

3. Subnational Conflicts

Background

This chapter reviews Bank Group engagement in non-FCS (mainly middle-income) countries that experienced localized organized violent conflict with an ethnic or religious identity marker. In all countries reviewed violence has largely subsided (although not all of the conflicts are formally settled) and the review looks at the assistance provided by the Bank during and after the hostilities.

The 2011 WDR found that the most potent of all drivers of violence was the experience, or perception, of injustice. When the ethnicity, geographical location, or religion of the affected group is easily defined, the potential for aggrievement is enhanced. The global history of violence is replete with cases of callous behavior by dominant officials that did not evoke rebellion. Famines offer one such example.¹ Although such searing experiences damage the legitimacy of the ruling authorities, they do not translate into rebellion unless there is a clear animating ideology and space to organize.

When the state is inattentive or overextended, where there is a memory (or a myth) of former independence, and where the area of repression is relatively remote from the center of a state's authority, rebellions are more likely to emerge. In MICs, and absent serious external involvement, the state is generally able to manage such rebellions, containing them to their area of origin. By the same token, there is less of an impulse to resolve them decisively, often because the ruling elite has a vested interest in the distribution of power and resources in the area in question. Aceh (Indonesia) was an example of this prior to the tsunami, which then broke the pattern of the past, brought in massive external resources (and thereby new forms of rent), and provided all parties with an opportunity to reset the political agenda.

In Aceh, Mindanao, Northern Uganda, and Sri Lanka subnational conflicts arose as organizations representing distinct ethnic, tribal, or religious populations – minorities nationally but predominant in one region – used violence to press their demands for secession or at least much greater autonomy for regional governments that they could control.

The trajectories of the conflicts and their resolutions differed, as did the ways the Bank Group operated, but the parallels between the four cases lead to some useful

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conclusions and lessons. Appendixes A.1-A.4 include brief historical sketches of the cases.

Conflicts Compared

In Aceh and Mindanao, violent conflict largely ended when the insurgent organizations negotiated peace agreements with the national government, although in Mindanao some violence from outlier groups continues. In both cases the settlement included legal changes to allow extraordinary degrees of autonomy for the regional governments in those places and to allow the insurgent group to convert into a legally recognized political party that did (Aceh) or is expected to (Mindanao/Bangsamoro) win the election for the new regional government.

In Uganda the violent conflict ended when the LRA was driven out of the country. The Acholi and Lango subregions of Northern Uganda, from whence LRA emerged, did not get any special increase of political autonomy after the conflict ended, although their public services improved somewhat. In Sri Lanka, the government defeated the Tamil Tigers at the end of a protracted and brutal civil war. Few of the known combatants survived. The predominantly Tamil provinces in the north and along the east coast have not received any particular political autonomy.

The 2004 tsunami hit hard on both Aceh and the Tamil regions of Sri Lanka. In Aceh (near the epicenter), the disaster and the flood of international aid that followed catalyzed the parties to reach and sustain the peace agreement. In Sri Lanka, by contrast, the large amount of donor funding made available did not contribute to a peace agreement and much of the funding was deferred or never used because the government (and Tamils) did not agree to a mechanism for local governments and communities to participate in the reconstruction planning. Then in 2006-07 the military campaign against the Tamils intensified, aiming for total victory.

The economic and social indicators in Bangsamoro (the Muslim-dominated part of Mindanao) and in Northern Uganda are the lowest in their nations. Aceh was and remains one of the poorest provinces in Indonesia. This not only fueled resentment, feeding into the insurgencies, but the correspondingly low institutional capacity in these locales also complicated their reconstruction and recovery.

Bank Group Strategies

In all four countries the Bank Group's objectives and degree of focus on the conflict regions within the overall country strategies changed over time and especially after the end of the violent insurgency. Concerns about security during the active conflict often limited the Bank presence in the field to essential personnel, but the Bank staff were able to develop rapport and trust at the local level and effectively supervise especially the CDD-type projects.

