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FRAGILE REFORMS

World Bank and Asian Development Bank financing
in fragile and conflict-affected situations

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Abbreviations

ADB	Asian Development Bank
ADF	Asian Development Fund
AfDB	African Development Bank
BOUIP	Bishkek and Osh Urban Infrastructure Project
CPA	Country Policy Assessment
CPIA	Country Policy and Institutional Assessment
CSO	Civil society organisation
DEAP	Disaster and Emergency Assistance Policy
DFID	Department for International Development (UK)
EARR	Emergency Assistance for Recovery and Reconstruction
EBRD	European Bank for Reconstruction and Development
IDA	International Development Association
IMF	International Monetary Fund
INGO	International non-governmental organisation
ISN	Interim Strategy Note
JEA	Joint Economic Assessment: Reconciliation, Recovery and Reconstruction
JFPR	Japan Fund for Poverty Reduction
NELSIP	North East Local Services Improvement Project
NBKR	National Bank of the Kyrgyz Republic
NGO	Non-governmental organisation
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
ORAF	Operational Risk Assessment Framework
SSTWSSS	Second Small Towns Water Supply and Sanitation Sector Project
UN	United Nations
WDR	World Development Report

Key concepts and terms

Conflict: A “multi-dimensional social phenomena”¹ essential to social change and transformation. It is the result of parties disagreeing, for example, about the distribution of material or symbolic resources, and then acting on the basis of that disagreement.² Conflict can involve a resort to physical, psychological or structural forms of violence to resolve a disagreement. As a consequence, the term conflict is often used interchangeably with the term violence.

Conflict-sensitivity: The understanding that any intervention interacts with the context in which it is undertaken, that the intervention produces either positive or negative consequences for peace and development dynamics in the given context, and conversely that the context produces either positive or negative consequences for the intervention. A conflict-sensitive approach refers to the ability of an organisation or a particular intervention to:

- Understand the operating context;
- Understand the interaction between an intervention and the operating context; and
- Act on the understanding of this interaction to avoid negative effects and maximise positive impacts for peacebuilding and development.³

Note: The term ‘context’ is used rather than ‘conflict’ to make the point that all socio-economic and political tensions, root causes and structural factors are relevant to conflict-sensitivity because they all have the potential to become violent.⁴ The goal of conflict-sensitivity is to minimise the contribution of an intervention to violence or the potential for violence. The conflict-sensitivity spectrum thus runs from conflict-blind interventions, through efforts to minimise the harm of humanitarian or development interventions, to proactive peacebuilding interventions:



Fragility and fragile situations: “Periods when states or institutions lack the capacity, accountability or legitimacy to mediate relations between citizen groups and between citizens and the state, making them vulnerable to violence.”⁵ The World Bank’s *World Development Report 2011* reinforced the close links between institutional fragility and violent conflict.⁶

Fragility assessment: A study that examines the social, economic and political tensions and dynamics that drive conflict and undermine the institutions of society that are entrusted to mediate differences and provide justice, security, political space and opportunity for all, regardless of diverse markers of identity.

Peacebuilding: Initiatives designed to consolidate peaceful relations, to strengthen viable institutions (political, judicial, socio-economic and cultural) capable of mediating conflict without recourse to violence, and to strengthen other mechanisms and conditions necessary for sustained peace.

Peace/conflict filter: An approach to analysing a context and its interaction with an intervention used by the World Bank and Asian Development Bank to inform more conflict-sensitive project financing.

Spoilers: “Individuals and organisations that believe peace threatens their power, world view and interests, and who seek to undermine attempts to achieve it.”⁷

1 International Alert (March 2003). *Resource Pack for Conflict Transformation*. London: International Alert. Section 2:3.

2 Ibid.

3 Africa Peace Forum (APFO), Centre for Conflict Resolution (CECORE), Consortium of Humanitarian Agencies (CHA), Forum on Early Warning and Early Response (FEWER), International Alert and Saferworld (January 2004). *Conflict-sensitive approaches to development, humanitarian assistance and peacebuilding: A Resource Pack*. London: APFO, CECORE, CHA, FEWER, International Alert and Saferworld.

4 Ibid.

5 World Bank (2011). *World Development Report 2011: Conflict, Security and Development*. Washington DC: World Bank. Available at http://siteresources.worldbank.org/INTWDRS/Resources/WDR2011_Full_Text.pdf

6 Ibid.

7 Ibid. Introduction. p.6

Executive summary

International development banks have the ability to provide low-interest, large-scale, long-term and predictable financing, backed up by expert analysis and advice to progress development in fragile and conflict-affected situations. As more official development assistance (ODA) is directed through development banks and committed to fragile and conflict-affected situations, the banks' capacity to deliver conflict-sensitive project financing in these complex, highly political and insecure operating environments comes under greater scrutiny.

Drawing from research into the delivery of five bank-financed projects covering infrastructure and other sectors, this study highlights a range of insights and opportunities to enhance how the World Bank and the Asian Development Bank (ADB) approach project financing in fragile and conflict-affected situations. The study documents how conflict-sensitive approaches are and are not used by the banks to minimise risks and support local peace and development outcomes, as well as some of the consequences for bank investments and project-affected communities. The study argues that bank strategic commitments create the space for conflict-sensitivity to a degree; and that pockets of technical expertise for conflict-sensitive project financing exist within the banks, but that these capacities are insufficient as the banks prepare to scale up lending in fragile and conflict-affected situations. Specifically, the paper argues that improved capacity for conflict-sensitivity is constrained by political dynamics. In effect, a conflict-sensitive approach to project financing is not automatically adopted in fragile and conflict-affected situations. In instances where conflict-sensitivity is adopted, it can be restricted to project design and may not be applied throughout project cycles.

Enhancing the conflict-sensitivity of project financing not only requires technical reforms to improve and make more coherent bank strategy, policies, procedures and practices. It also requires reforms that are more political, relating to bank shareholder government and management priorities regarding the allocation of core bank human and financial resources. Specifically, technical reforms need to be reinforced by political reforms that incentivise a shift in the bank's operating culture. The political and economic priorities of development bank shareholder governments thus emerge as a critical factor in efforts to enhance the conflict-sensitivity of project financing.

Similarly, the political and economic priorities of client country governments play an important role in shaping the success of efforts to conflict-sensitise project financing. At their core, conflict-sensitive approaches are designed to support progress towards peace. They support people in fragile and conflict-affected situations to anticipate and manage conflicts without violence, while achieving social change that improves their lives. Social change, albeit peacefully negotiated social change, can be perceived as a threat to established systems of order, power and interests. The perception of change as a threat can provoke opposition to initiatives designed to support peaceful change. Understanding the local context of these dynamics and negotiating the space for conflict-sensitive approaches within them requires expertise in conflict and fragility analysis, as well as staff with the skills and strategies to negotiate support for conflict-sensitivity with diverse stakeholders.

Key insights

Our research produced the following six insights to help guide conflict-sensitive project financing:

- 1. When conflict-sensitivity is not integrated throughout the whole project cycle, project outcomes are compromised and significant implementation delays can ensue.**

2. When the bank and client government are not aligned in their support for conflict-sensitive project financing, this can be an early indication of resistance to project goals.
3. When potential project spoilers are not identified and managed from the start, through ‘inclusive enough’ coalitions, they may re-animate conflict during project implementation.
4. When project risk assessment and mitigation strategies are not regularly updated and grounded in the local project context, critical conflict risks and peacebuilding opportunities may be missed.
5. When project feedback loops do not include mechanisms to gather information from a balanced enough range of project stakeholders, throughout the project cycle, the risk that project resources will be misdirected increases.
6. Even though a country is not on the harmonised list of ‘fragile and conflict-affected situations’, it may still experience fragility, conflict and violence and require a conflict-sensitive approach.

Conclusions and recommendations

The findings of this study highlight two key points. Firstly, conflict-sensitive approaches to project financing are critical to sustainable and inclusive project outcomes in fragile and conflict-affected situations. Secondly, the process for advancing conflict-sensitive project financing is a political challenge, not just a matter of technical policy and practice reforms.

The connections between the technical and the political steps required to enhance the conflict-sensitivity of project financing are highlighted across the three core messages that conclude this study – namely, that development banks should:

1. **Operate responsively:** Look beyond the harmonised list of ‘fragile and conflict-affected situations’ when assessing whether or not a country or project requires a conflict-sensitive approach;
2. **Monitor closely:** Apply conflict-sensitivity continuously, from project preparation to completion, and conduct regular and balanced oversight to inform risk management and project adaptation; and
3. **Engage collaboratively:** Secure client government support for conflict-sensitivity from the start, and avoid approving projects where it is not forthcoming.

As the World Bank prepares to spend more in fragile and conflict-affected countries, there is an urgent need to incentivise cultural reforms within the bank system alongside the July 2014 structural reforms. One without the other will not create the enabling environment necessary for conflict-sensitive project outcomes. Similarly, as ADB begins to negotiate replenishment of the Asian Development Fund (ADF) for the period 2017–2020, there is scope for shareholder governments to revisit the terms of financing and the bank’s resourcing for conflict-sensitive project financing. Furthermore, as new international development banks prepare to begin operations, it remains to be seen whether inter-development bank competition will revolve around delivering the most sustainable and inclusive development outcomes or whether it will centre around a race to the bottom when it comes to support for human security and development. As the global governance landscape of development financing shifts, shareholder governments have a unique opportunity to ensure development financing serves the most vulnerable communities in fragile and conflict-affected situations. As fragile and conflict-affected countries remain among the poorest and slowest to develop, close attention to the impacts of development financing on vulnerable communities in these countries is critical.

1. Introduction

1.1 Development banks on conflict and fragility

Official development assistance (ODA) channelled through international development banks plays a critical role in fragile and conflict-affected countries. The banks have the resources and potential to provide low-interest, large-scale, long-term and predictable financing, backed up by appropriate analysis and advice. Between 2000 and 2010 volumes of ODA surpassed remittances, foreign direct investment and trade income, becoming the largest financial inflow to fragile and conflict-affected countries.⁸ The World Bank, the African Development Bank (AfDB) and the Asian Development Bank (ADB) are among the top six multilateral providers of ODA to fragile and conflict-affected countries, ranking number two, four and six respectively.⁹ In 2010 the World Bank's International Development Association (IDA) delivered US\$4.4 billion, while AfDB's African Development Fund delivered US\$770 million and ADB's special funds delivered US\$530 million to these countries.¹⁰ Since the 2011 World Development Report on Conflict, Security and Development (WDR 2011)¹¹ argued that no low-income fragile and conflict-affected country had yet achieved a single millennium development goal and that, on average, a country that experienced major violence in the period 1981 to 2005 has a poverty rate 21 percentage points higher than a country that saw no violence, pressure to reform how ODA is delivered in fragile and conflict-affected countries has intensified globally. Given their prominent role in many fragile and conflict-affected countries, the multilateral development banks have been particularly eager to demonstrate progress in reforming their approaches to engagement.

The publication of WDR 2011 and the extensive dissemination of the report's findings in capitals around the world played an important role in highlighting the complexity of supporting development in fragile and conflict-affected situations. The recognition of this complexity among bank shareholder governments and sections of the banks' leadership helped to mobilise political backing and financial resources to progress reforms in bank delivery of ODA. However, the degree to which these reforms have been integrated into bank policies and procedures and operationalised in countries and situations affected by violent conflict and fragility varies considerably within and between the banks. For example, ADB's approach to fragile and conflict-affected situations was adopted in 2007¹² and evaluated in 2010.¹³ The evaluation concluded that the approach was still "young" and had "not yet taken root"; it recommended that ADB management "fine-tune" the approach, "giving consideration to resource implications".¹⁴ In April 2013 an 'Operational Plan for Enhancing ADB's Effectiveness in Fragile and Conflict-Affected Situations'¹⁵ was adopted. It is not yet clear how ADB intends to deliver the commitments set out in its Operational Plan – namely, to strengthen human resources, augment financial resourcing and adapt business processes in

8 OECD (2012). *Fragile States 2013: Resource Flows and Trends in a Shifting World*. OECD-DAC International Network on Conflict and Fragility (INCAF). pp.45–46. Available at <http://www.oecd.org/dac/incaf/FragileStates2013.pdf>. Note: Half of ODA to OECD-DAC-recognised fragile and conflict-affected situations in 2010 went to just seven countries: Afghanistan, Democratic Republic of Congo, Ethiopia, Haiti, Pakistan, West Bank and Gaza, and Iraq. It should also be noted that ODA calculations can be inflated by bilateral donors to include: "imputed student costs, refugee costs in donor countries, debt relief double-counted as aid, tied aid and interest on loans" (CONCORD and AidWatch (2013). *The Unique Role of European Aid. The Fight against Global Poverty*. p.5). Moreover, the OECD-DAC list of fragile and conflict-affected situations includes countries not on the development banks' harmonised list of fragile and conflict-affected situations.

9 OECD (2012). Op. cit.

10 Note: ADB's regional portfolio only covers 16 of the 45 FCS counted in this study – see OECD (2012). Op. cit.

11 World Bank (2011). Op. cit.

12 ADB (2007). *Achieving Development Effectiveness in Weakly Performing Countries*. Manila: ADB. Available at <http://www.adb.org/sites/default/files/pub/2007/SecM30-07.pdf>

13 ADB (October 2010). *Special Evaluation Study on Asian Development Bank's Support to Fragile and Conflict-Affected Situations*, ADB Independent Evaluation Department. Manila: ADB. Available at <http://www.adb.org/sites/default/files/SES-REG-2010-45.pdf>

14 Ibid. p.v.

15 ADB (2013). *Operational Plan for Enhancing ADB's Effectiveness in Fragile and Conflict-Affected Situations*. Manila: ADB. Available at <http://www.adb.org/sites/default/files/operational-plan-fcas.pdf>

order to “mainstream fragility- and conflict-sensitive approaches” into its country strategies and operations. The forthcoming Asian Development Fund (ADF) XII replenishment for the period 2017–2020 will indicate the level of commitment among influential shareholders and bank senior management to progressing this internal reform agenda.

Similarly, the World Bank has increased its attention to fragile and conflict-affected situations since the publication of the WDR 2011. In April 2011 it adopted a plan to operationalise the findings of the WDR 2011 within the World Bank Group. This plan included integrating fragility analysis into country strategies, revising financing instruments, establishing a Global Centre for Conflict, Security and Development in Nairobi, and equipping staff with skills on conflict and fragility across different sectors of the World Bank’s operations. As the World Bank prepares to spend more in fragile and conflict-affected countries following the IDA 17 replenishment, and as it rolls out its structural reforms launched by Bank President Jim Kim in July 2014, there is an urgent need to apply conflict-sensitivity to project financing in fragile and conflict-affected countries. So far, attention to fragile and conflict-affected situations within the banks has increased, but it has not resulted in a systemic shift in internal approaches to project-financing behaviour on the ground. Understanding the obstacles to conflict-sensitive project financing was the starting point for this study. Our hypothesis was that the complex and volatile political character of development in fragile and conflict-affected situations combined with the banks’ own characteristics made it especially difficult for the banks to apply conflict-sensitive approaches to project financing.

