Moscow to finally agree the amount and terms of IDA 17 replenishment.
2 For example the work of the Bank’s Social Development team (SDV) and the Centre on Conflict, Security and Development (CCSD) to make conflict analysis expertise more easily and closely accessible to country teams; integrating fragility and conflict as a core pillar of the Democratic Republic of Congo Country Assistance Strategy; and deploying a conflict ‘filter’ to inform programming in the East and Central Asia region.
effectively in FCS become fully integrated into Bank practice and the Bank’s development financing in FCS produces the intended results. The intention to carry forward the IDA 16 special theme of FCS into IDA 17 is an important signal and starting point. Donors must also commit to fully replenishing IDA enabling the Bank to deliver on its development goals in FCS. To independently monitor Bank progress, donor-driven multilateral aid assessments must look more closely at how multilaterals operate on the ground, specifically how well they implement internal FCS reforms and loop back learning from experience into wider practice. Where peace and development impacts are not achieved, more coordinated multilateral efforts to build on lessons learned both within and between agencies (e.g. between international development banks and the UN) should be demonstrated. Further, Bank Executive Directors must maintain their focus on the progress of Bank Group-wide FCS reforms, paving the way internally for their success. The urgency of these reforms cannot be over-emphasised, for poor women working to make a living in Eastern DRC, for minority communities in Kyrgyzstan and for those who do not share the priorities of political elites in Nepal and Sri Lanka.

2) Ensure that IDA funds more regional/cross-border projects as part of a comprehensive country-focused response to conflict and fragility. The country-based model of IDA financing is critical to enabling tailored engagement that responds to the specific characteristics of conflict and fragility in a given country context. In parallel, however, regional conflict and fragility dynamics need more attention. Under IDA 17, more take-up of IDA “regional” project allocations informed by thorough regional fragility analysis\(^3\) should be stimulated in FCS and their neighbouring countries. Obstacles to the take-up of existing “regional” allocations by FCS and their neighbours need to be examined and addressed as a priority\(^4\). An increase in IDA-financed regional initiatives could encourage national leaders to convene on common interests such as roads for regional trade. Such activities could help to build trust, a foundation for dialogue on more sensitive regional peace and development issues.

3) Use the IDA Results Measurement System to ensure increased IDA financing for FCS is linked to the integration of fragility analysis in Bank planning and decision-making. An increase in the flow of financing to FCS as per the proposed revised allocation framework\(^5\) is long overdue. By targeting diverse “turn-around” situations, the proposed revised allocation framework serves FCS both on and off the Bank’s narrowly defined list of FCS. As such the stigma associated with exceptional allocations is reduced. Nonetheless, Bank shareholders must ensure the “turn-around” allocation is linked to the integration of fragility analysis into the Bank’s culture, decision-making and operations. Conflict and fragility dynamics must inform Bank strategies and projects, if they are to stimulate development effectively and do no harm. To monitor this change, the IDA 16 Results

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\(^1\) “Fragility analysis” is used in this document to refer to studies that examine the social, economic and political dynamics that underpin conflict and fragility in a given context.

\(^2\) Under IDA 16 special regional allocations were introduced for “regional” projects with a minimum of two countries (rather than three), only one of which need be an FCS.

Measurement System (RMS) must be updated. Firstly, data for countries benefiting from the “turn-around” allocation must be disaggregated to allow targeted monitoring of progress. Secondly, the proportion of IDA Country Assistance Strategies (CASs) and Interim Strategy Notes (ISNs) drawing on and discussing the findings of fragility analysis must be monitored. Thirdly, the IDA 17 RMS must also begin to monitor the integration of fragility analysis into IDA-financed projects. Without integration into both strategic and project-level activity, the fragility analysis exercise risks failing to produce intended outcomes and impacts for the poorest and most marginalised communities.

4) Recognise the intersections between IDA special themes (FCS, climate change, gender and inclusive growth) in the IDA 17 Results Measurement System. The IDA 16 results measurement system does not include enough indicators to reflect progress that cuts across special themes. For example the incidence of gender-based violence as an indicator of reducing gender inequality and violence in society; or the integration of conflict analysis in the design of transitions to low carbon economies which would promote reduced CO2 emissions and reduced risk of low carbon transitions aggravating local conflict dynamics. More integrated results measurement would help to make more comprehensive progress against the FCS development challenge and support broad-based improvement in performance across IDA 17 priorities.

5) Ensure sufficient Bank budget is allocated to FCS alongside IDA to enable Bank teams to apply new Bank approaches to working in FCS. The modest cost of conducting fragility analyses at national and regional levels to inform country strategies can often, although not always, be borne by current Bank budget allocations. However, the costs of integrating fragility analysis into project design and supervision demands higher levels of Bank budget support, and this is not always available. Our research indicates that even where project design has identified risks such as elite capture, and thus incorporated sophisticated mitigation mechanisms such as strengthening local governance capacities, close project supervision is essential. This helps to ensure that powerful social dynamics are not replicated at the local level, reinforcing patterns of dominance and marginalization and that project resources are used as intended. Project supervision is however expensive. Bank economists have calculated: “in FY11, the Bank spent nearly three times as much in Bank budget per dollar of IDA lending in FCSs in comparison with non-FCSs. A significant portion of that difference is explained by higher supervision budgets for FCS projects (in addition to security costs which are higher in FCSs) to help address implementation challenges in low capacity environments”

6) Ensure the Bank employs the most advanced frameworks to analyse conflict and fragility and measure development progress in FCS. As the Bank seeks to strengthen performance in FCS, its approaches to fragility analysis will need to be continuously updated to take into account the latest knowledge on conflict and fragility and international