In **Aceh** and **Mindanao**, the insurgent organizations cooperated with the Bank, whereas the national governments were often initially reluctant to admit publicly that they had a serious regional security problem that they themselves could not handle, to allow international support in the insurgent areas. Nonetheless, for Mindanao, Aceh, and Northern Uganda the national governments all eventually came to welcome the Bank Group engagement and assistance and allow the terms of that to appear in the CAS/CPS. In Sri Lanka, the brief window of opportunity for dialogue and cooperation on development and reconstruction after the tsunami was not used.

In the **Philippines**, every CAS/CPS since at least 1999 has given some attention to the Mindanao region, although they only in halting steps acknowledged the centrality of the problem of organized violence. In 2002-05 CAS and 2006-08 CPS none of the four thematic areas related explicitly to the problems of conflict or Mindanao. Only 2009-12 CPS listed outcomes pertaining to Mindanao and violent conflict. The new CPS for 2015-17 lists five primary engagement areas, the fifth of which is "Peace, institution building, and social and economic opportunity."²

Despite underplaying conflict in the CASs of the early 2000s, Bank staff were engaging directly with the Bangsamoro Development Agency (BDA) and providing technical assistance to the agency's development efforts. As the Bank's program in neighboring Aceh was winding down, many Bank staff who had worked on conflict issues there relocated to the Philippines to work on Mindanao in the late 2000s.³ This largely unforeseen continuity of Bank staff engagement has helped the Bank to use staff expertise developed in Aceh, particularly in terms of using trust fund resources in a complex donor environment, and working simultaneously with representatives of the national and local governments, and insurgent groups.

In the **Indonesia** CASs and CPSs, the shift from little to lots of attention to Aceh after the tsunami was rapid. The 2001-03 and 2004-07 CAS (prepared before the tsunami)

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said little about Aceh. The CAS Progress Report of 2006 added a pillar for disaster risk management, which included support for a peace process in Aceh.

Reconstruction efforts in Aceh grew into a portfolio of grant operations, technical assistance, policy dialogue, and analytical work equal in scale to a full-fledged country program. Most of the Bank Group activities were not officially related to the conflict. However, scaled-up field presence and expertise facilitated the implementation of key programs, often funded by other donors, which were essential to sustain the end to the conflict. The wind-down of the Bank's program in Aceh was almost as swift as the build-up. Soon after the tsunami reconstruction was declared complete, the Bank Group left Aceh, closing its office there in 2012.

In **Uganda** the Bank strategies for the late 1990s had little explicit mention of the conflict. The results framework of the strategy for 2005-09 mirrored that of the government's Poverty Eradication Action Plan (PEAP) – reduced number of casualties and IDPs. A completion report preceding the 2005 strategy recommended that the Bank take more concerted action, stating that “in spite of the ongoing conflict in Northern Uganda, the Bank needs to support government and development partners in addressing issues arising from the conflict in an integrated way, especially the humanitarian aspects.”⁴

In **Sri Lanka** Bank strategy documents of 2003, 2008, and 2012 examined the impact of the conflict on Sri Lanka's development to varying extents and from different vantage points. The 2008 CAS attempted to distill the salient lessons learned from the previous five years, and underscored the need for projects to remain “conflict-sensitive” and avoid inadvertently feeding into ethnic tensions. The CAS also warned that the Bank had to deftly manage reputational risks to avoid being perceived as a biased development partner in a very sensitive region. The strategy also introduced a conflict filter at the project level at the concept, design, and implementation stages.

The CPS for 2012-16 echoed the lessons of the WDR, though conflict does not feature as prominently in this report as it does in previous ones. It focuses on the economic transition and how the Bank could support growth. The CPS does not unpack the sociopolitical dynamics of Sri Lanka after the war, despite recognition of its importance in the previous CAS. Without this lens, the CPS does not make a clear link between efforts to strengthen economic growth and the need to sustain a durable peace.

