2. Bank Group Strategic Engagement

Evolution of Bank Group Thinking

The understanding and discourse on violence in the Bank Group has evolved over the years, reflecting the way that the Bank is gradually becoming more comfortable focusing on the political economy of subnational violence and developing analytical and operations instruments to address it.

The evolution of the Bank's involvement with organized violence dates from the 1990s when a Post-Conflict Unit (PCU) managed operational interventions using a Post-Conflict Fund (PCF). The concept of low-income countries under stress (LICUS) was also pioneered at that time, with a LICUS unit established within the Operations Policy and Country Services (OPCS) vice presidency, adding to the Bank's analytical lexicon the notion that various stress factors could precipitate violent conflict. This risk was most strongly associated with LICs with weak institutions, and the Bank found that sustained periods of policy and institutional weakness, as measured by the Country Policy and Institutional Assessment (CPIA) index, served as a useful predictor of violent conflict. The prevailing interest in the Bank, the Organization for Economic Cooperation and Development (OECD), and many bilateral agencies in the "conflict trap" afflicting a number of poor LICs led the Bank to merge the PCU and the LICUS into a Fragile and Conflicted Affected Countries Department in 2007. At the same time, a separate stream of work had developed in the Social Development Department, especially in Latin America, focusing on interpersonal and criminal violence in MICs. These two streams of work proceeded relatively independently from one another. The PCF and LICUS Trust Fund were combined into the State and Peace-Building Fund (SPF) in 2008.

The 2011 WDR formulated an analytical framework for operations to address FCV, discussed further in the next section. The creation of a Global Center for Conflict, Security and Development (CCSD) in Nairobi was a specific outgrowth of the 2011 WDR. In retrospect, while placing operational staff near a quorum of the Bank's "fragile states" clients made sense to ease operational support to task teams, it removed management of the Center from the Washington-based policy orbit. It also reinforced the notion that fragility was an African, LIC issue, which global developments in 2014-2015 have clearly refuted.[1]

Structural reorganization undertaken in 2013 attempted to elevate the place and role of FCV among the priorities of the Bank Group. The establishment of FCV as a cross-cutting solution area (CCSA) within the new organizational structure was supposed to reflect the high priority attached to this theme. The FCV CCSA was tasked with enhancing a systematic and coordinated approach to dealing with FCV across the Bank Group and is responsible for providing advice to the Bank's global practice (GP) units and support to country management teams. The Social, Urban, and Rural Global Practice (SURR) undertakes country social analysis as well as a large number of operations that address conflict and violence. The FCV CCSA management was later relocated back to Washington with the rationale that proximity to decision-making processes would help in influencing the development of Bank Group policy on fragility and violence. The most important issues that the FCV CCSA faces today are the degree of authority it should seek over operational policy, and how far it should involve itself in operational work.

Box 2.1. 2011 WDR: Institutions and Legitimacy Matter

The 2011 WDR developed an analytical framework that has been adopted by the Bank Group in its work on FCV. The WDR reviewed about 40 countries' experiences in tackling deep-seated violent conflict over the past 60 years. It winds many complex and often opposing strands of political and economic research into a simple causative model—one in which the risk of organized violence is great when combinations of security, justice, and economic stresses encounter weak institutions. This model has relatively straightforward remedial implications: the restoration of sufficient stakeholder confidence to provide space and time to develop national institutions that are considered legitimate ("the causal relationship between weak institutional legitimacy and violence may be compared to the relationship between a human body's immune system and disease").

The 2011 WDR also stresses just how long it takes to create such institutions. The process is measured in decades, not project cycles, and it calls for new institutional behaviors and incentives. The report also shows how and why the temptation to pull the plug too early on difficult institutional support exercises needs to be resisted.

Many cases, including those covered in this report, show that the key to institutional legitimacy and staying-power is not technical excellence per se and its portability across contexts: it is the extent to which an institution is able to inspire trust. Although good performance is a vital aspect of legitimacy and can be influenced by example, much of what makes an institution responsive to local needs cannot be generalized. From this perspective, the 2011 WDR's support for "best fit" solutions over the pursuit of illusory "best practice," with context taken as the starting point, is fully consistent with this evaluation's findings. This underlines the importance of local knowledge and contextual understanding.

The 2011 WDR distinguishes between 'internal' and 'external' stress factors – internal stresses being those that emanate primarily from the dynamics within a particular society, and external stresses referring to pressures that arise from regional or global interests and developments. This distinction counteracts a common under-emphasis in academic and policy literature on the extent to which powerful external forces can determine the fate of smaller and more vulnerable countries. This is important when looking at violence in

MICs -- though 2011 WDR country cases show that countries with capable national institutions have often managed external security stresses better than countries where elites and factions depend excessively on competing external actors for support and validation. A key residual question, though, is how organizations with multifaceted mandates and constrained budgets, like the World Bank Group, can achieve an acceptable balance between granular local adaptation and insights with 'global' applicability.

Source: World Bank, IEG

Definitions and Measurements of Fragility

Moving on from the CPIA. The FCV concept in the Bank Group has hitherto been associated with LICs. The current system of classifying countries as fragile and conflict-affected states relies heavily on the CPIA index, and excludes IBRD-only countries (for which CPIA scores are not disclosed).