1.2 The problematique of banks working in politically complex situations

The political character of development is widely acknowledged. Without inclusive governance systems and broad-based local ownership of development processes, the sustainability of development results is compromised. Carothers and De Gramont¹⁶ note that inattention to political dynamics and interests when financing development initiatives can result in failures including:

“...misunderstanding the causes of development problems; failing to pay attention to or strengthen domestic institutional capacity to carry out development programmes; trying to insert solutions conceived from the outside that lack domestic buy-in, while failing to identify and thus help facilitate local impetus for change; overlooking how technically rational institutional reforms may threaten powerful domestic political interests and thus go nowhere; not anticipating harmful political consequences of socio-economic reform efforts; and ignoring broader aspirations of citizens beyond economic success, such as popular desires for political dignity and empowerment...”¹⁷

In many fragile and conflict-affected countries, exclusive, weak or absent systems of governance have already resulted in decision-making around the use of resources that has driven marginalisation, inequality, injustice, conflict, violence, loss of life and the destruction of the material, economic, institutional and social fabric of society. Channelling additional

16 T. Carothers and D. De Gramont (2013). *Development Aid Confronts Politics: The Almost Revolution*. Washington DC: Carnegie Endowment for International Peace. See also: L. Wild and M. Foresti (2013). *Working with the Politics: How to improve public services for the poor*. London: Overseas Development Institute; S. Batmanglich and M. Stephen (2011). *Peacebuilding, the World Bank and the United Nations*. London: International Alert; P. Vernon and D. Baksh (2010). *Working with the Grain to Change the Grain. Moving beyond the Millennium Development Goals*. London: International Alert; E. Bell (2008). *The World Bank in Fragile and Conflicted-Affected Countries. 'How', Not 'How Much'*. London: International Alert; World Bank (2013). *Inclusion Matters: The Foundation for Shared Prosperity*. Washington DC: The World Bank; A. Marc, A. Willman, G. Aslam and M. Rebosio (2013). *Societal Dynamics and Fragility: Engaging Societies in Responding to Fragile Situations*. Washington DC: World Bank; World Bank (2011). Op. cit.; L. Routley and D. Hulme (2013). *Donors, Development Agencies and the use of Political Economic Analysis: Getting to grips with the politics of development?* Manchester, UK: Effective States and Inclusive Development Research Centre, University of Manchester.

17 Ibid.

resources into these contexts without attention to complex and ever-shifting political dynamics is high risk and unsustainable. Often, such an approach only serves to reinforce powerful interests, marginalisation and local drivers of violence and conflict, thus perpetuating cyclical insecurity and fragility.

Supporting development progress in such complex and high-risk environments requires banks to adopt a politically informed approach to engagement. Some staff of ADB and the World Bank perceive a tension between the banks' founding articles of agreement (Article 36 of the ADB Charter¹⁸ or Article V, Section 6 of the World Bank IDA Articles of Agreement) that "prohibit political activity" and the need to take a politically informed approach to supporting development. As Bell argues in relation to the World Bank, "there is a fundamental conceptual difference between avoiding the politicisation of IDA and ensuring that IDA commitments are based on sound analysis and are adapted to political economy and social factors".¹⁹ Bell goes on to argue that "Article V is already inconsistently interpreted across the Bank due to a recognition by many staff that insufficient attention to such dynamics leads to superficial and unsustainable outcomes". Bell's analysis is supported by the banks' operational guidelines. The ADB Operational Plan for Enhancing ADB's Effectiveness in Fragile and Conflict-Affected Situations²⁰ explicitly acknowledges that "analysis of political economy factors is important" and that "this kind of analysis helps development partners gain a sound grasp of the country, sector and project environments ... identify the specific risks, successfully plan and undertake their operations, and secure greatly needed reforms".²¹ World Bank reforms similarly acknowledge the importance of political-economy analysis to development, but also recognise some of the challenges of operationalising such an approach. Under the rubric of the goals of the new World Bank Group Strategy²² – namely, the elimination of extreme poverty and the promotion of shared prosperity – the World Bank prioritises development in fragile and conflict-affected countries, and emphasises the interdependence of peacebuilding and development. It recognises that "instability can derail development; conversely, development that fails to be inclusive may itself promote instability". This emphasis is highlighted further in the strategy when it acknowledges that "the sustainability of development depends critically on social cohesion". Furthermore, the World Bank Group Strategy acknowledges the challenging and political character of advancing its goals in complex fragile and conflict-affected situations – where prospects for inclusive development are constrained – when it states that:

*"Implementing the Country Partnership Framework will be challenging, and there will be a need to adapt it to specific country circumstances. First, country ownership will remain critical. In situations where the alignment between country demands and the goals remains unclear, the World Bank Group will work with country clients to deepen the analysis, understand the political economy, and pursue dialogue in an effort to help clarify the most appropriate and promising pathways toward the goals and build social consensus."*²³

While the strategy acknowledges the potential for divergence between the World Bank Group's goals (eliminating extreme poverty and promoting shared prosperity) and client government demands, and provides some direction for navigating this tension, the aforementioned statement that "country ownership will remain critical" creates some ambiguity about the status of the goals when these are challenged by client government demands. Both banks articulate a commitment to navigating the political complexity of engagement in fragile and conflict-affected situations. However, they are ambiguous about what happens when bank goals and country demands cannot

18 ADB (1965). *Agreement Establishing the Asian Development Bank (ADB Charter)*. Manila: ADB. Available at <http://www.adb.org/sites/default/files/pub/1965/charter.pdf>

19 E. Bell (2008). Op. cit. p.6.

20 ADB (2013). Op. cit. Note also the previous iterations of ADB FCS approaches as cited in ADB (2007). Op. cit.

21 Ibid. p.8.

22 World Bank Group (2013). *World Bank Group Strategy*. Washington DC: World Bank Group. Available at https://openknowledge.worldbank.org/bitstream/handle/10986/16095/32824_ebook.pdf?sequence=5

23 Ibid. pp.12 and 26.

be bridged easily. There is a risk that banks will apply conflict-sensitivity only where there is sufficient political traction for it, but leave open the possibility of financing without conflict-sensitivity in contexts where political will is lacking. This ambiguity can translate into heightened risks for both the bank and communities affected by conflict, fragility and violence.

1.3 Research overview and methodology

International Alert has been working on development financing and peacebuilding with the World Bank since 2007 and with ADB since 2011. In 2008 Alert published a report on the *World Bank in Fragile and Conflict-Affected Countries – ‘How’, Not ‘How Much’*.²⁴ The report found that the World Bank adopted conflict-sensitivity “only on an ad-hoc basis on the initiative of individual senior staff members”. Moreover, in general, “the *quantity* of assistance”, rather than the *process* used for providing assistance, remained the “principal determinant of ‘success’”. Since Alert’s 2008 study, the World Bank has embarked on a series of internal reforms, especially following the publication of the WDR 2011, as previously discussed. Among these reforms, approaches aimed at conflict-sensitive project financing have been piloted. This research focuses on approaches to project financing; specifically, it examines initiatives that seek to integrate some degree of conflict-sensitivity into infrastructure and service-delivery projects. The aim is to explore how the banks negotiated complex and volatile political dynamics to deliver more sustainable and inclusive outcomes on the ground. The study seeks to: a) gather insights on strategies for negotiating complex and volatile political dynamics; and b) highlight how current bank approaches, policies, systems and processes do or do not create an enabling environment for politically informed engagement by bank staff. This report and the supporting case studies seek to contribute to the debate on bank reforms, helping to move the focus from corporate strategies and operational plans to the frontline of operations, where bank lending interacts with people’s lives and opportunities.

Alert selected the Kyrgyz Republic, Nepal and Sri Lanka as country case studies for this research because each case presents different and volatile conflict dynamics. Moreover, one or both of the banks have piloted different approaches to conflict-sensitivity in each of the countries. In addition, despite the evident fragility and conflict-affected context of all three cases, none of the countries featured on the banks’ harmonised list of fragile situations.²⁵ This combination of factors increased the political complexity confronting bank country teams and had the promise of yielding valuable lessons and insights. The specific bank-financed projects were selected because they represented core sectors of bank business (improving service delivery and infrastructure), included responses to local peacebuilding priorities among their stated objectives, and were beyond the halfway point of implementation, thus allowing the opportunity for active dialogue with project stakeholders on strengthening project delivery. For each of the five projects, Alert analysed decision-making by project stakeholders (client governments, bank officials and project-affected communities) at each stage of the project cycle: project preparation, design, implementation and supervision. For each bank-financed project, researchers paid particular attention to: a) approaches to conflict-sensitivity and the associated political dynamics; b) efforts to incorporate broad-based participation and to strengthen local ownership of the project; and c) progress towards stated project objectives, especially objectives relating to peacebuilding priorities.

The research methodology was largely qualitative. Having selected countries and projects, as well as securing government and bank agreement to our research, the country research teams met to develop a locally relevant but common research framework to be used across all three countries. Questionnaires for project-affected communities (both direct and indirect project beneficiaries) were developed and used in focus group discussions. Questionnaires were also developed for

²⁴ E. Bell (2008). Op. cit. Available at <http://www.international-alert.org/resources/publications/world-bank-fragile-and-conflict-affected-countries>

²⁵ Except Nepal, which has in the past featured on the harmonised list.

key informant interviews with bank project leaders and expert advisers (both in country and at global bank headquarters), client government officials and implementing partner officials. Wider contextual understanding of the project locations was developed through interviews with local journalists and civil society officials. The country research teams met again with their raw data for joint analysis and the identification of cross-cutting themes from the case studies. Detailed country-specific material and analysis were used in the country case studies, and the cross-cutting themes are presented in the following sections of this report. This report also benefited from policy research, literature reviews and ongoing dialogue with the staff of both banks, including some executive directors and civil society organisations (CSOs) with expertise on the banks and project financing. The reports were also peer-reviewed by country specialists as well as peacebuilding and development experts before publication.

Following this introduction and an overview of the case studies, section 3 of the report provides a synthesis of research findings organised as six ‘insights’ aimed at informing conflict-sensitive project financing. The fourth section draws together the insights to reach a conclusion and explores some tailored recommendations for senior bank staff and executive directors or shareholder governments involved in bank decision-making and policy-making. The recommendations seek to progress bank reforms creating a stronger enabling environment for conflict-sensitive project financing. As only five bank-financed projects were studied, the learning generated highlights possible systemic issues in need of further and deeper consideration by the banks. Despite the narrow scope of the field research, the findings correlate with and confirm the conclusions of earlier research and informal analysis of bank programmes.

2. Overview of case studies

The country-focused sections below provide an overview of each country context, indicating some of the ways in which fragility, conflict and violence continue to shape the local political economy and social relations. The objectives of each of the five projects studied are set out alongside the country context, thus highlighting how each project sought to respond to local peacebuilding priorities alongside delivering infrastructure and services. The sections highlight how each of the five projects applied some degree of conflict-sensitivity.

Kyrgyz Republic

Fragility dynamics

Violence and instability erupted in April 2010 in the Kyrgyz Republic's capital of Bishkek, leading to the ousting of President Bakiyev and the creation of an interim government under the leadership of President Roza Otunbayeva. This was followed by increased ethnic tension in the south of the country. Despite the change in political leadership, the security situation continued to deteriorate, culminating in five days of intensive intra-community violence in Osh, Jalal-Abad and other towns in the south of the country in June 2010. Approximately one-fifth (1.1 million people) of the country's population and more than half of the population of Osh Oblast were affected by the June events.²⁶ Several hundred people were killed, over 3,000 homes, commercial premises and public buildings were destroyed, and over 400,000 people were displaced. Around 100,000 ethnic Uzbeks fled across the undemarcated, politically sensitive border with Uzbekistan. This mass cross-border movement of people reignited tensions with neighbouring governments, posing a threat to regional security.

Widespread hostility towards minority populations, especially ethnic Uzbeks, constituted the wider context of the violence of 2010. These societal dynamics were also linked to prior incidents of violence in which several hundred people were killed in southern parts of the Kyrgyz Republic 20 years before, in June 1990. The minority Uzbek population was specifically targeted in the violence. Nevertheless, their needs and interests remain unrepresented by the two main political factions, they are underrepresented within the institutions of government, and they are excluded from sustained and active engagement in decision-making. There is little trust among the minority Uzbek population in the authorities' willingness or capacity to respond to their needs. This marginalisation is intensified by competition between the national government and the political opposition, whose political stronghold is the semi-autonomous Osh city administration in the southern part of the country. The vulnerability of the Uzbek communities and the risks for regional stability when they flee from the Kyrgyz Republic to neighbouring Uzbekistan have made development priorities and programming a complex and risky proposition in the Kyrgyz Republic.

Project	Principal objective and core components
Asian Development Bank Emergency Assistance for Recovery and Reconstruction Project (EARR) (Kyrgyz Republic: Housing and Recovery) Project ID: 44236-013 Financing Total: US\$110 million Borrower: US\$10 million Grant: US\$51.5 million Loan: US\$48.5 million Project milestones Approval: September 2010 Effectiveness date: February 2011 Original close date: March 2014 Revised close date: March 2016 ²⁷	<i>Project objective (September 2010):</i> To support economic recovery and the reconstruction and improvement of social and urban infrastructure in the areas affected by the events of April and June 2010 <i>Core components:</i> 1) Provision of fiscal support to the Ministry of Finance for critical recurrent public expenditures (to provide uninterrupted education, health, social assistance and transport services in the conflict-affected areas) (US\$40 million) 2) Reconstruction and repair of approximately 1,700 severely damaged houses in the cities and provinces of Osh and Jalal-Abad 3) Improvement of the water supply, sanitation systems and community infrastructure of the cities and provinces of Osh and Jalal-Abad 4) Provision of services (including audits), equipment and mitigating measures relating to environmental and social safeguards to assist in the implementation of Components 2 and 3 ²⁸

Project	Principal objective and core components
World Bank Bishkek and Osh Urban Infrastructure Project (BOUIP) (Kyrgyz Republic: Infrastructure and Governance) Original Project ID: P104994 Additional Financing Project ID: P122811 Financing Combined total: US\$32.95 million <i>Original financing</i> Borrower: US\$2.35 million IDA grant and loan: US\$12 million Total: US\$14.35 million <i>Additional financing</i> Borrower: US\$2.8 million IDA grant and loan (55% IDA credit and 45% IDA grant): ²⁹ US\$15.8 million Total: US\$18.6 million ³⁰ Project milestones <i>Original financing</i> Approval: March 2008 Effectiveness date: July 2008 Close date: June 2012 ³¹ <i>Additional financing</i> Approval: December 2011 Effectiveness date: June 2012 Close date: June 2015 ³²	<i>Original project objective (March 2008):</i> To improve living conditions in selected semi-informal settlements (<i>novostroiki</i>) in Bishkek and Osh, the two largest cities of the Kyrgyz Republic, by increasing the availability of basic infrastructure to residents of these areas <i>Revised project objective (May 2012):</i> To increase the availability of basic urban services in semi-formal settlements known as new housing developments (<i>novostroiki</i>) in the cities of Bishkek and Osh, as well as in selected small towns of the Kyrgyz Republic; also to increase the availability of social infrastructures in the cities of Bishkek and Osh and in both the selected small towns and other small towns <i>Core components:</i> 1) Urban infrastructure for Bishkek, Osh and selected small towns (road and water supply) 2) Community investments in social community infrastructure in Bishkek, Osh and small towns 3) Institutional development activities for the municipalities of Bishkek and Osh (discontinued under additional financing) 4) Incremental operating costs of implementing agency (Community Development and Investment Agency (ARIS in Russian)) ³³