Table 3.1. Bank Group Program Adjustment Post-Conflict

Country, [year of conflict end]	Before end of conflict	After end of major violence
Indonesia/Aceh [2005]	Poverty reduction; economic development	Same, plus: donor coordination, convening; reconstruction; restitution for victims of conflict; reintegration of ex-combatants
Philippines/ Mindanao [2012]	Poverty reduction; economic development; building capacity	Same, plus: donor coordination, convening; reconstruction; restitution for victims of conflict
Sri Lanka	Poverty reduction; economic development	Same, plus: building public trust and social cohesion
Uganda [2003-4]	Poverty reduction; economic development; reduction of violence; disarmament, demobilization, and reintegration of combatants	Same, plus: help for IDPs and female victims of violence

In these four countries, Bank objectives in the conflict zones depended heavily on what engagement the government was willing to allow. The Bank pushed the envelope to do CDD projects in areas of ongoing conflict in Aceh, Mindanao, Sri Lanka, and Uganda, and in Mindanao to work with a wing of the insurgent organization. Such early engagement was relevant and useful for laying the foundation for post-conflict engagement. As the conflicts wound down, a reconstruction phase began, and the Bank duly realigned its objectives to support the reconstruction and reconciliation.

Bank Group Instruments

PARTNERSHIPS AND DIALOGUE ARRANGEMENTS, CONVENING ROLE OF THE BANK

In all four cases, the conflicts and the stories of the suffering from them aroused widespread international concern and offers of funding. Consequently, the Bank was often called on to help coordinate the donor assistance. The Bank took on this coordinating and convening role and to varying degrees made it the center of its own reconstruction and development programs in the conflict-affected regions.

In Aceh **Indonesia**, the World Bank led the Preliminary Damage and Loss Assessment, which provided the basis to organize the massive multilateral relief effort. The MDTF became the centerpiece of the Bank's contribution to post-tsunami recovery in Aceh. Formed in May 2005, the MDTF supported a diverse portfolio of projects in four areas of reconstruction valued at \$492 million: recovery of communities, reconstruction of large infrastructure, rebuilding governance, and

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sustaining the environment. The Bank took the lead in selecting and implementing the activities funded by the MDTF. Eventually the MDTF pooled approximately \$673 million in pledges from 15 bilateral and multilateral donors.⁵

In Mindanao **Philippines**, the Bank's reputation as a technocratic and politically neutral player, as well as its experience in Aceh, helped it play a convening role among donors, the governments, and the Mindanao Islamic Liberation Front (MILF). Bank projects and analytical work continued even during episodes of violence. The Multi-Donor Facility (MDF) for Mindanao Reconstruction and Development (\$83.7 million, 2007-15) exemplifies that role. The MDF followed a similar model as in Aceh. This was not accidental, because many of the Bank staff and consultants from the Aceh team subsequently moved to Mindanao. The MDF financed projects to empower communities to recover from conflict and to promote participatory local governance. To date the project has delivered over 300 subprojects, providing over 500,000 people in conflict-affected communities in Mindanao with improved access to services and infrastructure. It also funds capacity building and planning activities of local government units.

MDF provided capacity-building support to the BDA, the development arm of the MILF, to prepare them for a role in government following the expected transition. This included support to prepare the Bangsamoro Development Plan (BDP, 2015), a comprehensive economic blueprint for the proposed Bangsamoro area. MDF assistance is now shifting to help identify priority projects and to support the government and MILF to establish a joint coordination mechanism to oversee implementation of the development plan.

Box 3.1. The Bangsamoro Development Agency

The BDA was created as part of the June 22, 2001, Tripoli Agreement between the Government of the Philippines and the MILF. The MILF Central Committee requested a civil society organization (composed mostly of medical doctors) to run the agency. It was mandated to determine, lead, and manage relief, rehabilitation, and development programs in the conflict-affected areas in Mindanao. In 2005 the Bank began to work with the BDA, with the tacit approval of the Philippine government. The Bank provided technical and financial support to develop the BDA as an institution through the Mindanao Trust Fund for Reconstruction and Development Program (MTF-RDP). During the initial stages of the BDA other donors were reluctant to work with the agency but then began to do so after seeing its effective collaboration with the Bank on the CDD program. While the final settlement (expected with the passage of the Bangsamoro Basic Law) is still pending, the BDA launched the Bangsamoro Development Plan (BDP, 2014), a roadmap for economic development of the Bangsamoro area. Currently, the BDA is the