The Bank currently identifies FCS as those countries or territories that present a very weak policy and institutional framework, signified by a CPIA score below 3.2, or countries with the presence of a UN and/or regional peace-keeping or peace-building mission during the past three years. The 2011 WDR comments favorably on the way in which the CPIA is a good predictor of FCV: it does a good job of capturing the efficiency and equity of economic policy, the delivery of public services and the quality and transparency of government -- but is one-dimensional on security (the state's ability to protect citizens and property from crime and crime-related violence are assessed) and even more deficient on social inclusion (gender equality alone is assessed) and justice (restricted to the equity of public resource use). It is also a static measure and has no real predictive capacity. The LIC cut-off excludes MICs, where many of today’s FCV situations are occurring. The aggregation of the indicators into one composite score can obscure serious or potential violence if there is strong performance along other performance axes; using the country as the unit of account may not capture subnational, cross-border, or supranational forms of stress and violence; and the destructive potential of specific kinds of short-term shocks is not brought out by the incremental scoring method used in the CPIA.

The 2014 IEG evaluation observed that relying on CPIA ratings to determine FCS status results in considerable errors of exclusion and inclusion in FCS classification. It recommended that the Bank Group develop a more accurate mechanism to define FCS status, one that integrates indicators of conflict, violence, and political risks within the current system. The 2015 OECD fragile states report, moreover, highlights the need for a more suitable descriptive and predictive framework than the

Harmonized List's single measure of fragility, proposing the use of an index consisting of five measures of vulnerability (vulnerability to violence, injustice, illegitimate institutions, weak economic foundations and poor social resilience). In light of the 2014 IEG recommendation, Bank Group management has committed to reviewing the criteria for FCS classification.

At the time this report was being finalized, the FCV CCSA was finalizing a system that assesses policy and institutional risks using clusters of revised CPIA measures (CPIA flags) applied to all countries irrespective of income level, and quantifies undesirable economic and social outcomes. A multidimensional marker system of this kind would deliver much more nuanced results and would permit a degree of prediction that the current CPIA does not. At the same time, the new "flag and outcome" system will have a much diminished impact if it cannot be published and tracked openly.

The case for tracking fragility and the risk of violence more systematically in MICs is compelling: the impact of severe and widespread episodes of violence on 'non-FCS' significantly impacts their ability to reduce extreme poverty and increase shared prosperity, and this fact argues for the adaptation of analytical and operational tools that have been used successfully in FCS. At times, violence creates localized pockets of insecurity that pose considerable local and national challenges. These incidences may not always present an immediate threat to the overall stability of the country, but they do have far-reaching development consequences, harming the economy and resulting in loss of life, disability, and displacement.

Fragility Assessments. As part of the IDA 17 process, Bank Group management committed to ensure that all Country Partnership Frameworks (CPFs) prepared in IDA FCS during the IDA 17 period will be informed by analysis of drivers of fragility and violence. This was reinforced by the 2014 IEG evaluation. For non-FCS (including IBRD) it has been at the discretion of the Bank country management whether an FCV lens is used to help to address some of the key impediments to poverty reduction and shared prosperity, such as institutional fragility, urban crime and violence, terrorism, or subnational conflict. In the countries reviewed by this evaluation, most of which are IBRD borrowers, fragility assessments were prepared in three cases: Colombia, Kyrgyz Republic, and Nigeria. This section of the report briefly discusses the utility of such assessments, and particularly in the non-FCS and MIC context.

According to a guidance note[2] for preparing fragility assessments, the purpose of the assessment is to identify the underlying causes ("drivers") of fragility and violence, understand the capacity of institutions to manage them, and recommend how the

Bank can address the identified drivers. The note allows for a flexible format and content—the objectives, scope, timeframe, and resources required for a fragility assessment are to be defined by the Country Management Unit (CMU). Most commonly the assessments have been undertaken in tandem with the preparation of a Country Program Strategy. Under the new Country Partnership Framework (CPF) model, the fragility assessment is supposed to supplement the Strategic Country Diagnostic (SCD) and thereby contribute to the CPF.

The guidance makes a notable observation which clarifies that fragility and violence are not just a LIC/'fragile states' issue: "SDG 16 proposes to 'promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.' Such an encompassing goal implies that fragility is no longer seen as pertaining only to fragile states; in fact, FCV affects nearly all states; (different types of violence are included, many middle-income countries now top the list of countries affected)". The Note also stresses that political context matters and encourages an explicit discussion of elite motivations and understanding of political settlements. It broadens the 2011 WDR's emphasis on stress factors by insisting on the need to focus on resilience and institutional capabilities. It also introduces the possibility of subnational or supranational ("regional") fragility assessments. The flexibility of the assessment format is another commendable suggested feature: if the context does not support it, there is no need for a formal report.

At the same time, the utility of such assessments in non-FCS environments is somewhat undermined by two factors: (i) that it is at the discretion of the CMU in non-FCS environments as to whether such a diagnosis should be undertaken or not and (ii) that the Bank is not obliged to share the results of the fragility assessment with client governments. It is not surprising, that the list of countries in which fragility assessments have been carried out over the past three and a half years includes only a handful of non-FCS. It is also noteworthy that the majority of these assessments (FCS and non-FCS) have not been discussed with the governments, and have not been made public.