26 World Bank (December 2011a). *Kyrgyz Republic – Additional Financing (AF) for the Bishkek and Osh Urban Infrastructure Project (BOUIP): Restructuring*, Project Paper. Washington DC: World Bank. Available at <http://documents.worldbank.org/curated/en/2011/12/15575457/kyrgyz-republic-additional-financing-af-bishkek-osh-urban-infrastructure-project-bouip-restructuring>

27 ADB (July 2014). *Project Data Sheet – Emergency Assistance for Recovery and Reconstruction* (first published in September 2010, last updated in July 2014). Manila: ADB p.4. Available at <http://www.adb.org/projects/44236-013/main>

28 ADB (September 2010). *Financing Agreement for Emergency Assistance for Recovery and Reconstruction between Kyrgyz Republic and Asian Development Bank*. Manila: ADB. Available at <http://www.adb.org/projects/documents/financing-agreement-emergency-assistance-recovery-and-reconstruction-between-kyrg>

29 World Bank (December 2011a). Op. cit.

30 World Bank BOUIP Additional Financing (AF) figures available at <http://www.worldbank.org/projects/P122811/af-bishkek-osh-urban?lang=en>

31 World Bank (December 2011b). *Implementation Status and Results: Kyrgyz Republic – Bishkek and Osh Urban Infrastructure Project (P104994)*. Washington DC: World Bank. Available at <http://documents.worldbank.org/curated/en/2011/12/15559377/kyrgyz-republic-bishkek-osh-urban-infrastructure-project-p104994-implementation-status-results-report-sequence-06>

32 World Bank (September 2011). *Kyrgyz Republic – Additional Financing (AF) to the Bishkek and Osh Urban Infrastructure Project (BOUIP)*, Project Information Document. Washington DC: World Bank. p.2. Available at <http://documents.worldbank.org/curated/en/2011/09/15140690/kyrgyz-republic-additional-financing-bishkek-osh-urban-infrastructure-project>

33 World Bank (December 2011a). Op. cit.

Nepal

Fragility dynamics

After a decade of armed conflict between government security forces and the Communist Party of Nepal-Maoist (CPN-M), a Comprehensive Peace Agreement was signed in 2006. Between 1996 and 2006 approximately 13,000 people were killed (civilians, Maoist cadres and security forces). There were also alleged violations of international human rights and humanitarian law, including unlawful killings, torture, enforced disappearances, sexual violence and arbitrary detention. In addition, families were displaced, education, healthcare and other basic services were disrupted or stopped altogether, and economic activity was severely constrained by the destruction of infrastructure, reduced public expenditure and depressed private investment.³⁴ For example, Nepal's economic growth slipped from 4.8% during the 1990s to 2.8% between 2002/03 and 2006/07.

While the insurgency sought social, economic and political reforms based on equal rights and inclusive access to public goods for all, little has changed for the poorest and most marginalised people since the signing of the Comprehensive Peace Agreement. Social hierarchies, discrimination and poverty perpetuate the marginalisation of the majority.

Furthermore, the peace agreement has evolved into a long-term political deadlock in a political environment long characterised by the inability to manage societal progress peacefully. Instead of progressing a new constitution and federalism, political parties have been working to shore up their popularity. Priority poverty and inequality issues, including demobilisation of ex-combatants, have slipped down the political agenda. Meanwhile, new regional and identity-based political parties have emerged and are gaining political ground. In addition to the threat they pose to dominant political parties should federalism progress, they are also increasing insecurity by replicating the behaviour of the CPN-M's Youth Communist League, which between 2006 and 2010 was "functioning as an informal local police, fundraising by collecting 'donations', facilitating trade in expensive herbs and forest products, [and] influencing the award of construction contracts and government tenders".³⁵

Project	Principal objective and core components
Asian Development Bank Second Small Towns Water Supply and Sanitation Sector Project (SSTWSSS) (Nepal: WatSan and Governance) Project ID: 41022-022 Financing Total: US\$71.7 million Borrower: US\$26.6 million (government and connection/user fees) ADF grant: US\$45.1 million Project milestones Approval: September 2009 Effectiveness date: January 2010 Original close date: September 2015 ³⁶ Revised close date: March 2016 ³⁷	<i>Project objective (November 2009):</i> To improve water supply and sanitation services to promote the improved health, economic and environmental living conditions of people living in project towns <i>Core components:</i> 1) Develop an effective and accountable urban water supply and sanitation sector by establishing and implementing policies, establishing service standards and enhancing sector coordination 2) Develop a safe, accessible and adequate water supply and sanitation facilities in about 20 small towns 3) Strengthen governance and capacity for project management and operation

34 UNOHCHR (2012). *Nepal Conflict Report 2012*. Geneva: United Nations Office of the High Commissioner for Human Rights (UNOHCHR). Available at http://www.ohchr.org/Documents/Countries/NP/OHCHR_Nepal_Conflict_Report2012.pdf

35 International Crisis Group (2012). *Nepal's Constitution (III): The Expanding Political Matrix*. Kathmandu/Brussels. p.9. <http://www.crisisgroup.org/en/regions/asia/south-asia/nepal/234-nepals-constitution-ii-the-expanding-political-matrix.aspx>

36 ADB (November 2009a). *Project Agreement for Second Small Towns Water Supply and Sanitation Sector Project between Asian Development Bank and Town Development Fund*. Manila: ADB. p.10. Available at <http://www.adb.org/projects/documents/project-agreement-second-small-towns-water-supply-and-sanitation-sector-project-b>

37 ADB (April 2014). *Project Data Sheet – Second Small Towns Water Supply and Sanitation Sector Project* (first published April 2009, last updated April 2014). Manila: ADB. p. 5. Available at <http://www.adb.org/projects/41022-022/main>

Sri Lanka

Fragility dynamics

Since the current Sri Lankan government's military intervention, which ended the civil war with the Tamil Tigers, political space has become increasingly restricted for voices that differ from or challenge the interests of the executive. In this context, the United Nations is struggling to engage the government in a dialogue on reparations and human rights. For both locals and internationals, political operating space is constrained. Some bilateral donor governments have closed their Colombo offices partly as a result of restrictions on their activities.

In the aftermath of the war, one of the major political issues continues to be the tension between centralised and decentralised governance, with the tendency at the moment being an increased concentration of power at the centre. Related to this, questions remain about how best to support those rendered vulnerable by the war. In this context, many issues need to be addressed, including the situation of widowed women or wives of the untraceable who struggle to be recognised and included in recovery processes. For example, changes to the law are needed to protect the land rights of these women returning to their original places of habitation. The Special Envoy on Human Rights of the President of Sri Lanka acknowledged the specific challenges confronting the recovery of this group of women: "the old concept of the 'head of the household' (usually the male) has been found to be an impediment when a widow of a deceased or female spouse of an untraceable person claims restitution, relief or compensation".³⁸ Despite this acknowledgement, necessary changes in the law and direct assistance for these women are difficult to secure.

Project	Principal objective and core components
Asian Development Bank Improving Connectivity to Support Livelihoods and Gender Equality (Sri Lanka: Roads and Skills) Project ID: 39619-022 Financing Total: US\$3 million Borrower: Zero ³⁹ Japan Fund for Poverty Reduction Grant: US\$3 million Project milestones Approval: December 2009 Effectiveness date: February 2010 Original close date: June 2012 Revised close date: February 2013 Actual close date: August 2013 ⁴⁰	<i>Project objective (December 2009):</i> "To improve connectivity and quality of life for conflict-affected and isolated rural poor communities in selected districts of the Eastern and North Central provinces" of Sri Lanka <i>Core components:</i> 1) "Support the rehabilitation and maintenance of rural access roads (RARs), thereby enabling local communities to access the rehabilitated provincial road network" 2) "Promote skills development for rural communities, and in particular vulnerable groups (in the context of this project, the definition of 'vulnerable groups' includes: war widows, households headed by women, single women with dependants, families with disabled members, the elderly and youth)" 3) "Identify options to upgrade rural transport services" Note: "All activities will be carried out in consultation with local government authorities. Project implementation will take into account the ongoing development programmes and approaches of the government and its development partners in the targeted areas" ⁴¹

38 Special Envoy on Human Rights of the President of Sri Lanka and Minister of Plantation Industries, Hon. Mahinda Samarasinghe, statement to the UN on 16 October 2012, New York.

39 Note: The grant assistance proposal included contributions from the borrower and beneficiary communities – ADB (November 2009b). *Proposed Grant Assistance: Improving Connectivity to Support Livelihoods and Gender Equality*, Project Data Sheet. Manila: ADB. p.9. Available at <http://www.adb.org/projects/39619-022/main>. This contribution does not appear to have been secured beyond the proposal stage.

40 ADB (January 2014). *Project Data Sheet – Improving Connectivity to Support Livelihoods and Gender Equality* (first published December 2009, last updated January 2014). Manila: ADB. p.5. Available at <http://www.adb.org/projects/39619-022/main>

41 ADB (November 2009b). Op. cit. p.1.

Project	Principal objective and core components
<p>World Bank</p> <p>North East Local Services Improvement Project (NELSIP) (Sri Lanka: Infrastructure, Services and Governance) Project ID: P113036</p> <p>Financing Total: US\$86 million⁴² Borrower: US\$34 million Local communities: US\$2 million IDA loan: US\$50 million⁴³</p> <p>Project milestones Approval: March 2010 Close date: December 2015</p>	<p><i>Project objective (April 2010):</i> To support local government authorities in the north and east provinces of Sri Lanka to deliver services and local infrastructure in a responsive and accountable manner</p> <p><i>Core components:</i></p> <ol style="list-style-type: none"> 1) Infrastructure and service delivery – improving the quantity and quality of public goods delivered and maintained by local authorities (for example, rural roads, drains, culverts, bridges, public buildings, markets, fairs, waste disposal, rural water supply, parks, recreation facilities, libraries, nursery schools, playgrounds and dispensaries) 2) Institutionalising accountabilities – ensuring that local authorities undertake public expenditures and deliver local services in a transparent and accountable manner by strengthening upward and downward accountability systems (for example, transparent and independent annual financial audits; social and technical audits of public expenditures to ensure effective use of funds in line with citizen expectations; systems and processes to bring greater transparency in local authority affairs and strengthen citizen voice in planning, budgeting and monitoring; an Information, Education and Communication (IEC) campaign aimed at disseminating project-related information to different stakeholders; work with other civil society stakeholders to strengthen demand-side approaches to local governance) 3) Building capacities – strengthening the service delivery systems and capacities of local authorities to deliver their mandated services and strengthening the monitoring capacities of provincial and national-level institutions

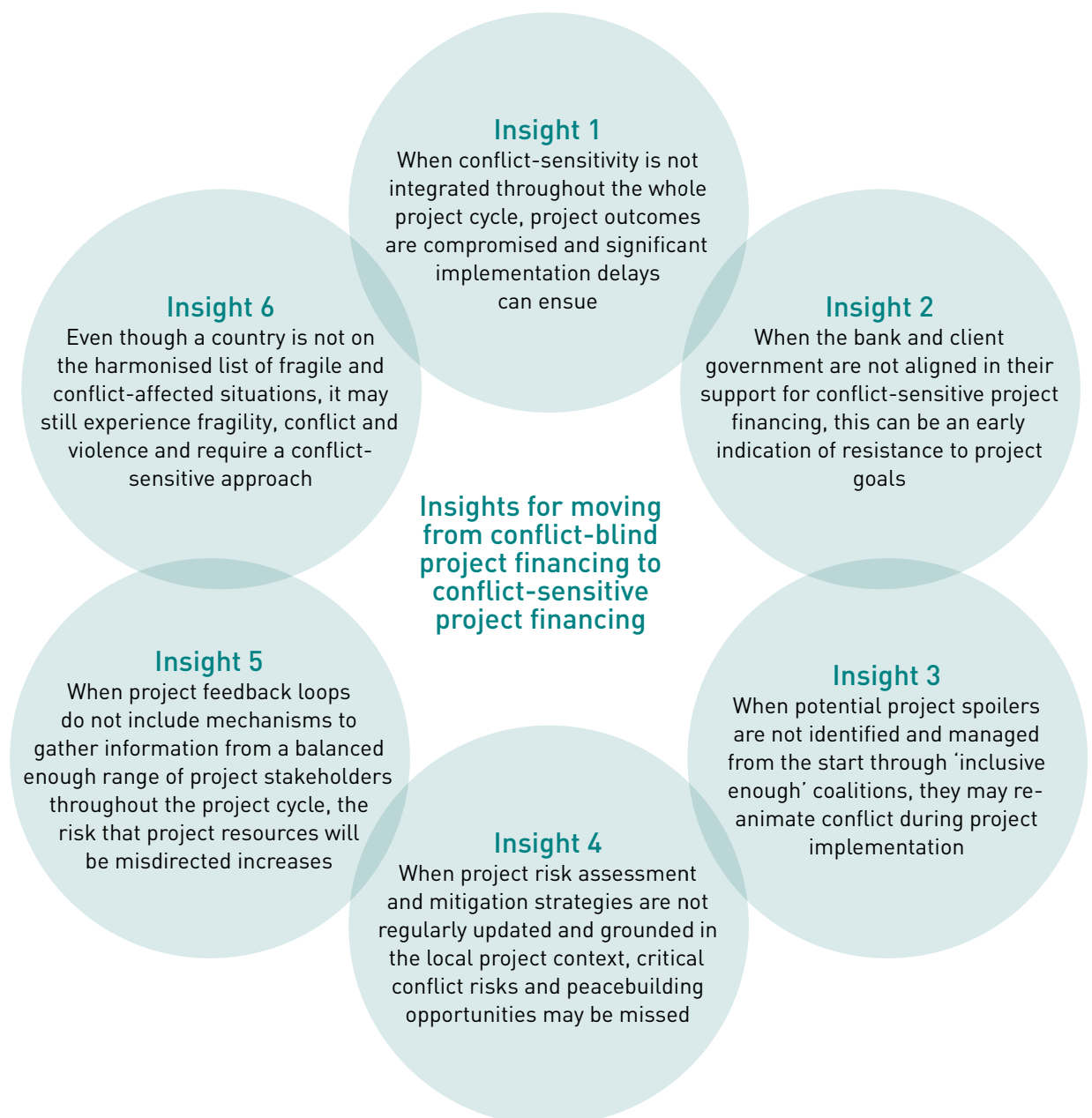
⁴² The World Bank agreed to US\$20.3 million in Additional Financing to extend the NELSIP project to further locations in Northern Sri Lanka in April 2014.