leading development agency for the Bangsamoro people. With the support of the World Bank and other partners, it helped deliver community development and livelihood programs to over 500,000 people in more than 215 villages in 75 municipalities across Mindanao. As of 2015, the BDA has over 300 staff operating with a Central Management Office based in Cotabato City, which oversees six regional offices across Mindanao.

Source: BangsamoroDevelopment.org, MTF-RDP Annual Report, www.MTF.ph, World Bank September 2015.

To make efficient and timely use of what became a network of trust funds for Mindanao, the Bank worked with the government, the MILF, and the United Nations to create the Facility for Advisory Support for Transition Capacities (FASTRAC) – an important instrument for the Bank’s engagement strategy in Mindanao, designed as a quick-response technical assistance mechanism to respond to the needs identified by the Government of Philippines and MILF and the formal transition bodies to help in the transition to Bangsamoro. FASTRAC came about as a response to the October 2012 Framework Agreement on the Bangsamoro (FAB). After the FAB was signed, the UN and the Bank mobilized a joint mission to assess how to support implementation of the Agreement, with a focus on building the capacity of the MILF.

FASTRAC built on the complementarity of respective mandates and comparative strengths of the Bank and the United Nations and had two pockets of funding – one for each of the two institutions. This means the United Nations steps up with funds when the Bank cannot provide direct support, such as initiatives on security and political transition. For the Bank partnering with the United Nations via this facility expands the scope of its support beyond economic development and taps into the knowledge of the United Nations on political processes and the broader mandate that allows working with many different actors in the country. Despite some operational difficulties, FASTRAC is a good model of cooperation where the funding streams are separate but the decision-making is shared.

In **Northern Uganda** the Bank played an important role convening and organizing donors and development partners and spearheading the PRDP. This included chairing Donor Technical Group on Northern Uganda Rehabilitation and Development that still meets. The Bank also chaired the Transitional Demobilization and Reintegration Program, a regional MDTF.

FINANCING

In **Indonesia** the Bank had had projects in Aceh since the late 1990s, with generic developmental objectives with little or no reference to the conflict. The KDP, a

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countrywide CDD program, gave the Bank a strong presence on the ground. Before the tsunami, the project's implementation was adapted to Aceh circumstances – a larger share (about 95 percent) of subprojects went for community infrastructure, with only a small amount for individual grants – compared to about one-fourth for individual households in the rest of Indonesia. Local labeling of activities as “World Bank” rather than Government of Indonesia helped to sidestep local hostility to the central and provincial government. After the tsunami and the 2005 peace agreement, the institutional infrastructure of KDP played a critical role in implementing reconstruction and rehabilitation programs. Some KDP resources were reprogrammed specifically for aid to victims of the conflict. The government funded Community-Based Reintegration Assistance for Conflict Victims (known as *BRA-KDP*), adapted the KDP model to provide \$22.7 million to conflict victims.

In the **Philippines**, the largest financial support for Mindanao came through the MDF, discussed above. The ARMM Social Fund for Peace and Development Project (2002-14, \$61 million) had almost 1 million direct beneficiaries. The Mindanao Rural Development Project I (\$41 million, 1999-2005) and II (\$84 million, 2007-14) created job opportunities through rural infrastructure projects for roads and irrigation facilities as well as livelihood and micro-enterprise subprojects. There were 2 million direct project beneficiaries, about half of them women, and one-fourth IDPs.

IFC has also engaged with the private sector in Mindanao and had maintained an office in the provincial capital of Davao until 2013. The engagement was rather limited (six investments and five advisories). The successes with the private sector in the conflict areas of Mindanao have come mostly in rural areas, including the Unifrutti advisory service project in 2008. The proposed new IFC investment with Unifrutti is expected to create 4,000 hectares of new farms and generate 6,000-7,000 jobs, a large proportion of which will employ ex-combatants of MILF (Box 3.2).