Box 2.2. Conflict Filter Application in Kyrgyz Republic

In 2010 a violent overthrow of the ruling regime in Kyrgyz Republic caused a collapse of the government and led to an outbreak of inter-ethnic violence that caused hundreds of deaths, widespread damage, and displacement of an estimated 400,000 people. Most refugees and internally displaced people returned home within the same year as violence subsided.

The Bank co-led a multi-donor Joint Economic Assessment: Reconciliation, Recovery and Reconstruction (JEA) that indicated that the key drivers of conflict were not just interpersonal ethnic animosities but also national government policies. Earlier Bank projects in the conflict area did not mention ethnic tensions and potential for violence. Later on, in acknowledgment of the changed circumstances, the Bank approved additional financing and restructuring of an urban infrastructure project. The implementation and supervision plans included use of the *conflict filter matrix*, to ensure adequate attention to social and conflict risks

The conflict filter was a screening tool that aimed to make sure that any Bank activity distributed benefits among ethnic and social groups in a way that seemed fair and would not exacerbate conflict situations. It aimed to provide information and guidance to improve the design of projects to mitigate the risk of violence and strengthen social cohesion. The objectives of the conflict filter were to make task teams more cognizant of the context in which they operate and assist the teams in identifying and managing the conflict and fragility risks. The conflict filter sought to identify and then avoid doing activities—lending and nonlending—in ways that might do harm by stirring up ethnic animosities.

A study by International Alert* reviewed Asian Development Bank (ADB) and World Bank urban projects in the city of Osh, where both organizations financed housing projects for post-conflict areas—the World Bank using the conflict filter and ADB without looking systematically at the ethnic distribution of benefits. While the ADB project experienced some vandalism, delays, and higher cost, these did not happen with the Bank-financed project, the extension of which was implemented using the conflict filter. The International Alert evaluation gave credit for the better outcomes to the use of the conflict filter.

The Kyrgyz case shows that the Bank can, at reasonable cost, gather information about the fault lines of potential conflict and design activities to bridge those fault lines rather than exacerbate them. This fairly simple and inexpensive tool seems to be most useful in the aftermath of relatively short and recent conflicts. Its application in other contexts, such as Sri Lanka, where the conflict was much more protracted and stayed unresolved for a very long time, was found to be less useful by the country teams.

Notes: * "Fragile Reforms: World Bank and Asian Development Bank financing in fragile and conflict-affected situations." International Alert, 2014.
Source: World Bank, IEG

Bank Group Strategic Approach

This evaluation reviewed Bank Group programs in mainly IBRD borrower countries, where the nature and modality of engagement are generally different from those used in FCS. MICs are normally less aid-dependent, and are less likely to engage in dialogue on the sensitive political issues associated with subnational conflicts. Bank Group strategies in these countries reflected this the more limited role that the Bank Group is therefore able to play in tackling organized violence, and the Bank objectives in the conflict zones depended heavily on what the governments were willing to allow.

The theme of conflict and violence—and especially "localized conflict"—started appearing in Bank strategies as a separate pillar (or subpillar) relatively recently, in the past 5-7 years. Earlier Bank strategies acknowledged the presence of the problem, but were either silent about any response or explicitly noted that the Bank will be staying away. For example, the Indonesia 2001-03 CAS does refer to Aceh as one of four provinces with serious violent conflict, but it notes that the Bank does not foresee taking a leadership role there. Colombia was a notable exception, where the 1997-2002 CAS introduced a specific pillar to address violence, acknowledging that this was a new and much riskier area of involvement, but the Bank could no longer stay on the sidelines.

The 2011 WDR was a game changer in this respect. The theme of violent conflict, including subnational conflicts, becomes increasingly prominent in many country strategies, some of them quoting the 2011 WDR as the guiding analytical document for engagement in FCV situations. At the same time, the institutional and staff incentives for such engagement and the risk-taking associated with it continue to lag behind the spirit of the Bank's strategic approach. .

Bank Group strategies generally pursued two broad objectives in relation to serious organized violence: addressing, or mitigating the impact of drivers of violent conflict. Mitigation activities at the local level (supporting communities and local institutions) were often the starting point. Concerns about security during the active conflict phase often limited the Bank presence in the field to essential personnel, but Bank staff were often able to develop rapport and trust at the local level and effectively supervise projects, especially the CDD. The Bank continued CDD projects in areas of ongoing conflict in Aceh, Mindanao, Sri Lanka, and Northern Uganda. In the end, such early engagement was relevant and useful for laying the foundation for post-conflict engagement.

Bank Group strategies were generally supported by comprehensive analytical work, most commonly represented by diagnostic studies that identified the main drivers of conflict and violence for ongoing conflicts, or comprehensive post-conflict needs assessments.

One of the objectives of the new country engagement model (SCD/CPF) is to improve Bank-IFC cooperation, including through joint identification of needs, shared assessments, and collaboration on projects. Among the cases reviewed were some promising initiatives in this direction, but they appear to be the exception rather than a norm. Engaging in FCV situations in non-FCS and MICs presented a distinct set of challenges and opportunities for IFC. Overall, IFC engagement on FCV in the reviewed cases was limited, almost exclusively focusing on post-conflict reconstruction.