⁴³ World Bank NELSIP figures available at <http://www.worldbank.org/projects/P113036/north-east-local-services-improvement-project-nelsip?lang=en>

3. Findings – six insights to guide conflict-sensitive project financing

This section is organised around six insights that emerged from our research. Each insight is introduced and then supported with a case study that illustrates some of the technical and political complexity of conflict-sensitising project financing. Taken together, the insights can help to inform strategies for conflict-sensitive project financing (see Figure 1 for overview).

Figure 1: Strategies for conflict-sensitive project financing



INSIGHT 1:

When conflict-sensitivity is not integrated throughout the whole project cycle, project outcomes are compromised and significant implementation delays can ensue.

The issue

Fragile and conflict-affected situations are complex and risky operating environments. Supporting progress towards peace and development is difficult, yet the potential rewards are great. All five of the bank-financed projects studied sought to support local peacebuilding alongside development. Local peacebuilding priorities had been identified and featured among project objectives. However, for some projects, this was the extent of their attention to conflict dynamics in project preparation, design and implementation. They fell short of strong conflict-sensitivity and did not take account of the two-way interaction between the proposed project and the context throughout the project cycle. Table 1 provides an overview of the degree to which conflict-sensitivity was applied to the five projects, alongside the project results. Each of the three ADB projects studied encountered context-related delays in project delivery. Delays lasted between 6 and 24 months and had knock-on effects for the rate of project disbursement. Two of the projects struggled to deliver on both their infrastructure/service improvement and peacebuilding objectives. In the case of one project, it was clear that the lack of conflict-sensitivity throughout the project cycle contributed to aggravating local conflict dynamics. In contrast, one of the ADB projects and the two World Bank projects made some good progress on their peacebuilding objectives, managing to deliver on their infrastructure and service improvement components, and securing additional project financing to extend the geographic coverage and duration of the original projects. The different degrees of conflict-sensitivity applied across the five bank-financed projects provide an insight into why some projects were able to produce more positive results and others struggled. The varying degrees of conflict-sensitivity will be explored further under the subsequent four insights.

Table 1: Overview of how different degrees of conflict-sensitivity affected the project results

Bank-financed projects	→ Stated project objectives and activities reflect peacebuilding priorities	→ Project employs elements of a conflict-sensitive approach	→ Project employs a conflict-sensitive approach throughout project cycle	Project results
Kyrgyz Republic ADB emergency housing project (2010)	Yes	No	No	Newly built houses vandalised and at risk of being flattened without registration; increased intra-community and Bishkek–Osh tensions; project completion delayed by two years
Kyrgyz Republic World Bank BOUIP infrastructure and governance project (2011)	Yes	Yes	Yes	Infrastructure and social infrastructure delivered on time and within budget, with additional project financing in the pipeline Project outcomes appreciated by beneficiary communities and stakeholders, strengthening citizen–state relations
Nepal ADB WatSan and governance project (2009)	Yes	Yes	No	Some improvement in service delivery; parts of the beneficiary group satisfied, but critical target groups remain marginalised and have little access to improved water and sanitation Project completion delayed by six months, with increased costs
Sri Lanka ADB roads and skills development project (2009)	Yes	Yes	No	Poor-quality road repairs; target beneficiaries do not benefit; actual beneficiaries are poorly targeted, leading to frustration and dissatisfaction Project completion delayed by 14 months, with increased costs
Sri Lanka World Bank NELSIP infrastructure, services and governance project (2010)	Yes	Yes	Yes, but later No	Improved local services and community satisfaction in first phase; but community component is reduced under additional financing Contribution to improved local governance and citizen–state relations constrained

Sources: International Alert Country Case Studies from the Kyrgyz Republic, Nepal and Sri Lanka.

Case study from the Kyrgyz Republic

The ADB Emergency Assistance for Recovery and Reconstruction (EARR) project did not apply conflict-sensitivity beyond identifying local peacebuilding needs and incorporating these into the project objectives and activities. The project sought to rebuild homes destroyed during the 2010 violence, which affected the south of the Kyrgyz Republic in particular. The project successfully rebuilt the homes to a high standard; ADB was committed to ‘building back better’ and provided vital shelter to conflict-affected communities at the onset of winter; however, it also caused significant harm. Firstly, the ADB houses almost immediately became the target of vandalism, as the inter-community tensions that led to the initial destruction of the houses had not been tackled. In turn, the vandalism increased inter-community tensions and contributed to an ongoing sense of insecurity among the primarily Uzbek families who lived in the houses. Secondly, on completing the building work, the project faced a legal challenge from the Osh city administration, which refused to register the houses. Threats that the newly built houses would be demolished by the city authorities intensified feelings of insecurity and fear among the conflict-affected communities. Due to the legal process pursued to secure the registration of the homes, completion of the project’s housing component was delayed by a full year. The project close date was revised from March 2014 to March 2015. Moreover, because the project was implemented by central government, and as the Osh city administration posed a legal challenge, long-standing political tensions between central government and the leadership of the Osh city administration, particularly the mayor of Osh, were inflamed. The project’s wider goal – to contribute to reconciliation after the 2010 violence – was thus undermined by its failure to appreciate and implement appropriate conflict-sensitive strategies in a conflict-affected context.

In contrast, the World Bank Bishkek and Osh Urban Infrastructure Project (BOUIP) integrated a conflict-sensitive approach from the preparation phase in 2010–2011 and throughout implementation thereafter. The objectives of the first phase of the project (developed and delivered before the 2010 violence) refer to increasing the availability of basic infrastructure to communities and strengthening state institutions to deliver those services, whereas the objectives of the second phase of the project (developed and delivered after the 2010 violence) took into account the wider context dynamics and emphasised both basic service delivery and ‘social infrastructure’ development. The social infrastructure component involved a community investment programme that served to improve the provision of locally administered social services, strengthen community-level decision-making processes and structures, and increase participation in local decision-making and oversight. The project was particularly sensitive about strengthening community cohesion in the areas affected by the 2010 violence (Osh, Jalal-Abad and Batken). Community-specific social and conflict assessments were conducted and used to guide engagement (e.g. the composition of decision-making entities), and a communications strategy was developed and implemented to enhance communication between the implementing agency, local authorities and project-affected communities throughout implementation. These steps and others helped to reduce the risk that the project would aggravate local sensitivities and divisions and lead to further violence. They also contributed to community cohesion and more responsive – albeit not perfect – citizen–state relations. As one focus group put it, community consultation may not be the correct term to use when discussing how social projects were agreed. Rather, communities presented a shortlist of their needs and the implementing agency selected which to deliver. The process nonetheless was an improvement for some communities who had never before been involved in local decision-making or seen local authorities engage responsively.

INSIGHT 2:

When the bank and client government are not aligned in their support for conflict-sensitive project financing, this can be an early indication of resistance to project goals.

The issue

While integrating conflict-sensitivity is desirable in terms of achieving high-quality project results in fragile and conflict-affected situations, it is not easy. The process of securing client government commitment to project objectives gave an early indication of the room for conflict-sensitive engagement and the challenges likely to confront projects during delivery.

In three of the five cases, peacebuilding priorities included in the project objectives were in tension with client government interests and priorities. Among these three projects, we saw different strategies deployed to negotiate this tension – different strategies for aid diplomacy. Since each of the three projects were not just agreed, but also delivered, a negotiated settlement between bank commitments and the preferences of the client government was reached. The following case studies from Sri Lanka and the Kyrgyz Republic provide some insight into the negotiating tactics used to manage this tension and the related opportunities and risks.

Case study from Sri Lanka

The World Bank is in the process of delivering NELSIP.⁴⁴ While focused on service delivery and infrastructure, the project explicitly sets out to support the improvement of local governance systems and dynamics – specifically, “issues of voice and empowerment of the different communities in the North and East”,⁴⁵ a key conflict dynamic in Sri Lanka. However, this openly stated project objective does not easily align with the priorities of the client government. The three pillars of the government’s over-arching 10-year (2006–2016) Development Framework for Sri Lanka, the *Mahinda Chintana* (Vision for a new Sri Lanka), are replicated in the government’s three-year development plans for the East, the *Nagenahira Navodaya* (Eastern Revival), and for the North, the *Wadakkil Wasantham* (Northern Spring). The first pillar is aimed at resettling and integrating those displaced or affected by the conflict. The second pillar seeks to improve living conditions through the rehabilitation and expansion of service delivery and investments in physical infrastructure. The third pillar aims to strengthen the role of local governments for service delivery. There is a conspicuous absence in these three pillars of any reference to improving government responsiveness to social and political development priorities, for example: addressing competing claims to land; responding to human rights cases from during and after the war; reinstating freedom of association, assembly and expression; progressing devolution as per the constitutional provisions of the 13th Amendment;⁴⁶ and rebuilding inter-community relations to promote understanding and reconciliation. Many of these priorities were among the recommendations of Sri Lanka’s Lessons Learnt and Reconciliation Commission (LLRC) report.⁴⁷ However, while the commission of inquiry behind the report was appointed by the

⁴⁴ World Bank Project ID: P113036.

⁴⁵ World Bank (2010). *Sri Lanka – North East Local Services Improvement Project (NELSIP)*, Project Appraisal Document. Washington DC: World Bank. p.4. Available at <http://documents.worldbank.org/curated/en/2010/04/12309679/sri-lanka-north-east-local-services-improvement-project-nelsip>

⁴⁶ Sri Lanka’s 13th Amendment to the Constitution (1987) called for substantial decentralisation of the public sector and service delivery. Yet, sub-national government continues to have limited financial resources, powers and functions (World Bank (2009). *Sri Lanka – North East Local Services Improvement Project (NELSIP)*, Project Information Document (PID). Washington DC: World Bank. Available at <http://documents.worldbank.org/curated/en/2009/12/12065265/sri-lanka-north-east-local-services-improvement-project-nelsip>

⁴⁷ *Report of the Commission of Inquiry on Lessons Learnt and Reconciliation*, November 2011. Available at http://www.llrcaction.gov.lk/assets/downloads/reports/en/Final_LLRC_Report_en.pdf

president, its recommendations have yet to be incorporated into national priorities. Instead, the executive is widely seen to be consolidating its decision-making power and authority, restricting the autonomy of the judiciary,⁴⁸ and limiting political space for dissenting voices.⁴⁹

Despite the mismatch between project objectives and the government's tendency to centralise control, the World Bank and government reached an agreement. The government signed for an IDA loan worth US\$50 million, committed to contributing US\$34 million from government budget, and committed project beneficiaries to providing US\$2 million. Several factors are likely to have worked in the World Bank project's favour. Firstly, the government was eager to jump-start economic productivity in the North and East after years of inaccessibility due to the war. As a result, it needed loans to cover the costs of redeveloping services and infrastructure destroyed in the conflict. In this regard, US\$76 million was allocated to infrastructure and service delivery, and an additional US\$2 million was allocated to strengthening transparency, accountability and citizen-voice in decision-making.⁵⁰ Secondly, the World Bank's fiduciary responsibility – its commitment, articulated in its founding Articles of Agreement, to ensure that fraud and corruption are minimised in the projects it finances – combined with evidence to suggest that high risks of corruption could be mitigated by a multi-pronged approach to project oversight. This included spending US\$2 million on citizen-voice and social accountability mechanisms.⁵¹ Thirdly, the bank's Country Assistance Strategy (2009–2012) had already committed the bank and the government to using a 'peace filter' in all project financing targeting the conflict-affected North and East.⁵²

Given that the client government could access financing from new and emerging donors,⁵³ albeit more tied and less predictable financing, it is significant that the World Bank was able to progress this project. However, as the North and East have become more accessible owing to large-scale infrastructure and service projects, concerns have arisen that the benefits of access and productivity are bypassing local communities. Concerns about land acquisition have been raised specifically. If the peacebuilding benefits of accountability and citizen-voice activities financed by US\$2 million are overshadowed by the risks posed by infrastructure activities costing US\$76 million, the question remains: is the World Bank prepared to stand by its country strategy commitments to conflict-sensitivity? Recently, the bank's board have authorised a restructuring of the project. This restructuring includes extending the number of districts covered, increasing financing for infrastructure and services, but also cutting the budget for accountability and citizen-voice activities by 50% – that is, from US\$2 million to US\$1 million.⁵⁴ The restructuring seems illogical from a conflict-sensitivity perspective – financing for citizen-voice and social accountability activities should be increased proportionally with the increase in project-affected communities and to reflect the continued focus on improving local governance systems and dynamics. As it stands, the restructuring reflects the interests of Sri Lanka's executive, rather than being focused on conflict-affected communities in the North and East.

The restructuring of the World Bank project in Sri Lanka, which led to a decline in the financing of accountability and citizen-voice activities, reflects a recent shift in the bank's country priorities.

48 See, for example: 'Sri Lankan parliament recommends dismissal of Chief Justice', *The Hindu*, 9 December 2012. Available at <http://www.thehindu.com/news/international/sri-lanka-cjs-impeachment-trial-report-presented-to-parliament/article4178081.ece>

49 See, for example: Amnesty International (2013). *Sri Lanka's Assault on Dissent*. London: Amnesty International. Available at <http://www.amnesty.org/en/library/asset/ASA37/003/2013/en/338f9b04-097e-4381-8903-1829fd24aabf/asa370032013en.pdf>

50 World Bank (2010). Op. cit.

51 According to the sustainability argument from the NELSIP Project Information Document (World Bank, 2009. Op. cit.) and Project Appraisal Document (World Bank, 2010. Op. cit.).

52 World Bank (May 2008). *Sri Lanka – Country Assistance Strategy for the Period 2009–2012*. Washington DC: World Bank. Available at <http://documents.worldbank.org/curated/en/2008/05/9648219/sri-lanka-country-assistance-strategy-period-fy2009-fy2012>

53 D. Amarasinghe and J. Rebert (2013). *Dynamics and Trends of Foreign Aid in Sri Lanka*. London: International Alert. Available at <http://www.international-alert.org/resources/publications/dynamics-and-trends-foreign-aid-sri-lanka>

54 See: World Bank (2014). *IDA Project Paper on Proposed Project Restructuring and Additional Financing for the North East Local Services Improvement Project (NELSIP)*. Washington DC: World Bank. As recorded in the minutes of the meeting of the Executive Directors of the World Bank and IDA, 29 April 2014: "[T]he Executive Directors recorded their approval on April 29, 2014 of the recommendation contained in paragraph 6 of the President's Memorandum entitled 'Sri Lanka – North East Local Services Improvement Project – Proposal to Restructure' (IDA/R2014-0126, dated April 18, 2014)".

The commitment of the previous Country Assistance Strategy 2009–2012 – to apply a conflict filter to all projects in the portfolio – has been blurred. The current World Bank Country Partnership Strategy states that only “existing” portfolio commitments will be used “to support ongoing efforts to restore livelihoods of Internally Displaced Persons and others affected by the conflict” and that the conflict filter has been “revised”.⁵⁵ There is no clear commitment to using it in future project financing in Sri Lanka. This shift suggests that World Bank operations from 2013 onwards could aggravate rather than alleviate conflict and fragility dynamics, exposing the bank to greater risk and threatening progress towards the World Bank Group goal of ending extreme poverty and promoting shared prosperity in the Sri Lanka context.