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agreements on how to work in FCS. This will include for example, integrating the work of the G7+ under the New Deal, ensuring the post-2015 development agenda negotiations inform and are informed by the negotiation of IDA 17 [thus securing Bank alignment for delivery of new global development goals], taking account of informal or shadow economies, and directing attention to organised crime. Furthermore, effectively measuring the Bank’s performance in FCS requires that the Bank’s Post-Conflict Performance Indicators framework (PCPI), IDA Results Measurement System and Scorecards are all updated to reflect the latest analyses and agreements. For example, revisions are currently needed to take into account the much slower rates of progress and less quantifiable indicators of progress that reflect increased resilience, stability and scope for inclusive growth in FCS. These should include indicators to monitor what the New Deal calls ‘legitimate politics’, political space for civil society and changes in coalitions and consensus around the direction of development. Citizen and beneficiary levels of confidence and perception surveys should also be incorporated to demonstrate progress out of fragility. While some might argue that “less is more” when it comes to measuring results, space needs to be created within the Bank for more nuanced measures of progress that better reflect the type of changes sought in FCS. The Peacebuilding and Statebuilding indicators developed in conjunction with the New Deal provide some useful examples on which the Bank could build; and discussions about the post-2015 development framework are also relevant.

7) Develop staffing structures and incentives that promote collaboration with FCS specialists, the development of expertise on FCS across other disciplines, and reward staff who implement new approaches in FCS. Increasing the number of decentralised conflict- and fragility-specialist Bank staff working with Bank country teams in FCS is critically important and current HR reforms incentivise this shift. However, this expertise exists within multiple units across the Bank under different management and reporting structures. The forthcoming Bank-wide reforms must bring some coherence of purpose and approach to this disbursed capacity, making greater use of it to progress the Bank’s FCS reforms, yet without restricting the valuable flexibility of a Bank-wide network of FCS experts. Furthermore, current HR incentive structures for the vast majority of staff reward fast and risk-averse disbursement which doesn’t align well with the slower and more experimental approaches required to achieve results in FCS. Further HR reforms must encourage and recognise individual Bank staff efforts to integrate learning and advice from conflict specialists and FCS trainings into CAS, ISN and IDA-funded projects. These could include linking promotion to successful use of fragility analysis and the development of conflict-sensitive programming, or instituting annual staff awards. Professional acknowledgement would stimulate the translation of learning into practice helping to align staff incentives with strengthened delivery on the ground.

7 This approach was endorsed by the High Level Panel in Bali which agreed that “stronger monitoring and evaluation at all levels, and in all processes of development (from planning to implementation) will help guide decision making, update priorities, and ensure accountability” (Bali Communique, 27 March 2013).
8) **Create mechanisms to address the specific circumstances of Middle-Income Fragile Situations (MIFS).** Low Country Policy and Institutional Assessment (CPIA) scores are not sufficient as indicators of conflict risk and fragility. The Bank needs a mechanism to identify conflict risk and fragility in order to activate conflict-sensitive approaches to financing for development in wealthy as well as the poorest FCS. Countries which exit IDA “turn-around” support or graduate from IDA often continue to experience conflict and fragility. For example, Thailand and the Philippines graduated from IDA yet continue to experience sub-national conflict, and Syria graduated from IDA in 1974. In calculating the CPIA, policies for “social inclusion/equity” and for “transparency, accountability and corruption in the public sector” must be more heavily weighted to indicate governance challenges and difficult citizen-state relations that reduce country capacity to manage conflicting needs and interests. The nature of political space is a key indicator of a country’s commitment to change, thus an additional criterion on “freedom of association, assembly and expression” would strengthen the CPIA. An appropriate mechanism to identify and support current and future IDA graduate countries that require on-going assistance to strengthen inclusive governance needs to be instituted across IDA and wider Bank Group portfolios to ensure comprehensive specialised bank support to FCS regardless of their wealth-band. This must be addressed under IDA 17 in light of forthcoming IDA graduations. A Bank Group MIFS Strategy could also be useful to ensure Bank lending helps to strengthen rather than undermine progress towards inclusive growth and development. Fragility analysis in MIFS would also inform risk analysis for Bank Group lending in non-IDA countries.

9) **Press for Bank Group-wide approaches to engagement in FCS to ensure coherent efforts towards Bank Group development goals.** IFC and MIGA⁸ are both scaling-up activity in FCS in support of private sector growth and job creation. When informed by fragility analysis and focused on creating broad-based economic opportunities, including support for small and medium enterprises, this development could be critical to building peace and stability. As IDA, IFC and MIGA increase flows of resources to FCS, it is important that they not only develop a joint country strategy, but also have mutually reinforcing performance frameworks that disaggregate development impacts in FCS. More information needs to be made publicly available on IFC and MIGA programmes and mechanisms for engagement in FCS. Little public information is available on the progress of their implementation on the ground. This transparency is especially important as aid is increasingly used to leverage private sector financing. Similarly, IFC and MIGA must review their policies, systems and tools to ensure that their wider modus operandi supports conflict-sensitive engagement in FCS⁹. For example, the IFC’s Financial Valuation Tool goes a long way to addressing social and environmental issues, and with small revisions it could also strengthen engagement in FCS.

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⁸ MIGA is the political risk insurance arm of the World Bank Group. In April 2013 it announced the creation of a new Conflict-Affected and Fragile Economies Facility (CAFEF).

⁹ The forthcoming World Bank Independent Evaluation Group “Evaluation of World Bank Group Assistance to FCS” to be released in October 2013 could provide some useful insights in this regard.