GENDER IN BANK PROGRAMS

Conflict-affected areas posed both common and area-specific challenges on gender issues. Common themes included displacement, restricted mobility, an increase in the number of war widows and female-headed households, and psycho-social impacts of witnessing violence. Country-specific gender-based challenges were also common, such as targeted destruction of schools and health facilities in northwest Pakistan; human trafficking of young women and children in displaced communities in the ARMM region in the Philippines; forced marriages ("war wives") in Northern Uganda; war widows without access to adequate resources, housing, or vocational skills in the northeast of Sri Lanka; and high rates of rape and domestic violence in displaced populations in Colombia.

With few exceptions, Bank Group country strategies did not focus on gender-based challenges in a conflict context until the latter half of the evaluation period (2010 onwards), and some crucial gender issues (such as forced marriages by the Lord's Resistance Army (LRA) in Uganda, acts of violent extremism targeted on keeping women away from schools and the workforce in Pakistan) were not mentioned in the strategies throughout the evaluation period.

The majority of Bank-supported nationwide projects were not gender-responsive in design or implementation in regions of subnational conflict. For example, even though Pakistan Poverty Alleviation Fund (PPAF) I, II, and III have operated in conflict regions like Balochistan, Federally Administered Tribal Areas (FATA), and Khyber Pakhtunkhwa (KP), the PPAF work has been retrofitted into the conflict situation rather than conflict-related issues (on security, mobility, women-headed households, etc.) being addressed specifically in the project design and implementation phase. The Pakistan Social Safety Net Program (which also includes the Benazir Income Support program) has a women's empowerment emphasis since it disburses cash only to female representatives of eligible families, but does not address the gender-based challenges in pockets of fragility and conflict.

CDD approaches have dominated work on gender issues in conflict-affected areas, where women's role in decision-making remains limited. Other sectors such as health, education, employment, agriculture, and social protection have not focused on gender issues.

Analytical work (AAA) on gender and conflict was sparse. In cases where it existed, it was not always translated into operations. The Philippines is one of the few countries that included gender and conflict-related AAA work during the evaluation period. The Philippines ARMM Human Development Sector Study suggested that more boys drop out of school in their early teens than girls, and observes that early dropout rates of boys may itself feed the supply of boys who take up arms.[3] However, there were no follow-up programs that work with youth who are dropouts and had taken up arms or were ex-combatants.

Overall, the Bank Group's focus on gender issues in conflict-affected areas reviewed by this evaluation was limited. In particular, few programs were designed or implemented taking into consideration gender disparities in conflict-affected areas, and the little analytical work on these issues was not translated into operations.

COLLABORATION AND PARTNERSHIP WITH THE UNITED NATIONS

In recent years, demand for collaboration between the Bank Group and United Nations agencies has grown. Such partnerships are particularly important in the FCV context, as the United Nations agencies have political and security-related skills and contacts that the Bank needs to leverage, and the United Nations system, as the prime global actor on the security and humanitarian fronts, is almost always present where there is a serious conflict. As a growing number of MICs now face violence and crises, both the Bank Group and the UN face challenges in responding to them. Neither of them is ready to tackle those challenges alone, as most of the intervention tools are not effective on their own.

Within the Bank Group, the FCV CCSA is the lead focal point on global FCV partnerships, including the relationship with the United Nations. In the United Nations system the responsibilities for FCV are shared widely. Citizen security, rule of law, and justice are largely the domain of the United Nations Development Programme (UNDP). The recent surge of violence and forced displacements increased the demand for stronger collaboration by the Bank Group with United Nations agencies with humanitarian mandates, such as the United Nations High Commission for Refugees (UNHCR) and World Food Programme (WFP).

Mechanisms of collaboration. Country-level cooperation in observed cases was context-specific and ranged from information sharing in donor coordination forums to joint programmatic, operational, and analytic work. Operational partnership was often not easy to initiate because of the difficulty of cross-funding. The value added of this type of partnership in MIC countries was often small and had limited impact.

Analytical work often included joint economic and social impact assessments (ESIAs). In several countries these assessments informed strategies and plans and paved the way for operational partnership, joint analytical work, and better alignment of programming efforts. Joint thematic analytical work was particularly valued as an area where the division of labor between the Bank Group and partnering United Nations agency was clear, contributing to the success and uptake of those studies (Philippines Mindanao,[4] Jordan, and Lebanon[5]).

Operational cooperation often meant the Bank contracted a United Nations agency to implement activities in which the latter had clear comparative advantage. Collaboration between the WFP, UNHCR, and World Bank in Lebanon, within the framework of the National Poverty Targeting Program, was an example of introducing good practice solutions from humanitarian partners. The e-card program established a reliable channel to support vulnerable Lebanese and refugees and it is hoped that the government can scale it up for conditional transfers in education and health.

Examples of successful programmatic collaboration were limited. One of them was in Lebanon, where the Bank and Unicef provided a concerted response to the emergency and development needs in the education sector.[6] A promising collaboration in Kyrgyzstan—the Joint Country Support Strategy (JCSS, 2005)—never realized its full potential. The partners prepared a joint background analysis and results framework but had their own programs and implementation plans. It was a transaction-heavy undertaking that was challenging to implement.

Country-level MDTFs were effective tools for coordinated and timely international response and helped share the risks associated with operating in post-crisis environment. The Mindanao MDTF supported community-driven reconstruction and has successfully evolved into a facility supporting capacity building of the partner institutions. The United Nations–World Bank FASTRAC Facility in Mindanao is another smart transitional solution to support capacity building based on the different mandates and comparative advantages of the Bank and the United Nations (see Chapter 3).