Case studies from the Kyrgyz Republic

ADB encountered direct opposition from the client government as it prepared the EARR project. The bank was initially informed by the findings of the ‘Kyrgyz Republic Joint Economic Assessment: Reconciliation, Recovery and Reconstruction’ (JEA) produced by ADB itself alongside the International Monetary Fund (IMF) and the World Bank.⁵⁶ It was also encouraged by the interim government’s request for assistance to “mitigate the adverse effects” of the violence.⁵⁷ Against this background, ADB sought to finance government capacity to sustain service delivery in conflict-affected areas and to finance the repair and reconstruction of houses, property and infrastructure damaged in the violence. However, although the government was eager to secure financial assistance for the delivery of services and infrastructure, it was concerned about the reconstruction of homes. The damaged homes were in Osh city and therefore under the authority of the Osh city administration,⁵⁸ led by powerful political opponents of the Bishkek-based central government. Alongside the ongoing power struggle between Osh and Bishkek, the Osh city administration was widely known to have been in the process of developing a plan to redesign Osh city. The details of the plan remain undisclosed but include the sites of the damaged homes. Any interference in the Osh city administration’s jurisdiction would stir up a power struggle. It is likely that these concerns combined with wider central government concerns about the project. Given the strength of anti-Uzbek sentiments across the Kyrgyz Republic, the interim government may have feared inflaming a populist anti-government backlash if it took an ADB loan to finance Uzbek housing.

In this instance, ADB worked with the UN, international non-governmental organisations (INGOs) and local partners to pursue the housing component of the project with the government. All parties recognised the importance and urgency of this component as winter approached and housing remained in disrepair or destroyed. An agreement was reached and the government signed up to a US\$51.5 million grant and a US\$48.5 million loan, also committing US\$10 million of the government’s budget to the initiative. Several factors are likely to have worked in the ADB project’s favour. Firstly, ADB was able to offer financing to support stabilisation and recovery under ADB’s Disaster and Emergency Assistance Policy (DEAP),⁵⁹ which allows for rapid mobilisation of funds.⁶⁰ This would have appealed to the government who were eager to stabilise the country as quickly as possible after the 2010 violence. In addition, the largest proportion of project financing (US\$51.5 million) was provided as a grant, not a loan. Providing the grant was in ADB’s interests as, overall, the project increased the value of ADB’s portfolio in the Kyrgyz Republic by 20% (the additional US\$100 million brought the total invested in grants and loans to US\$521 million as at 31 December 2012). Secondly, ADB sandwiched

55 World Bank (2012). *Sri Lanka – Country Partnership Strategy for the Period 2013–2016*. Washington DC: World Bank.

56 ADB, IMF and World Bank (July 2010). *The Kyrgyz Republic – Joint Economic Assessment: Reconciliation, Recovery and Reconstruction*. Available at <https://www.imf.org/external/np/pp/eng/2010/072110.pdf>

57 See letter of intent of the President of the Kyrgyz Republic to request financial assistance from the IMF, 26 August 2010, p.2. Available at <http://www.imf.org/external/np/loi/2010/kgz/082610.pdf>

58 Osh city was granted special status giving the city administration powers equivalent to those of Bishkek. Unlike other cities in the country, the national administration in Bishkek has no authority over Osh municipality.

59 ADB (May 2004). *Disaster and Emergency Assistance Policy*. Manila: ADB. Available at http://www.adb.org/sites/default/files/pub/2004/disaster_emergency.pdf

60 This was one of the first times the DEAP had been used in a crisis situation sparked by a political conflict rather than a natural disaster. It was also the first time that the DEAP had been used in the Kyrgyz Republic.

the financing for housing reconstruction (component 2) between financing for the Ministry of Finance (component 1) and financing for infrastructure (component 3). ADB went as far as to make agreement on components 1 and 3 contingent on including component 2. In addition, it secured the delivery of component 2 by agreeing to only release financing for component 3 after component 2 of the project was complete.

The World Bank in the Kyrgyz Republic also worked on community infrastructure in geographic areas surrounding the conflict-affected areas. Project priorities similarly reflected a good analysis of local needs in the aftermath of the 2010 violence. However, the World Bank project differed from the ADB project in that it reflected much greater attention to local conflict dynamics. The project used a conflict-sensitive approach throughout the project cycle, employing a ‘conflict filter’ methodology. In the World Bank’s Kyrgyz Republic Interim Strategy Note (ISN), developed with the client government to guide operations in the aftermath of the violence, the bank explicitly identified different conflict and security dynamics and set out an approach to operations in a fragile context. This approach included the development and implementation of a conflict filter methodology across the bank’s country portfolio. In contrast, ADB Kyrgyz Republic had no country strategy in the period following the 2010 violence, from 2010 to 2013, between the Joint Country Support Strategy 2007–2010 (August 2007) and the Country Partnership Strategy 2013–2017 (August 2013). The World Bank’s ISN built on a deep context analysis set out in the Joint Country Support Strategy for the Kyrgyz Republic 2007–2010 (JCSS) (May 2007), a document developed by ADB, the Swiss Cooperation, the UK Department for International Development, the World Bank and the United Nations Agencies, and aligned with the government’s own development goals. The JCSS identified many of the dynamics and grievances that were recognised as drivers of the 2010 violence – including poor governance, conflicts related to land tenure, a weak judiciary, a weak policy decision-making process and poor conflict-resolution mechanisms. Having an ISN that was built on a good context analysis and agreed with the government created the space for the World Bank project leader to integrate peacebuilding-orientated project priorities and a conflict-sensitive approach into the new initiative. Furthermore, following the 2010 violence and building on the commitments set out in the ISN, the World Bank committed a higher proportion of its financing to community investment programmes, especially in Osh, thus contributing more to rebuilding positive *societal* dynamics (see Table 2).

Table 2: Details of IDA allocation by component and sub-component (in US\$ million equivalent)

Project components	Initial IDA amount	Proposed additional financing	Total amount
Component A: Basic infrastructure	9.0	11.1	20.1
– Sub-component A1: Bishkek infrastructure	5.6	5.3	10.9
– Sub-component A2: Osh infrastructure	2.9	0.0	2.9
– Sub-component A3: Design and engineering	0.5	0.4	0.9
– Sub-component A4: Small town infrastructure	0.0	5.4	5.4
Component B: Community investment programmes	1.0	4.1	5.1
– Sub-component B1: Bishkek community investments	0.7	1.2	1.9
– Sub-component B2: Osh community investments	0.3	2.0	2.3
– Sub-component B3: Small town community investments	0.0	0.9	0.9
Component C: Institutional development	1.0	0.0	1.0
Component D: Operational support	1.0	0.6	1.6
Total	12.0	15.8	27.8

In conclusion to this section, securing government commitment to a conflict-sensitive project – encompassing peacebuilding objectives and activities, and an overall conflict-sensitive approach to project financing – can be facilitated by a number of factors: the availability of financing in the form of grants as opposed to loans; the integration of peacebuilding priorities into activities that respond to wider government infrastructure and service delivery priorities; bank fiduciary responsibility to ensure that fraud and corruption are minimised in the projects it finances, creating the space for citizen-led as well as state-led oversight and accountability mechanisms; and pre-existing agreement between the bank and the client government at the level of the bank's Country Partnership Strategy on the character of local fragility dynamics, and the need for a conflict-sensitive approach to project financing. Where country partnership strategies secured client government commitment to applying methodologies for conflict-sensitivity, project leaders were given the space to prepare and deliver projects that were tailored to the local context. Table 3 provides an overview of how country partnership-level agreement on the need for some degree of conflict-sensitivity is important to creating the space for project and operational-level conflict-sensitivity.

Table 3: Overview of global and national responses to conflict and fragility and the need for conflict-sensitive engagement

Bank-financed projects	Country Partnership Strategy
Kyrgyz Republic: Housing and recovery (2010)	Not available
Kyrgyz Republic: Infrastructure and governance (2011)	Yes – Explicit intention to apply a conflict filter to all projects
Nepal: WatSan and governance (2009)	Yes – Explicit intention to apply principles of conflict-sensitivity to all projects
Sri Lanka: Roads and skills (2009)	Yes – Explicit intention to use conflict-sensitive approach in conflict-affected areas
Sri Lanka: Infrastructure, services and governance (2010)	Yes – Explicit intention to apply a conflict filter to all lending operations

Sources: ADB (October 2010). Op. cit. p.3; Harmonised list of fragile situations 2010–2014; ADB, IMF and World Bank (July 2010). Op. cit.; ADB (April 2007). Op. cit.; ADB (August 2013). *Kyrgyz Republic: Country Partnership Strategy (2013–2017)*; World Bank (June 2011). Op. cit.; ADB (September 2004). Op. cit.; ADB (October 2008). *Sri Lanka Country Partnership Strategy 2009–2011*; World Bank (May 2008). Op. cit.

INSIGHT 3:

When potential project spoilers are not identified and managed from the start through ‘inclusive enough’ coalitions, they may reanimate conflict during project implementation.

The issue

Participation – who is included and who is excluded – in the preparation of interventions designed to progress peacebuilding, state-building and development is a hotly contested issue. On the one hand, in fragile and conflict-affected situations, extending participation to include marginalised groups can change the bargaining power of different groups in society and destabilise the local political settlement,⁶¹ causing renewed conflict and violence. On the other hand, engaging with only the core parties of a political settlement can reinstate unjust exclusions and grievances, leading to new conflicts and violence. Where either approach to engagement is high risk, an ‘inclusive enough’ coalition approach to participation can be useful. According to the WDR 2011, “unlike elite pacts, these coalitions involve broad segments of society – local governments, business, labour, civil society movements, in some cases opposition parties. Coalitions are ‘inclusive enough’ when they involve the parties necessary to restore confidence, transform institutions and help create continued momentum for positive change”.⁶² When a coalition is not ‘inclusive enough’, there is a risk that it can itself coalesce into a new form of political settlement and scapegoat new groups in society, reproducing exclusions and the potential for conflict and violence.⁶³ Critical to the success of an ‘inclusive enough’ coalition is the identification and careful management of potential spoilers – for instance, project stakeholders whose status and power may be challenged by project objectives, activities and conflict-sensitive approaches and who may therefore seek to undermine project success. Case studies from the Kyrgyz Republic and Nepal highlight how insufficiently inclusive coalitions behind projects, and poor management of potential spoilers, undermined project success.

Case study from the Kyrgyz Republic

The housing component of the ADB EARR project was contentious from the start. The ADB, World Bank and IMF JEA (July 2010) was prepared immediately after the 2010 violence and informed project preparation. The assessment carefully documented the impacts of the 2010 violence and the needs of the conflict-affected areas. However, the document was prepared “in close collaboration with the government of the Kyrgyz Republic” and based on information and data gathered: a) from field visits and surveys conducted in the affected areas with conflict-affected communities and non-governmental organisations (NGOs) working on relief efforts;

61 A. Marc, A. Willman, G. Aslam and M. Rebosio (2013). *Op. cit.* On political settlements, the authors write the following: “Michael Burton and John Higley (1998) define a ‘political settlement’ as ‘deliberate compromises of core disputes’ among prominent groups in a society. Scholars have recognised that political competitions among various societal groups, if mediated through political settlements, can provide political stability and facilitate and foster the adoption of open and inclusive societies. To be considered legitimate, and to last over time, a political settlement must be acceptable to the majority of actors, especially in post-conflict settings and deeply-divided societies. The most fundamental condition for achieving a political settlement is that all sides feel that they have more to gain by pursuing a common goal than by imposing their own, unilateral vision through violence (Fritz and Menocal 2007) ... The existing political settlement – whether it has been formalised in a political agreement or remains an informal negotiation – provides the backdrop for all development interventions.” Furthermore, the authors note that: “According to the OECD Development Assistance Committee (DAC), inclusive and stable political settlements are considered a critical foundation for both state building and peace building, and ongoing fragility and violence are often directly associated with highly exclusionary, predatory, unstable, or entrenched political settlements.”

62 World Bank (2011). *Op. cit.*

63 Political settlements continuously evolve as the powerbase, needs and interests of parties to the settlement shift and relationships realign in response to internal and external dynamics. See, for example: V. Fritz and A.R. Menocal (2007). ‘An Analytical and Conceptual Paper on Processes, Embedded Tensions, and Lessons for International Engagement’. London: UK Department of Foreign Investment and Development; A. Marc et al (2013). *Op. cit.*

and b) from the Commission for the Assessment of Damages in the South and the Directorate on Reconstruction and Development of Osh and Jalal-Abad.⁶⁴ Critically, there is little indication that the assessment included consultations with the Osh city administration. The two official entities that played a central role in the JEA were central government-led, while the directorate was headed by the vice-prime minister.

ADB's Joint Country Support Strategy 2007–2010, valid at the time of project preparation, clearly acknowledged the political instability in the Kyrgyz Republic. It stated that “the Kyrgyz Republic is still in the process of building the State. In this complex political environment, identifying appropriate reforms and, importantly, building consensus on them will be difficult”.⁶⁵ Nonetheless, despite Osh city's special administrative status in the country's governance structures and awareness of the Osh city administration's undisclosed plans to redesign the city, ADB did not continuously engage the Osh city administration in the preparation, design or implementation stages of the project. The project was prepared with central government, and designed to be delivered through the State Ministry of Finance and the State Directorate for Reconstruction and Development (SDRD) of Osh and Jalal-Abad; and it was implemented by INGOs with expertise in humanitarian response.⁶⁶ Without building an inclusive enough coalition from the start, aimed at developing a common understanding of the problems and potential and acceptable solutions to those problems among key stakeholders, the project encountered strong opposition during implementation and was almost derailed entirely. Once the houses were built and repaired, the Osh city administration blocked the legal registration of the houses on technical grounds. At the time of our field research, there were concerns that the houses might be demolished and rebuilt according to the requirements of the Osh city authorities.

After a year of legal negotiations with the Osh City administration, in which the implementing INGOs negotiated and secured registration documents for each house, the newly repaired and rebuilt houses were issued with registration documents and not demolished. With the completion of component 2 of the project, component 3 could finally begin, a year later than planned. Component 3 of the project aimed to support inter-community reconciliation; however, its delay during the completion of the housing component deepened insecurity, mistrust, fear and inter-community hostilities, as indicated by incidents of vandalism and damage, including breaking windows in the newly built and repaired homes. By prolonging the start date of component 3 and aggravating tensions in the process, the chances of successfully implementing the community reconciliation aspects of component 3 – rebuild trust and confidence between conflict-affected Uzbeks and Kyrgyz living in Osh city – have become harder to realise. The sequencing of the project was not conflict-sensitive, although it did help to guarantee completion of the housing component. The exclusion of the Osh city administration from the preparation phase of the project and the implementing team behind the delivery of the EARR project reflects a critical failure to identify and manage an important project stakeholder. This oversight almost undermined component 2 of the project entirely, and significantly compromised the overall success of the project.