Overall, cooperation between the Bank and the United Nations followed the key principles of partnership, such as flexibility to respond to different country needs, appropriate division of labor, and recognition of the role of other regional and international partners. However, the existing system did not encourage building such partnerships, and the incentives to collaborate across institutions were not strong. While the benefits of effective partnership are clear, going an "extra mile" in partnership is not rewarded. Missed partnership opportunities may be visible only at the country level and are rarely noticed.

The cases reviewed by this report also offer some good examples of collaboration. These success stories can be attributed to the changing nature of challenges that required more multidisciplinary approaches, as well as the entrepreneurial skills and efforts of the Bank and United Nations field staff that saw mutual benefits in collaboration and were willing to take the risks.

Bank Group Engagement Areas

This section provides a brief overview of *selected approaches and themes* covered by the Bank Group in FCV situations reviewed by this evaluation. It includes the Bank Group's private sector development agenda (engagement in the public sector, which comprised the bulk of Bank Group support, is covered in detail in Chapters 3-6); PFM, and in particular various diagnostic tools, as applied in FCV context; and CDD approach—the most common operational model applied by the Bank Group in FCV situations.

PRIVATE SECTOR DEVELOPMENT

The vulnerabilities caused by underdevelopment and unemployment are commonly recognized as a major driver of conflict (2011 WDR). There is also increasing recognition of potential contribution that private sector development (PSD) could make to the peace-building effort by strengthening economic foundations needed for sustainable growth.[7] In the FCV context, jobs not only can provide people with livelihoods but also reconstruct the fabric of society. The private sector can reduce fragility by creating jobs, enabling economic opportunities, and supporting livelihoods but it needs nurturing, support, and engagement from the outset.[8] A legacy of violence and conflict includes particular severe challenges for both private investments and private firms' operations, as it led to deterioration in trust and linkages between firms as well as in the infrastructure needed to access markets.

The 2014 IEG evaluation found that the Bank Group had difficulty developing and implementing a PSD strategy that would be effective in the challenging environment of FCV situations. Specifically, the 2014 evaluation concluded that the Bank Group "lacks a realistic framework for inclusive growth and jobs that is based on economic opportunities and constraints in FCS and effective coordination and synergies across [Bank Group] institutions… The World Bank Group did not adequately address major constraints and did not have a holistic approach to private sector development in FCS." This evaluation concurs with that conclusion. The Bank

Group still lacks a holistic and sequenced approach to private sector development in FCV situations in non-FCS, and its interventions that addressed the PSD agenda have been limited, with very few successful examples of cooperation across the Bank Group.

The main support for the PSD agenda was delivered through CDD-type projects. Projects in Colombia and Indonesia (Aceh) aimed at boosting activities of small farmers in the conflict-affected areas. Other CDD projects supported small infrastructure (rural roads, etc.) that have broader benefits for PSD. In the Niger Delta, a Bank-supported project (SEEFOR) provided financing for a youth employment scheme (see Chapter 5).

However, these projects did not include investments in small businesses. In other words, the primary focus of the Bank efforts was on direct support to livelihood and short-term employment schemes, with rather questionable prospects for longer-term sustainability. This finding is similar to the conclusion of the 2014 IEG evaluation. At the same time, the scale of the problem ("inadequacy of efforts to support PSD") seems to be even more pronounced in cases covered by this evaluation, where the country risk heterogeneity is higher than in the countries on the FCS list. Many countries reviewed (in particular the larger ones, such as Indonesia and the Philippines) include, along with the high-risk conflict-affected areas, large territories with much lower investment risks and better investment climate (compare Mindanao and Manila), which attract most of Bank Group PSD-related activities.

IFC engagement in the reviewed cases almost exclusively focused on post-conflict support during reconstruction, reflecting the difficulty and perception of high risk when operating in FCV situations, but also revealing lack of institutional staff incentives and corporate targets in the FCV context outside of FCS. It is worth noting that engaging in FCV situations presents a distinct set of challenges and opportunities for IFC. Specifically, IFC has taken very seriously the issues associated with compliance by potential local clients with the institutional integrity requirements, based on carrying out a detailed Integrity Due Diligence (IDD). More often than not, IFC decided not to proceed with its project financing due to concerns over IDD issues or other FCV-specific factors.[9]

In several cases IFC engagement has had a significant positive impact. The most prominent of them is IFC's post-tsunami support in Aceh, Indonesia, where IFC carried out an investment climate diagnostic. Based on this diagnostic, IFC and Agency for the Rehabilitation and Reconstruction of Aceh and Nias (BRR) jointly developed an investment climate and promotion strategy for the region, including drafting a new investment policy, establishment of the investor service center, and provision of training programs. IFC supported implementation of these efforts with its advisory services. Even in Aceh, however, scaling-up IFC support remains a challenge as witnessed by a large number of memoranda of understanding (MOUs) with private investors that have not been transformed into actual IFC investments.

In Sri Lanka, IFC was able to encourage its partner financial institution to expand business in the conflict-affected region of the country by offering both investment and advisory services to the client bank.[10] In the Philippines, the Mindanao advisory project with Unifrutti, launched in 2008, is a good example of IFC-Bank collaboration, where the Bank funded related infrastructure projects, such as farm-to-market roads and bridges (see Chapter 3). IFC's engagement with Unifrutti also underscores an importance of long-term client engagement in FCV situations.

In most country cases reviewed, IFC has deployed its standard instruments with little adaptation to FCV circumstances or innovation. It is questionable, however, whether the standard investment strategy and operational model of IFC are appropriate in FCV situations. In contrast, IFC has adjusted its standard approach for its work in the countries on the FCS list and succeeded in increasing its business volumes in this group of countries for both investment and advisory services. In October 2015, IFC updated its investment policy in FCS by eliminating the restriction on processing smaller long-term investments (less than $10 million) that fall outside of IFC's standard risk criteria. Regardless of the investment size, IFC can now consider investments with higher risks in FCS by assuming more risks that it normally does. In addition, IFC has set up a specific allocation of its economic capital dedicated exclusively to investments in FCS, and increased its capital allocation to $200 million from $70 million. Similarly, based on the Aceh experience, there was a discussion within IFC team about making specific adjustments to the IFC strategy and operation rules in the post-conflict environment, including considering making smaller investments, de-linking advisory from investment, re-assessing the product mix, and adjusting general investment standards. It is not clear, however, if any of these options were pursued and turned into a policy change or a revised instrument in FCV situations.

MIGA's political risk insurance (PRI) products can help facilitate foreign direct investment when a country, or a part of it, faces FCV situations. In recent years, MIGA has been able to increase its role in addressing various risks for investing in FCS countries.[11] Similar MIGA's activities could be useful in non-FCS countries facing FCV situations by offering one or a combination of its four insurance coverages under PRI (currency incompatibility and transfer restriction, expropriation, breach of contract, and war and civil disruption). Among these products, war and civil disturbance (WCD) coverage and the recently introduced non-honoring of sovereign financial obligations (NHSFO) coverage are perhaps the most relevant to the FCV circumstances. In recent years, MIGA has strengthened its due diligence process by incorporating conflict dimension into its standard risk analysis. This improvement, however, so far has applied mainly to FCS countries through the MIGA's Conflict-Affected and Fragile Economies Facility, whereas they could also be fully applicable to FCV situations in non-FCS countries. The MIGA staff should be encouraged to broaden the use of this innovation.

PUBLIC FINANCIAL MANAGEMENT

Bank teams have often used PFM diagnostics to provide inputs to development strategies in FCV context. These included expenditure, institutional, and regulatory analyses that assessed the efficiency and level of expenditure allocations, quality of underlying PFM institutions, robustness of intergovernmental fiscal arrangements, and related subjects.

Expenditure analysis for post-conflict reconstruction strategy. The Aceh Public Expenditure Analysis (2007) presented a picture of major fiscal gains from increased autonomy, granted to the region earlier, while showing that these additional allocations did not lead to improvements in service delivery and poverty reduction. Stakeholders interviewed by IEG gave the report considerable credit for guiding the recovery and reconstruction effort. The Public Expenditure Review for Northern Uganda (NUPER, 2007) provided a comprehensive picture of overall public financial flows, both off- and on-budget, being disbursed to the North. This was considered a critical input to finalizing the government's post-conflict strategy—Peace, Recovery, and Development Plan (PRDP). Similarly, in Pakistan the Bank's KP provincial Public Expenditure Review (PER 2013) was one of the important outcomes of regional Post-Crisis Needs Assessment.

Analysis of horizontal fiscal inequality. One of the common drivers for regional conflicts relates to the perceived unfairness in distribution of national resources, especially of public expenditures, across the regions. In **Uganda**, the 2007 NUPER found that per capita fiscal flows are the same to the North as they are to other regions. This finding was politically important as it suggested that there was no evidence of discrimination against the North. Similarly, in **Indonesia** the PER (2007) did not find any evidence that the central government treated Aceh fiscally unfavorably. According to the report, Aceh's poverty reduction has been lagging not because of insufficient funding, but largely due to institutional bottlenecks, including inadequate capabilities and incentives of local governments. In contrast, in the **Philippines** the PER (2011) showed that public spending per capita is lower in the ARMM region than elsewhere, particularly for human development. The PER concluded that after two decades of decentralization, regional inequality in revenues and expenditures, living standards, and access to public services remains stark and in critical aspects has been growing.

Analysis of public expenditures in the security sector. The Bank has traditionally abstained from the analysis of national security arrangements. In the country programs that were the focus of this evaluation no such analysis has been undertaken so far. However, by now the Bank has accumulated important and innovative experiences of policy analysis in this sector. Most of the Bank's expenditure analysis in the security sector so far has been concentrated in low-income FCS. The PER for **Guatemala** (2012) represents a relatively rare example of in-depth review of security arrangements in MICs that have been facing elevated security risks. The PER provided an assessment of both the level and quality of public expenditures related to the security sector, complemented by institutional analysis of the sector's governance arrangements. The report concluded that the existing level of expenditures was low for the size of the problem and provided a set of recommendations aimed at improving efficiency of spending within the existing budget envelope. This type of Bank analysis would have been applicable and useful in many countries reviewed by this evaluation.