Case study from Nepal

ADB's Second Small Town Water Supply and Sanitation Sector Project focused on service delivery, with core components centred on improving accountability and local governance systems. The project design sought to deliver “improved, affordable, and sustainable water supply and sanitation services which are governed and managed by locally accountable representative

64 ADB, IMF and World Bank (July 2010). *The Kyrgyz Republic – Joint Economic Assessment: Reconciliation, Recovery and Reconstruction*. p.10. Available at <https://www.imf.org/external/np/pp/eng/2010/072110.pdf>

65 ADB (April 2007). *Kyrgyz Republic: Joint Country Support Strategy (2007–2010)*. Manila: ADB. p.2. Available at <http://www.adb.org/documents/kyrgyz-republic-joint-country-support-strategy-2007-2010>

66 ADB (September 2010). Op. cit.

bodies”.⁶⁷ ADB’s analysis of “locally accountable and representative bodies” was informed by the findings of a poverty and social assessment and an associated Gender Equality and Social Inclusion (GESI) Action Plan.⁶⁸ The project set out to engage specific marginalised groups in decision-making bodies and processes as part of wider peacebuilding and development processes. Despite being well informed by local needs and agreed with the client government, the project objectives, activities and approach seeking to improve social, political and economic inclusion proved to be in direct conflict with the interests of dominant elites in Nepali society.

While sophisticated project governance structures (for planning and oversight) were designed to include marginalised groups in decision-making, final decision-making authority was consolidated in the Water Users and Sanitation Committee, control of which was captured by local political parties under the all-party mechanism. A political settlement designed to bring together the political parties involved in Nepal’s long conflict, the all-party consensus framework introduced under the 2007 Interim Constitution, was designed to protect peace and promote reconciliation. However, while local-level elections are on hold across Nepal, the political parties of the all-party consensus share local-level leadership roles among themselves, reproducing exclusions.⁶⁹ Thus, in Baglung Bazar, like in other districts, political parties outside the all-party mechanism and other marginal groups are excluded from decision-making authority, despite a well-designed project governance structure and process. The ADB project needed commitment from the political parties of the all-party consensus to the inclusivity objectives of the project from project inception. By not managing potential project spoilers through an inclusive enough coalition, the project was not derailed entirely, but the lack of support for all of the project’s objectives became a fundamental weakness in the delivery of the project’s results.

Rather than facilitating greater inclusion, the project governance system became a tool for already dominant groups to consolidate their control over resources in the community. While the Water Users and Sanitation Committee was accountable to the district engineer, there appeared to be no direct oversight of the executive board of the committee in charge of making decisions regarding the revenue from local connection fees and monthly usage charges. Even though the project included a provision for financial support to low-income households, known as output-based aid, the Water Users and Sanitation Committee was supposed to administer the support.⁷⁰ At the time of the research in Baglung Bazar, none of the project beneficiaries interviewed knew this financial support was available.⁷¹ Project-affected communities surveyed were concerned that poor households could not afford service connection fees and few were aware of available financial aid. The interviews indicated that “wage labourers and their families were singled out as being the least able to pay”.⁷² At the same time, members of a *Dalit* neighbourhood on the periphery of the town complained of not knowing how much they were expected to pay or if they could get a connection in the future if they could not pay immediately; moreover, some households were taking out risky loans just to pay the fees and access services.⁷³ In terms of both improving political inclusion and improving access to services for marginalised groups, the project was failing to deliver, largely

67 ADB (August 2009). *Proposed Asian Development Fund Grant Nepal: Second Small Towns Water Supply and Sanitation Sector Project*, ADB Report and Recommendation of the President to the Board of Directors. Manila: ADB. p.5. Available at <http://www.sstwssp.gov.np/images/reports/RRP%20edited%2010Aug%20clear.pdf>

68 In Nepal, social exclusion and elite dominance are identified as key conflict and fragility drivers. This was explicitly acknowledged in the ADB *Nepal Country Strategy and Program 2005–2009*: “The voice of the poor and excluded groups in public decision-making has been limited: politics and public institutions have been dominated by a narrowly based elite, resulting in little attention to the interests of the poor and excluded. This ... has contributed to social tension and fuelled the insurgency.” (ADB (September 2004). *Nepal: Country Strategy and Program 2005–2009*, p.6). This fact was also more subtly acknowledged in the subsequent ADB *Nepal Country Partnership Strategy 2010–2012*, which states that it will support Nepal’s transition to peace “by improving governance and achieving stronger and more sustainable socio-economic growth” (ADB (October 2009). *Nepal: Country Partnership Strategy 2010–2012*, p.ii).

69 The Asia Foundation (2012). *Political Economy Analysis of Local Governance in Nepal with Special Reference to Education and Health Sectors*. Kathmandu: The Asia Foundation.

70 ADB (August 2009). Op. cit. p.35.

71 Interviews with residents, Baglung Bazar, 8–12 March 2013.

72 Interview with cluster coordinator, Baglung Bazar, 10 March 2013.

73 Interview with residents of Shri Krishna Tole, Baglung Bazar, 12 March 2013.

because project preparation had not addressed the implications of the all-party mechanism for inclusion objectives and strategies. The political parties that signed up to the all-party framework thus became powerful spoilers, disrupting progress towards project objectives.

Engaging with the dynamics of exclusion in Nepali society is crucial for conflict-sensitivity, but this is not an easy task. When DFID sought to publish a paper on the dynamics that sustain inequality and exclusion in Nepal (a study supported by ADB and the World Bank), it received representation from the Joint Committee for National Sovereignty and Ethnic Harmony – a group that represents the interests of high-caste and ethnic hill elites opposed to federalism. In the end, the paper was not published in the public domain⁷⁴ because another paper on the same subject published earlier in the year had already stirred a powerful debate and was possibly associated with political unrest and violence in Nepal. Resistance to the publication of another *report* on inequality and exclusion indicates the level of opposition among influential groups in Nepali society to *practical initiatives* that seek to engage on the issue of exclusion and shift the status quo.

In addition to the immediate risks posed to the ADB project, failure to engage with and address the impact of the all-party mechanism on the governance and delivery of local services could pose serious risks for the future as Nepal moves towards local elections. When the political parties in the all-party mechanism move to contest local elections, consensus among them is likely to become fragmented. Current political trends indicate that there is considerable risk that inter-party political contestation and alliances will be shaped by identity politics. If identity politics play a central role in local elections, there is a significant risk that the governance and delivery of local services will be shaped by the needs and interests of dominant groups, reproducing exclusions and the circumstances for intra-community conflict over resources. Currently, progress towards local elections is slow, since they threaten the powerbase of the political parties that currently benefit from the all-party mechanism. Nonetheless, local elections are a key milestone of Nepal's Comprehensive Peace Agreement, signed by conflict parties in 2005. While ADB at the global level did not recognise Nepal as a fragile situation in 2009,⁷⁵ at the country level other international organisations including the World Bank, the UK Department for International Development (DFID) and the Organisation for Economic Co-operation and Development (OECD) were highlighting Nepal's fragility and helped to create a climate for more targeted work on marginalisation. This leverage could have been used to greater effect to secure the delivery of project results.

74 See: 'Pressure from hill elites halts DFID exclusion report', *Alliance for Aid Monitor Nepal*, 20 August 2012. Available at http://www.aidmonitor.org.np/inner.php?do=news_detail&id=519. Also, interview with ADB South Asia Department staff member, Manila, 22 April 2013.

75 ADB [October 2010]. Op. cit. p.3.

INSIGHT 4:

When project risk assessment and mitigation strategies are not regularly updated and grounded in the local project context, critical conflict risks and peacebuilding opportunities may be missed.

The issue

In instances where project risk assessments did not draw on the local project context, local fragility dynamics and a good understanding of societal dynamics, project design and implementation was poor and project results were compromised. Similarly, one-off project risk assessments conducted only during the project design phase were also found to be limited in terms of guiding a conflict-sensitive approach to project delivery. Conflict-sensitive approaches to risk assessment and mitigation recognise the ever-changing character of fragile and conflict-affected situations, whereby new internal and external shocks and dynamics can shift priorities as well as alliances among stakeholders. Where risk assessment and mitigation strategies did not reflect an in-depth understanding of the local context, and where they were not revised throughout the project cycle in response to shifts in the context, the result was costly project implementation delays and sometimes aggravated local conflict dynamics.

Case studies from the Kyrgyz Republic

The World Bank Bishkek Osh Urban Infrastructure project and the ADB EARR project both operate in a similar geographic area, were developed in the same period immediately following the 2010 violence, and had access to some of the same information through the JEA.⁷⁶ Despite their similarities, the two projects used markedly different risk assessments to inform project design and delivery (see Table 4).

The World Bank Project Appraisal Document prepared during the first tranche of project financing (2008–2012) identified 13 project risks.⁷⁷ Of these, at least six related to local conflict dynamics and risks associated with governance and political interference. Specifically, the World Bank recognised the risks posed when “mayors attempt to steer project resources to other city areas for political or personal reasons”, and proposed that the project be “implemented under the oversight of a Coordination Council that includes representatives of not only the government and the municipalities, but also the NGO sector and the *novostroiki* communities [project beneficiaries]”.⁷⁸ The World Bank was aware of powerful mayors and their potential to impact projects delivered in the Kyrgyz Republic.

In contrast, the ADB EARR project preparation documents identified only four project risks,⁷⁹ and only one of these related to conflict dynamics in the project context. No governance and political interference risks were acknowledged (see Table 4). Overall, the character of risks and mitigation strategies identified under the ADB project were much more concerned with risks to ADB’s investment and much less concerned with possible risks posed to project-affected people or the country’s wider peace and security situation. In contrast, the World Bank identified some risks

⁷⁶ ADB, IMF and World Bank (July 2010). Op. cit.

⁷⁷ World Bank (February 2008). *Kyrgyz Republic – Bishkek and Osh Urban Infrastructure Project*, Project Appraisal Document. Washington DC: World Bank. Available at <http://documents.worldbank.org/curated/en/2008/02/9044336/kyrgyz-republic-bishkek-osh-urban-infrastructure-project>

⁷⁸ Ibid.

⁷⁹ ADB (September 2010). *Proposed Loan and Grant Kyrgyz Republic: Emergency Assistance for Recovery and Reconstruction, Report and Recommendations of the President to the Board of Directors*. pp.9–10. Available at <http://www.adb.org/sites/default/files/projdocs/2010/44236-01-kgz-rrp.pdf>

that the project may pose to project-affected people and the country's wider peace and security situation – for example, elite capture of project benefits. The mitigation strategies usually pointed to reinforced project governance structures and systems. Challenges related to the implementation of these will be discussed under Insight 6.

Table 4: Overview of risk assessments for ADB and World Bank projects in Kyrgyz Republic

Bank-financed projects	Risk assessment	Mitigation strategy
Kyrgyz Republic: Housing and Recovery (2010) – ADB	Renewed community tension	The EARR's fiscal support component helps to maintain critical public expenditures that benefit the entire population. The housing component is based on technical assessment of damaged houses in affected areas. The community infrastructure and water supply component is a complementary intervention benefiting the entire communities of Osh and Jalal-Abad.
	Structural damage to houses and infrastructure due to seismic activity	ADB and the government will ensure that all designs and construction of houses meet acceptable structural and geotechnical standards. The project management consultant (firm) will provide quality assurance on technical aspects.
	Lack of institutional capacity and experience in housing reconstruction	ADB and the government will partner with experienced development partners and INGOs in project implementation.
	Systemic banking risks are aggravated requiring additional fiscal support	The IMF and the European Bank for Reconstruction and Development (EBRD) are advising the National Bank of the Kyrgyz Republic (NBKR) on this issue. ADB will closely coordinate with the IMF and the EBRD in monitoring the situation.
Kyrgyz Republic: Infrastructure and Governance (2011) – World Bank	<i>Overall project risks:</i> Government interferes in ARIS project management decisions	<i>Overall mitigation strategies:</i> Project implementation conditions and obligations of ARIS are clearly spelled out in the IDA Project Agreement and Subsidiary Agreement between the government and ARIS, and include the necessary provisions protecting ARIS from undue interference.
	Government unilaterally decides on dismantlement or restructuring of ARIS	This constitutes a condition for grant suspension. The risk is negligible since ARIS is also responsible for other operations financed by the bank and other donors.
	Mayors attempt to steer project resources to other city areas for political or personal reasons	BOUIP is implemented under the oversight of a Coordination Council that includes representatives of not only the government and the municipalities, but also the NGO sector and the <i>novostroiki</i> communities. In addition, all annual investment programmes require prior review by the bank.
	Political changes result in leadership changes in ARIS and municipalities	Its experience as the lead implementing agency in several ongoing bank-funded operations has provided ARIS with an internal management structure and arrangements that are robust and able to resist external shocks.

<p><i>Component risks:</i> Mayors of either city are not capable of identifying suitable investment proposals for second and subsequent years in a timely manner under basic infrastructure (component 1)</p> <p>Cost overrun occurs during project implementation (component 1)</p> <p>Capable contractors cannot be found to carry out civil work contracts (component 1)</p> <p>Local leaders try to capture project benefits under community investment programmes (component 2)</p> <p><i>Novostroiki</i> communities fail to agree on local priorities (component 2)</p> <p>Local capacity to appraise and/or approve projects is inadequate (component 2)</p> <p>Communities lack necessary discipline in procurement (component 2)</p> <p>Municipalities fail to enter into ownership of component activities (component 3)</p> <p>Persistent political volatility prevents municipalities from adopting and implementing restructuring programmes</p>	<p><i>Component mitigation strategies:</i> Allocation of BOUIP resources to either of the cities is not rigidly predetermined and will be handled flexibly and competitively to satisfy only those needs that are identified properly.</p> <p>Local inflation and foreign exchange fluctuations are beyond the control of the project, but the project is designed with the necessary flexibility to adjust the investment programmes for subsequent years to the actual available resources.</p> <p>BOUIP will be implemented in the Kyrgyz Republic's two largest cities, where contractors with adequate expertise and technical resources are more likely to be found than in small towns and rural areas.</p> <p>Component implementation involves intensive pre-investment community mobilisation and training, as well as the creation of mechanisms to ensure transparency.</p> <p>Pre-investment community mobilisation emphasises training in prioritisation and planning.</p> <p>Necessary technical support will be provided by ARIS and/or the municipalities.</p> <p>Insistence on transparency combined with the threat of disqualification from participation in future projects are expected to provide adequate incentives for compliance.</p> <p>The programme has been extensively discussed with the municipalities during project preparation.</p> <p>While important for the future development of the two cities, the administrative reforms are not critical to the achievement of the project's development objective.</p>
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Sources: ADB (September 2010). Op. cit. pp.9–10; World Bank (2008). Op. cit. (BOUIP Part 1)

The two projects arrived at very different risk assessments, despite the fact that both drew on the findings of the 2010 JEA. The assessment identified the central risk as “the continuation or even intensification of social strife in the south of the country”; moreover, it made the case for “a comprehensive and well-integrated approach to promoting social reconciliation and recovery” across all project sectors (such as housing, infrastructure, agriculture, finance, livelihoods), timeframes (immediate, short, medium and longer term), and stages of the project cycle (design, implementation, management, monitoring, exit).⁸⁰ The assessment included a series of 10 “cross-cutting principles”, rooted in the Kyrgyz Republic context and referring to some of the specificities of local fragility and societal dynamics to guide “effective recovery activities”.⁸¹ The principles highlight likely project risks and approaches for their mitigation.