Strengthening intergovernmental fiscal arrangements. Issues of regional autonomy and subnational control over resources have been among the core drivers of conflict in many countries, including a few covered by this evaluation. The Bank has recognized that redesigning intergovernmental fiscal relations in FCV situations could be an important element of post-conflict risk mitigation strategy. Resource allocation that is seen as fair and politically sensitive can alleviate the conflict.[12] However, the programs reviewed for this report contained only a few examples of policy advice on decentralization arrangements in the conflict-affected areas. There has been no common approach to the decentralization agenda across the country programs within the sample reviewed. The analysis usually did not represent the core of the respective programs and was done on a case-by-case basis with no sustained follow-up over the medium term. Thus, NUPER (2007) carried out a detailed examination of the central government's system of fiscal transfers to local governments in Northern Uganda and provided recommendations to address the system's weaknesses. But the Bank did not follow up on this work through another study to analyze the latest developments and it therefore remains unclear how many of the recommendations were implemented by the government.

The most prominent example of Bank Group advisory support on decentralization in FCV situations in the sample comes from Mindanao, where the Bank helped to design decentralization arrangements for the newly established Bangsamoro

Autonomous Region. Under the Facility for Advisory Support for Transition Capacities (FASTRAC), the Bank supported the policy dialogue related to the implementation of the Peace Agreement, including allocation of responsibilities across various governments in particular sectors. However, decentralization of advisory support in Mindanao still was quite modest compared to other better-funded and higher-profile decentralization programs run by the Bank (for example, the Decentralization and State-Building Program in Yemen, 2012-14).

At the same time, in several countries covered by this evaluation, the Bank conducted the traditional, high-profile and generally high-quality analysis of the existing system of intergovernmental fiscal arrangements. These include PERs for Philippines (2011) and Uganda (2013). However, these reports were prepared outside of Bank's FCV strategies as their diagnostics and recommendations were not intended to address political issues of regional tensions and longer-term conflict. This is somewhat unexpected, given the wealth of expertise accumulated by the Bank in this area, and the importance of regional autonomy and fiscal decentralization for addressing actual or potential violence.

PFM diagnostics as an entry point for engagement: The Nigeria program is a good example of the use of PFM diagnostics as an entry point for engagement. In the Delta, a general failure to provide adequate governance has been one of the core drivers of conflict. The 2005 Country Partnership Strategy (CPS) for Nigeria linked the possibility of direct state-level lending to demonstrated commitment to the reform through Bank-led PFM diagnostics and state governments' decisions to address identified weaknesses. For the Delta states the CPS emphasized actions to strengthen the demand side of governance reforms—supporting public-private dialogue and growth of coalitions around management of oil resources within the framework of the Extractive Industries Transparency Initiative. The Bank's Public Expenditure Management and Financial Accountability Reviews (PEMFARs), based on which the states prepared reform action plans, created enabling conditions for direct Bank lending to Delta states.

The above strategy has been consistently followed over the last decade, but the implementation has been quite slow and so far did not bring conclusive results, in part due to slower than expected build-up of state commitment. The CAS Progress Report (2011) admitted that progress in governance at the state level had been slow. The State Employment and Expenditure for Results (SEEFOR) project was approved in 2012 to assist, under its PFM component, four states in the Delta to advance their governance reforms and capacity building in the area of public finance. The recent (2014) CPS Completion Report acknowledged some progress on state-level PFM under the SEEFOR, especially in public procurement. In several aspects, the Bank program in Nigeria Delta could be seen as an example of governance-centered conflict-responsive lending, illustrating major associated risks and costs.

Institutional strengthening of local governments. One of the lessons learned by the Bank in the post-conflict context suggests that community participation and related efforts aimed at bottom-up state-building tend to be quite beneficial for risk mitigation in the long term. Therefore, various Bank Group project interventions in the conflict-affected regions contain (usually quite small and complementary) technical assistance components aimed at strengthening accountability and transparency of local governments. This type of project interventions is considered important because it is expected to strengthen the legitimacy and credibility of local governments and thus contribute to the sustainability of conditions for peace over time. As local institutional capabilities in post-conflict situations are often rudimentary, the project interventions in question are quite basic, do not promise to deliver much, and tend to plan for sustained long-term engagement. This seems appropriate, as it would be naïve to expect that strong PFM capacity could be built in such adverse circumstances over the lifetime of a single Bank Group operation. Instead, the Bank projects tend to deliver some basic training, introduce straightforward processes for budgeting and reporting, and, especially, help to strengthen local demand for government accountability by reaching out to local nongovernmental players.

Overall, the combination of Bank investments in CDD projects with small volumes of technical assistance to improve local governance looks sustainable from the development perspective and is attractive to the Bank's clients. Such projects also tend to leverage considerable amount of bilateral technical assistance for local capacity building. Examples include Northern Uganda Social Action Fund 2 (NUSAF 2), the Peace and Development Project in Colombia, and North East Local Services Improvement Project in Sri Lanka. The latter project aimed at comprehensive strengthening of local government capacity in the conflict-affected areas. While its main focus was on rehabilitation of local infrastructure, the project also had two governance components—to strengthen accountability and build capacities at the local level.

COMMUNITY-DRIVEN DEVELOPMENT APPROACH

Projects with a CDD design were an important tool in many reviewed countries and were a useful point of entry for the Bank Group in areas affected by actual or potential violence. While the details are context-specific, CDD projects in such contexts are typically justified on the grounds that they help to deliver a blend of the following objectives: rebuilding trust and social cohesion, shifting the locus of decision-making to the communities, incremental funding for public goods, and rapid disbursement that offers a peace dividend. The evidence from the case studies does not always bear out these presumptions.

Public versus private goods. The Bank used Learning and Innovation Loans (LILs, 1998-2002) with CDD-like characteristics to support communities under stress in rural **Colombia,** where local government institutions were virtually absent. Contrary to any presumption of fostering collective action in pursuit of the provision of public goods, however, an overwhelming number (60 out of 67) of LIL 1 subprojects identified by the communities were individual farmers' projects. LIL 2 had two sets of projects: "social projects" and productive projects that helped small farmers diversify output and improve food security. In the end, most subprojects were productive projects and social interventions did not contain subprojects to sustain education and health services. This may have reflected either the overriding importance of farm output for food security at a time of loss of livelihoods, or the complexity and time-consuming nature of collective decision-making for public goods.

Northern **Uganda** Social Action Fund (NUSAF 1, 2002) was designed as a CDD project and sought to empower communities confined to camps for internally displaced people (IDPs). Project funds could be spent on community infrastructure, livelihood support, or reconciliation and conflict management. However, not all members of a camp were necessarily drawn from the same village, making it difficult to determine the location for infrastructure. This resulted in project funds being allocated more to support income-generating activities, including provision of livestock, with the cost of this component becoming 2.5 times as high as estimated at project appraisal. This illustrates the difficulty of using a CDD design to decentralize decision-making for public goods in an environment where the notion of community is hard to define. In contrast, the successor project NUSAF2, implemented in conditions of peace, which allowed people in the camps to return to their villages, has disbursed nearly two-thirds of its funds for community infrastructure.

Typically, three-quarters of project funding under a large nationwide Kecamatan Development Program (KDP) in **Indonesia** was used for community infrastructure, with one-quarter allocated as individual grants for productive investment. In contrast, 95 percent of project funds in conflict-affected Aceh went for community infrastructure, with only a small amount for individual grants. This was due to the risk of extortion by both parties to the conflict. After the 2004 tsunami and the 2005 peace agreement, some KDP money was used for aid to victims of the conflict. A similar government program, the Community-Based Reintegration Assistance for

Conflict Victims Program (BRA-KDP), had the same open menu as the KDP, and channeled national government funds allocated to support reintegration. However, in a pattern similar to that in Colombia LIL1, the communities allotted 90 percent of funds for livelihoods proposals, such as livestock, agriculture, and small trading by individuals, leaving the remaining 10 percent for community infrastructure. This was because the program was seen by villagers as providing them with compensation for damage and loss from the conflict. This is in contrast with the KDP in the rest of Indonesia, where community infrastructure projects were dominant.

Context-specificity is important and three examples of the balance between public goods and private livelihood support from Colombia, Uganda, and Indonesia do not lend themselves to generalization. However, they demonstrate that any presumption that communities will mostly choose subprojects with the characteristics of public goods may not hold under conditions of insecurity.

Development impact. Impact assessments examine how effectively CDD projects achieve their objectives of providing services and benefits to communities and restoring trust and social cohesion through a process of collective decision-making. An instructive example is provided by an impact assessment of the Autonomous Region of Muslim Mindanao Social Fund project (ARMM, 2003) in the **Philippines**. The following results were found.

The impact of the project on people's perception of quality of life was not significant. On community cohesion and social capital, the impact evaluation showed minor increases in membership of community groups. The impact on reduction in violence and conflict and safety was mixed, the results depending on the nature of the conflict. There was no improvement in community perceptions of local governments' ability to deliver on poverty and public service outcomes.

The minimal impact of the ARMM project on governance and social cohesion is notable. This might be because more time is needed for such an impact to be seen. But it might also point to the need for more concerted action beyond CDD projects to strengthen institutions of local government that have been degraded by conflict.

An impact evaluation of the NUSAF 1 project in **Uganda** found that it had a significant impact on access to water and sanitation, quality of school buildings, and the quality of students and teachers, but not much impact on social capital improvement in NUSAF communities compared to non-NUSAF communities. The NUSAF project was dogged by allegations of corruption and elite capture, captured in audits. This is an example of the speed of disbursement outrunning the capacity of local institutions to enforce fiduciary standards, highlighting the risk of financial irregularity in the pursuit of a potential post-conflict peace dividend.

Learning and scaling up. Approaching conflict-responsive lending through small LILs, as in the Magdalena Medio region of **Colombia,** had a number of advantages. It helped test and refine a participatory methodology in a volatile environment where the Bank had limited knowledge of priorities and could join ongoing efforts spearheaded by respected civil society leaders. The Magdalena approach was then extended to several other severely affected regions and was instrumental in securing European Union financial support, which was then significantly scaled-up to cover other regions in Colombia.

Another illustration of the catalytic impact of Bank lending is provided by the ARMM Social Fund project in the **Philippines**, the design of which was largely adapted from proven approaches developed in Indonesia. The project delivered CDD in every municipality in ARMM, reaching almost 1 million people. The government of the Philippines considered the CDD approach an important instrument and used the project's network under separate government projects from 2010 through 2013.

Overall, the emerging lesson from Bank CDD projects in FCV areas is that these projects represent an important entry point for the Bank to expand its engagement with the clients at an early stage of post-conflict reconstruction. These projects are an effective instrument of building local partnerships, but they should be seen as a step in a longer-term development assistance strategy, which complements CDD projects by interventions in other critical areas, such as infrastructure, local capacity building, and decentralization arrangements, among others.