While the ADB EARR project acknowledged the core risk of “renewed community tensions”,⁸² it did not explore how different project components could aggravate this risk differently and therefore identify the sequencing problems in the project design. As already discussed, by addressing the Uzbek communities’ housing needs under component 2 of the project before turning to the third component of the project that addressed the whole community’s needs, the sequencing of the project provoked frustrations and intensified inter-community tensions. These tensions were compounded further when component 2 of the project was delayed by a year as housing registration was secured. Component-specific analysis of risks would have helped to highlight sequencing problems in the project design.

The ADB EARR project appears to have been blind to the risks caused by local fragility and societal-stress dynamics. ADB’s Summary Poverty Reduction and Social Strategy prepared for the EARR project concludes under the section on ‘social safeguard issues and other social risks’ that the EARR project will have “no impact” on “conflict and political instability” and requires “no action” in this area.⁸³ This conclusion is not surprising given the narrow range of sources used to produce the Summary Poverty Reduction and Social Strategy – namely, the UN World Development Indicators, the National Statistics Committee of the Kyrgyz Republic, the Country Development Strategy 2009–2011 and the Central Bank of Russia. Nonetheless, the EARR project did make use of ADB’s Disaster and Emergency Assistance Policy (2004) to secure financing. This policy explicitly requests “special attention to post-conflict requirements”, noting that “countries classified by the UN as medium or low in relation to human development feel the impact of disasters and conflicts the most acutely”.⁸⁴ The policy outlines a “new approach to post-conflict situations”, acknowledging the limits of the previous Disaster and Emergency Assistance Policy (1989) and the lessons learnt from ADB’s engagement in Timor-Leste.⁸⁵ Specifically, the 2004 policy states that “post-conflict situations typically require making substantive structural changes rather than simply re-establishing pre-conflict conditions. Policy dialogue, formulation and implementation are particularly important. Technical assistance to support medium-term improvements in governance and institutional capacities is vital”.⁸⁶ Furthermore, the ADB policy gives specific attention to managing conflict dynamics and explicitly encourages the use of “social assessments to take conflict dynamics into account, in part to support early detection and the development of interventions to prevent tensions and perceived injustices from escalating into violent conflict”; it also argues that “social assessments can identify the beneficiaries and ‘losers’ of project interventions, thereby providing early warning of the potential magnification of social cleavages and the attendant risk of civil conflict”.⁸⁷ Despite this guidance, and the advice of the JEA conducted following the 2010 violence, the ADB project did not identify the full range of project risks and appropriate mitigation strategies during project design. The lack of attention to

80 ADB, IMF and World Bank (July 2010). Op. cit. pp.28–32.

81 See ‘Box 3: Cross-cutting principles for effective recovery activities’, pp.28–29. ADB, IMF and World Bank (July 2010). Op. cit.

82 ADB (September 2010). Op. cit.

83 ADB (September 2010b). *Summary Poverty Reduction and Social Strategy – Emergency Assistance for Recovery and Reconstruction*. Manila: ADB. Available at <http://www.adb.org/sites/default/files/projdocs/2010/44236-01-kgz-sprss.pdf>

84 ADB (May 2004). Op. cit.

85 Ibid. pp.15–16.

86 Ibid. p.15.

87 Ibid. p.24.

fragility and societal-stress dynamics within the ADB emergency housing project risk assessment suggests a limited capacity within ADB either at the level of expert advice available or at the level of systems and approaches to risk assessment when engaging in fragile and conflict-affected situations.

In response to the 2010 violence, the World Bank produced an ISN that acknowledged the limits of the risk analysis in its Joint Country Support Strategy (2007–2010) used in the period preceding the 2010 violence. The World Bank stated that “the risks posed by the stress factors were not adequately appreciated in the Joint Country Support Strategies; their impact on economic and social developments turned out to be profound ... social tensions erupted into extreme violence and large-scale destruction”.⁸⁸ Building on the findings and guidance presented in the JEA (July 2010), the World Bank Kyrgyz Republic ISN set out commitments to a conflict-sensitive approach that includes “deepened dialogue with parliament and structured dialogue with civil society organisations” and that “builds in stakeholder analysis in its projects, and through a conflict filter takes explicit account of conflict-related stress factors in portfolio management and new project design”.⁸⁹ The ISN specifically states that: “a conflict filter will be applied to all projects to identify and address possible stress factors”.⁹⁰ The World Bank Kyrgyz Republic conflict filter includes a detailed conflict analysis and a matrix of questions designed to support project leaders to identify risks and develop strategies to manage the interaction between their project and wider conflict and societal dynamics. The filter is used to strengthen project design and informs project supervision, helping to ensure strong progress across project objectives.

Conflict/peace filter methodologies have been piloted by both the World Bank (in Nepal, Sri Lanka and the Kyrgyz Republic) and ADB (in Nepal only so far). In each country, the filter methodology has been integrated rigorously in only a few projects, partly because the methodology has not been integrated into bank systems and therefore it constitutes an additional requirement for project leaders to contend with as they prepare complex, large-scale projects according to already demanding institutional project-financing frameworks. That these existing frameworks do not take into account conflict dynamics and that they leave little room for the use of filter methodologies indicates the degree of institutional reform required within the banks if bank-financed projects are to produce conflict-sensitive and therefore sustainable outcomes in fragile and conflict-affected situations. Country strategies often state that conflict filters must be applied in all projects within a given period. However, without standards to assess the degree to which conflict filter analysis has been integrated, it is difficult to know how much they have actually informed or changed project design and implementation – other than in instances where project delivery has failed in an obvious way. Furthermore, there is little incentive within bank staff performance management structures to encourage collaboration with social development and conflict experts or the development of skills for operating effectively in fragile and conflict-affected situations. In the Kyrgyz Republic, only four bank-financed projects – including the BOUIP project – were rigorously piloting the conflict filter at the time of our research. Attempts to rationalise workloads by integrating the findings of the conflict filter into the World Bank’s global Operational Risk Assessment Framework (ORAF) at the country level have been found lacking. Since the ORAF aims to cover many different risks, there is little room to examine risks related to fragility and societal dynamics in any depth. By incorporating the findings of a conflict filter study into the ORAF, the process of project leaders taking the time to understand local fragility and societal-stress dynamics and the interactions (positive and negative) of these with their projects is bypassed. Thus, the value of conflict filter methodologies for augmenting conflict-sensitivity is diminished when it is incorporated into the ORAF.

88 World Bank (June 2011). *Interim Strategy Note for the Kyrgyz Republic for the Period 2012– 2013*. Washington DC: World Bank. p.21. Available at <http://documents.worldbank.org/curated/en/2011/06/14571709/kyrgyz-republic-interim-strategy-note-period-fy12-fy13-kyrgyz-republic-interim-strategy-note-period-fy12-fy13>

89 Ibid.

90 Ibid.

INSIGHT 5:

When project feedback loops do not include mechanisms to gather information from a balanced enough range of project stakeholders, throughout the project cycle, the risk that project resources will be misdirected increases.

The issue

Project preparation, design and implementation is never smooth. In fragile and conflict-affected situations, the project operating environment is politically complex and vulnerable to internal and external shocks. Any change can produce unexpected, significant, widespread and/or rapid effects. Project financing for fragile and conflict-affected situations therefore requires resilient oversight and feedback mechanisms that are independent from each other yet work together in a balanced way to ensure projects are kept on course towards their intended objectives. State-led oversight entities should be complemented by a variety of citizen-led oversight entities that reflect critical project stakeholder groups, and mixed state–citizen entities such as project-specific inclusive enough coalitions with oversight as well as decision-making authority can further contribute to conflict-sensitive oversight. Since feedback mechanisms can be compromised by political interference and other factors, the effectiveness of these mechanisms can be reinforced by regular bank-led project supervision at both national and local levels. A carefully balanced web of feedback loops can support project teams to identify and manage emerging risks for both bank investments and project-affected communities.

Case study from Sri Lanka

The project ‘Improving Connectivity to Support Livelihoods and Gender Equality’, designed and approved by ADB, was delivered in the conflict-affected North East of Sri Lanka. Financed by the Japan Fund for Poverty Reduction (JFPR) grant that prioritises support for the most vulnerable groups in ADB developing member countries, the project was designed to specifically support vulnerable groups in the conflict-affected areas – including war widows, households headed by women, single women with dependants, families of those with disabilities, the elderly and youth.⁹¹ However, during the early phase of project implementation, Sri Lanka was affected by storms and floods, which also impacted areas in the North and East. Local officials proved to be able to manipulate the distribution of funds to support their patronage networks. For instance, JFPR project financing was allocated to some villages that had neither been directly impacted by war nor demonstrated exceptional poverty indicators, but that had been affected by the flood to some degree (for example, the village of Bhatiyagama). Among the villages that had been directly impacted by war, some were targeted despite not reflecting the priority demographics of the project, again because of flood impacts (for example, the village of Suriyapura). The redirection of the JFPR financing to address humanitarian needs was achieved through political leverage and was not in line with the original intentions of the JFPR project.

Despite the redirection of financing to a newly identified vulnerable group, the project was not revised accordingly to address their specific vulnerabilities. It was delivered according to the original design and continued to target women as the vulnerable group, despite the fact that the flooding had affected men’s livelihoods too. Project implementation involved skills training for women and employment in road and drainage repairs. However, in some of the targeted villages, it was primarily men who sought and needed work after the floods, not women. This

91 ADB (November 2009b). *Op. cit.* p.1.

caused considerable frustration among those project-affected communities targeted in this way, but there was no redress or flexibility during project delivery. According to the project design, local government (*Pradeshiya Sabhas*) officials were charged with overseeing how local NGOs delivered the “capacity development for maintaining rural access roads” component of the project.⁹² In addition, both project management and project supervision were led by the project implementation unit staffed by and located within the Ministry of Local Government and Provincial Councils. The fact that both these functions were the responsibility of the same team reflects a potential conflict of interests. Furthermore, the fact that only government officials led all project oversight and accountability also reflects a lack of balance in the project oversight structure. Critically, neither the intended main beneficiaries of the project (conflict-affected vulnerable women) nor those most affected by the floods (newly unemployed men) benefited as much as they should have from the project financing. This is despite the allocation of US\$30,000 within the budget for the procurement of vehicles and motorcycles expressly to facilitate “the efficient supervision” of the project by the Project Implementation Unit.⁹³ Given the poor state of infrastructure in the North East of Sri Lanka, the request for some project financing to be allocated to purchasing appropriate vehicles is to be expected. However, if project supervision was not carried out, questions remain about the use of the purchased vehicles. The feedback loops within this project were insufficiently balanced for adequate oversight of project management and delivery. Given the very recent history of violent conflict in the North East of Sri Lanka between the Tamils and the current government, issues of supervision in the conflict-affected areas are particularly sensitive and important.

In conclusion to this section, the effectiveness of bank-led supervision can be limited by under-resourcing. World Bank economists calculated: “in financial year 2011, the World Bank spent nearly three times as much in Bank budget per dollar of IDA lending in fragile and conflict-affected situations in comparison with non-fragile and conflict-affected situations. A significant proportion of that difference is explained by higher supervision budgets for fragile and conflict-affected country projects ... to help address implementation challenges in low capacity environments”.⁹⁴ The costs of supervision rise in low-capacity, fragile and conflict-affected situations, but cannot be avoided if the bank is to ensure fiduciary accountability.

Supervision can be financed from core bank budgets as part of the bank’s corporate commitment to ensuring fiduciary accountability. However, bank shareholders need to match their commitment to supporting better development outcomes in fragile and conflict-affected situations with a willingness to bear the higher operating costs of engaging in fragile and conflict-affected situations.

Supervision can alternatively be incorporated into project budgets to ensure fiduciary accountability – as in the case of NELSIP and BOUIP – in negotiation with the client government. However, this requires bank staff with a strong understanding of local fragility dynamics and who pay explicit attention to identified risks when conducting bank-led supervision. In the Kyrgyz Republic the BOUIP initiative has been able to continue, but in Sri Lanka the NELSIP project has encountered difficulties. Thus, in addition to expertise in local fragility dynamics, bank project leaders need to be backed by country directors able to negotiate the necessary space for the inclusion of a balanced set of oversight and feedback loops within project agreements with the client government.

⁹² Ibid.

⁹³ Ibid. p.23.

⁹⁴ World Bank (March 2013). *IDA 17: IDA's Support to Fragile and Conflict-Affected States*, IDA Resource Mobilisation Department Concessional Finance and Global Partnerships. Washington DC: World Bank. Available at http://www.worldbank.org/ida/papers/IDA17_Replenishment/FCS%20paper.pdf

INSIGHT 6:

Even though a country is not on the harmonised list of 'fragile and conflict-affected situations', it may still experience fragility, conflict and violence and require a conflict-sensitive approach.

The issue

Two of the countries included in this study, the Kyrgyz Republic and Sri Lanka, did not feature in the annual 'harmonised list of fragile situations' between 2009 and 2014, despite the fact that both have experienced considerable violent conflict immediately prior to and during this period. Our research indicates that fragility, conflict and violence continue to have an impact on the political-economy and social relationships of these countries. Given these circumstances, flows of project financing have and can still serve to reinforce the insecurity and marginalisation of vulnerable populations.

The harmonised list of fragile and conflict-affected situations is problematic at three levels. Firstly, it includes only IDA-eligible countries. This means that only countries with low per capita income can be listed and that the majority of middle-income countries are automatically excluded from the list. In Asia especially, sub-national conflicts affect numerous middle-income countries that otherwise have "strong governments, regular elections and capable security-forces".⁹⁵ Countries such as Thailand and the Philippines have graduated from IDA, yet they continue to experience conflict and could therefore benefit from conflict-sensitive approaches to development financing.⁹⁶ Secondly, countries are not included on the list if they score above 3.2 when their World Bank Country Policy and Institutional Assessment (CPIA) score is harmonised with their ADB Country Policy Assessment (CPA) score. Both the Kyrgyz Republic and Sri Lanka are IDA eligible; however, their harmonised CPA and CPIA score is sufficiently high to not feature on the list, despite recent conflict and instability. This weakness in the CPA/CPIA system reflects the fact that the current CPA/CPIA questionnaires do not weigh social inclusion and equity issues as highly as public sector management issues. Moreover, they do not include vital indicators for inclusive development such as freedom of association, assembly and expression when assessing a country context. Thirdly, efforts to revise the harmonised list system ignore the wider political sensitivities and economic implications for countries that are included on a list of fragile and conflict-affected countries. The very premise of the list ignores the diversity and complexity of violent conflict and fragility, and how these have an impact on all societies in varying degrees in different ways at all times. Rather than relying on problematic lists, it is far more effective to engage on the basis of a deep understanding of the unique history, dynamics and vulnerabilities of each operating context.

⁹⁵ T. Parks, N. Colletta and B. Oppenheim (2013). *The Contested Corners of Asia: Subnational Conflict and International Development Assistance*. San Francisco: The Asia Foundation. Available at <http://www.asiafoundation.org/resources/pdfs/ContestedCornersOfAsia.pdf>

⁹⁶ ADB and World Bank operational plans both highlight the need to apply conflict-sensitive approaches to engagement in middle-income countries and situations affected by sub-national conflict.

4. Conclusions and emerging recommendations for development banks and their shareholders

Our research findings and ongoing engagement with the development banks indicate that the debate is no longer about whether or not to integrate conflict-sensitivity. Rather, it is about how to integrate it within complex institutional cultures, structures and systems, and how to operationalise it in complex and volatile political environments. Our case studies, among other research, demonstrate that ADB and the World Bank both have pockets of capacity for conflict-sensitivity. The World Bank has invested in greater capacity than ADB, but neither can yet demonstrate the embedded, coherent, well-resourced and institution-wide approach to conflict-sensitivity that is needed to support sustained and inclusive development progress in fragile and conflict-affected situations.

Many of the challenges encountered in the five bank-financed projects studied related to limitations in bank capacities to understand, monitor and manage the risky and complex political character of project financing in fragile and conflict-affected situations. The conclusions and emerging recommendations that follow suggest ways to better understand, monitor and manage the risks and complexity. What emerges clearly from the research findings is that the required changes are not simply technical reforms. Rather they also involve political negotiations and more focused collaboration between all quarters – bank staff, bank shareholder governments, client governments, fellow multilateral organisations and civil society.

Recommendations

1. Operate responsively: Look beyond the harmonised list of ‘fragile and conflict-affected situations’ when assessing whether or not a country or project requires a conflict-sensitive approach

The harmonised lists of fragile and conflict-affected situations are not an adequate indicator of where and when conflict-sensitivity needs to be applied in bank operations. Two of the countries in this study have experienced recent violence and instability, but do not feature on the harmonised lists. By relying on a limited set of indicators, the lists exclude the diversity and complexity of conflict and fragility, and how these pose risks in all societies in varying degrees and in different ways at all times. Rather than relying on problematic lists, it is far more effective to engage on the basis of a deep understanding of the unique history, threats, dynamics and vulnerabilities of each operating context. A much more sophisticated approach to triggering conflict-sensitive approaches to bank engagement in any given country is required.

While elements of conflict-sensitivity were adopted in the projects selected for this study, regardless of whether or not the countries in which they were implemented featured on the harmonised list at the time of project preparation, only some of the projects benefited from in-depth fragility assessments and expert support in the process of operationalising conflict-sensitivity. Limited analysis and understanding of conflict and fragility led to limited and fragmented approaches to conflict-sensitivity.

Bank staff should make use of fragility experts and use up-to-date regional, country and sub-national fragility assessments, and not rely on problematic lists to make informed decisions regarding the need (or not) to adopt a conflict-sensitive approach to project financing. Greater use of country assessments produced by the UN, bilateral donors and CSOs would provide valuable and detailed insights into the local context. For example, close attention to constraints on political space (freedom of association, assembly and expression) can provide an early indication

of conflict, fragility and violence dynamics. Once the need for conflict-sensitivity is identified and given the diverse forms of fragility, conflict and violence, and their implications for project outcomes, detailed fragility assessments should be included as a core component of country diagnostic or poverty assessment.

Bank executive directors and shareholder governments should request a review of how the banks trigger a conflict-sensitive approach to engagement and project financing. Bank frameworks for the analysis of fragility should be revised accordingly, and flexibility should be built into them to enable the incorporation of emerging and future cutting-edge knowledge on fragility, violence and conflict dynamics. For example, current analysis of gender and security, and analysis of the nexus between organised crime, armed violence and fragility are transforming how fragility dynamics are analysed.⁹⁷

Bank executive directors and shareholder governments should ensure sufficient numbers of fragility experts are available to support regional, country, sector and project teams to assess when, where and how to apply conflict-sensitive approaches to project financing. This may require a review of existing bank staff skills and availability to provide this service and/or making additional bank budget available for bank teams to hire external experts (such as consultants) until such time as more internal expertise is available.

2. Monitor closely: Apply conflict-sensitivity continuously, from project preparation to completion, and conduct regular and balanced project oversight to inform risk management and project adaptation

The ADB project in the Kyrgyz Republic illustrated the risks involved in adopting project objectives informed by conflict analysis without applying a wider conflict-sensitive approach to project preparation, design, implementation and oversight. Similarly, the ADB project in Sri Lanka was not as successful at delivering on its project objectives as it might have been because it did not include balanced oversight mechanisms to monitor implementation. Furthermore, the World Bank project in Sri Lanka illustrates how conflict-sensitive approaches integrated throughout a project cycle can be curbed as additional project financing is being negotiated. Under additional financing, the project doubled its geographic coverage, but halved the budget allocation for citizen-voice and oversight components. Given the wider context in Sri Lanka, the proposal to adjust the distribution of the project budget should have triggered a review of conflict and fragility dynamics and project progress at the community level to inform decision-making by the World Bank board of executive directors. A project review mechanism that brings a conflict-sensitivity lens to project proposals and additional financing requests could improve bank leadership capacity to identify and assess conflict and fragility-related risks and peacebuilding opportunities before projects are funded.

Sustained and close attention to shifting and changing conflict and fragility dynamics from project preparation to project completion and into any phase of additional financing, plus rigorous and balanced oversight and feedback mechanisms, can help to reinforce the conflict-sensitivity of project financing where influential project stakeholders, interest groups or spoilers may be inclined to manipulate projects to progress their own agendas, negatively impacting project outcomes and broader progress towards peace and development.

Bank staff should integrate conflict-sensitivity *throughout* the project cycle, focusing especially on their roles in project design, project supervision and project adaptation in response to new and emerging risks. To do this effectively, project leaders need time to engage more deeply with the details of the projects in their portfolio and need ongoing access to fragility expertise.

⁹⁷ J. Banfield (2014). *Crime and Conflict: The New Challenge for Peacebuilding*. London: International Alert. Available at <http://www.international-alert.org/resources/publications/crime-and-conflict>; H. Myrtilinen, J. Naujoks and J. El-Bushra (2014). *Re-thinking Gender in Peacebuilding*. London: International Alert. Available at <http://www.international-alert.org/resources/publications/re-thinking-gender-peacebuilding>

Ideally, this expertise should be specific to the project sector (for example, infrastructure) and the given country context. Once again, the detailed work of supporting the development of tailored conflict-sensitive approaches and their implementation across country portfolios, and throughout project cycles, calls for further availability of fragility experts. Multidisciplinary project teams are invaluable for ensuring that conflict-sensitive approaches and strategies remain relevant and are applied effectively as the context evolves.

Bank staff should ensure that project implementing partners have the capacity and resources to operate conflict-sensitively, by assessing their skills in this area and providing support to improve capacities. Where the banks rely on a regular group of implementing partners in country, the investment in strengthening partner skills in conflict-sensitivity can lead to dividends for country portfolios over time.

Bank executive directors and shareholder governments should ensure reviews and reforms of bank operational policies, processes and tools pay specific attention to how revisions will work in diverse fragile and conflict-affected situations. Specific adjustments and guidance for these operating environments are likely to be required. This is particularly important as banks increase flows of financing to fragile and conflict-affected situations and progress internal reforms and replenishment processes. For example, the current World Bank safeguards review proposes relying more on client government systems to identify and manage environmental and social risks. Given fragile and conflict-affected situations often suffer from weak, fragmented and/or politicised institutions, the revision of the bank's safeguard policies will require specific adjustments and guidance to ensure environmental and social risks are responsibly managed where country systems lack capacity. Bringing a conflict-sensitivity lens to reviews of bank operational policy, processes and tools can help to ensure revisions enable and encourage rather than constrain the operationalisation of conflict-sensitive approaches throughout project cycles by bank project teams.

Bank executive directors and shareholder governments should formalise appropriate staff incentives in human resource policies to encourage greater attention to conflict and fragility where it is needed. For example, the current World Bank ORAF does not allow for a detailed enough assessment of conflict and fragility-related risks to inform rigorous mitigation strategies. World Bank project leaders that seek to operate conflict-sensitively rather rely on conflict/peace filter methodologies developed specifically for the country context. While these methodologies are invaluable for conflict-sensitive project financing, they are not yet well integrated into bank project processes and therefore constitute an additional step for project leaders to carry out. The additional time and work involved means that few staff take up using the filter. A greater appreciation of the complexity and time-intensive nature of project financing in fragile and conflict-affected situations needs to be reflected in bank human resource policies if greater take-up of conflict-sensitivity is to be secured where it is needed.

Bank shareholder governments should invest in a joint review mechanism that brings a conflict-sensitive lens to project proposals and additional financing requests en route to the banks' boards of executive directors. Analysis and insights from fragility experts on specific projects would support greater conflict-sensitivity in decision-making by the banks' executive directors. Such a review mechanism could be invaluable as banks increase the flow of financing to fragile and conflict-affected situations.

3. Engage collaboratively: Secure client government support for conflict-sensitivity from the start, and avoid approving projects where it is not forthcoming

The World Bank-financed project in the Kyrgyz Republic integrated conflict-sensitivity throughout project inception, design, implementation and supervision. At the time of this research, it was being delivered on time and according to budget, with additional financing in the pipeline to

extend operations to a wider geographic area. Project-affected communities in Osh appreciated the project outcomes and approach, as did the wider group of project stakeholders. The rigorous application of conflict-sensitivity in the project was possible because regional management within the World Bank was supportive of piloting conflict-sensitive project financing and made regional expertise and resources available to the country team. In addition, the country director had secured client government support for a conflict-sensitive approach and the specific application of a conflict filter to operations – firstly in the World Bank Kyrgyz Republic ISN⁹⁸ and subsequently in the World Bank Kyrgyz Republic Country Partnership Strategy.⁹⁹ The alignment of support within the bank, and between the bank and the client government, paved the way for detailed fragility assessments that allowed for rigorous risk-mitigation strategies, strong project design, conflict-sensitised implementing partners, regular and balanced project oversight mechanisms and feedback loops, and regular project supervision to inform any required project adjustments.

Our research indicates that where political support for conflict-sensitivity is not aligned within the bank structure (from project leader, to country director, to regional and global headquarters senior management) – and/or where alignment between the client government and the bank on conflict-sensitivity is lacking – attempts to conflict-sensitise project financing are unlikely to deliver the intended results. In contrast, where there *is* alignment between these various actors on the application of a conflict-sensitive approach, the prospects for a successful project that delivers sustained peace and development outcomes are more encouraging.

Bank staff should make the most of the bank's leverage in country to demonstrate the benefits (sustainability, cost-effectiveness) of conflict-sensitivity and secure client government commitment to conflict-sensitive project financing. Bank leverage can be limited in middle-income fragile and conflict-affected situations where bank financing represents only a small proportion of national income, or where the client government is seeking only loans (not grants) and/or has access to financing from new and emerging donors and private investors who may not be motivated by a commitment to sustainable peace and development. Bilateral relationships between governments, relationships between client governments and the UN, and citizen–state interaction can indirectly help to build client government support for conflict-sensitive approaches to project financing.

Bank executive directors and shareholder governments should ensure country directors responsible for fragile and conflict-affected situations are equipped with strong negotiating skills and strategies tailored to building coalitions for conflict-sensitivity, including, where necessary, encouraging client government support for conflict-sensitivity. Training for these country directors should be adapted to incorporate a component on strategies for establishing and negotiating an enabling environment for conflict-sensitivity.

Bank executive directors and shareholder governments should identify criteria for 'no-go' areas when it comes to project financing in fragile and conflict-affected situations. Financing humanitarian, peacebuilding and development initiatives in fragile and conflict-affected situations is always risky. These risks tend to escalate where oversight and accountability institutions are fragmented, weak and/or politicised, where political space for free association, assembly and expression by project-affected communities and wider civil society is constrained, or where a culture of fear is prevalent. In such circumstances, these groups cannot hold project-implementing agencies to account. Given the fungibility¹⁰⁰ of donor funds, it is unlikely that large volumes of financial assistance will escape involvement in local power struggles, corruption and any associated repressive activities and abuses. The possibility that any part of project financing may become connected to activities that may subsequently be found to have aided or abetted gross

⁹⁸ World Bank (June 2011). *Op. cit.*

⁹⁹ World Bank (June 2013). *Country Partnership Strategy for the Kyrgyz Republic*. Washington DC: World Bank.

¹⁰⁰ "Fungibility refers to the fact that donor funding of a project that government would have undertaken anyway (even if donor funding were not available) has the effect of freeing government resources to be used for another purposes (for example, military)." (Africa Peace Forum et al (January 2004). *Op. cit.*).

violation of human rights could place banks in a legally compromised position. In addition to the violation of human rights and failed project outcomes, any connection with such activity could also result in adverse publicity, reputational damage, financial and legal costs, and considerable demands on management time. Thus, where there is no appetite for conflict-sensitivity, banks may not be able to operate responsibly. In such instances, where the responsible pursuit of the banks' strategic goals (ending extreme poverty and promoting shared prosperity and inclusive growth¹⁰¹) is constrained, bank boards should be prepared to decline or withdraw project financing and operations.

As more financial resources are channelled via international development banks into fragile and conflict-affected situations with limited attention to conflict-sensitivity, the risks for vulnerable conflict-affected people and the banks escalate. Conflict-sensitivity has a critical role to play in reducing those risks, yet the enabling environment for the application of conflict-sensitive approaches to project financing is still constrained. As the World Bank prepares to spend more in fragile and conflict-affected countries and rolls out its structural reforms launched in July 2014, there is an urgent need to apply conflict-sensitivity to project financing and to provide the scope to do so. Moreover, as ADB begins to negotiate the replenishment of the ADF for the period 2017–2020, there is scope for shareholders to revisit the terms of financing and the bank's resourcing for conflict-sensitive project financing in fragile and conflict-affected developing member states. Furthermore, as new international development banks prepare to begin operations, for example, the China-led Asian Infrastructure Investment Bank (AIIB) and the Brazil, Russia, India, China and South Africa (BRICS)-led New Development Bank, it remains to be seen whether deeper inter-development bank collaboration will evolve and stimulate greater management of risks and support for sustainable peace and development in fragile and conflict-affected situations. The alternative – intensified inter-development bank competition and a race to the bottom in terms of responsible engagement in fragile and conflict-affected situations – does not bode well for global peace, security and development. As the global governance of development financing shifts, shareholder governments have a unique opportunity to shape a more joined-up conflict-sensitive approach to development financing. An important opportunity to improve the peace and development prospects of communities living in conditions of under-development, conflict, fragility and violence.

101 ADB (2008). *ADB Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008–2020*. Manila: ADB. Available at <http://www.adb.org/sites/default/files/Strategy2020-print.pdf>; and World Bank Group (2013). *Op. cit.*

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