Box 3.2. IFC's Advisory Service and Client Engagement in Mindanao with Unifrutti

Unifrutti has been active in attracting investors to Mindanao from leading corporations in the Philippines and providing advice on how to do investments in Mindanao. In addition to strong relationships between IFC, Unifrutti, and local government, project partners also got buy-in from high-level leaders within the MILF. This ensured security within the project's borders while operating in a highly volatile region. Meanwhile, Muslim groups in Mindanao viewed the project positively, because Unifrutti had a good record of establishing a long-term profitable venture in the conflict-affected areas of Mindanao, and it helped them to begin to be viewed as a respectable political party. Another success factor was the project team's emphasis on the assessment of the gender, environment, and peace and conflict risks during due diligence. For instance, peace and conflict risk assessment strengthened IFC's

practice of providing assistance to the farms through third-party contractors and partner lead firms in order to minimize exposure of IFC staff to rebel groups.

Source: IEG, IFC

In **Northern Uganda** the main operational engagement since 2003 has been the NUSAF I (2003-09, \$100 million) followed by the NUSAF II (2009-15, \$100 million). Both were CDD projects, with components for supporting vulnerable groups, post-conflict reconciliation, infrastructure rehabilitation, conflict management, and developing local community institutions.

In **Sri Lanka**, the national education program (Education Sector Development Program, \$60 million) incorporated features to address fragility by expanding activities of the project to the northern regions and introducing initiatives such as psycho-social support programs, conflict engagement models, multiethnic classes, development of multiethnic curriculum materials, and multiethnic school linkage programs.

CDD was used as a mechanism for delivering support to marginal communities (Second North East Irrigated Agriculture Project (NEIAP II), and Community Livelihoods in Conflict-Affected Areas). The NEIAP compiled district social baseline profiles that became analytical insights to work with conflict-affected communities and laid important foundations for the various Bank projects that followed. Design documentation acknowledged recent experience in Bosnia and Herzegovina and used this experience in the formulation of project components, suggesting that it is not feasible to define an overall strategy *a priori*. A suite of projects delivered in the North East (North East Housing Reconstruction Program, Puttalam Housing Project, North East Local Services Improvement Project, and Emergency Northern Recovery Project) responded to the needs of post-conflict environments: cash handouts, reconstruction support, housing and/or shelter, community-based infrastructure, education support to get children back in schools, and capacity development programs to reengage regional authorities.

ANALYTICAL AND ADVISORY WORK

Indonesia. There was a considerable amount of AAA specifically on Aceh that started after the tsunami and the peace agreement. The Preliminary Damage and Loss Assessment (2005) provided the basis to organize the massive multilateral relief effort in Aceh through the MDTF. GAM Reintegration Needs Assessment (2005), conducted in partnership with GAM⁶ assessed the post-conflict process of

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reintegration, focusing on potential obstacles to peace; identified the needs and aspirations of former combatants, prisoners, and receiving communities; and helped develop programs and mechanisms to address these needs.

Of the many other analytic activities, three stand out. The Aceh Public Expenditure Analysis (PER, 2007) was led by the Bank in collaboration with four Acehese universities and with support of the acting governor of Aceh. Interviewees gave this report credit for guiding the recovery and reconstruction effort in Aceh, although it is not clear which of the report's 25 key recommendations were implemented. The Multi-Stakeholder Review of Post--Conflict Programming in Aceh (MSR, 2010) took stock of Aceh's post-conflict needs and provided recommendations to help consolidate peace and promote prosperity in Aceh. Conflict and Dispute Resolution in Indonesia: Information from the 2006 Governance and Decentralization Survey (2010) sought to explain national patterns of conflict and dispute resolution, the use of police services and the formal legal system, and connections between governance factors (corruption, bribery, and information about development projects) and conflict and dispute resolution. Other relevant AAA included a study on Violent Conflict in Indonesia (covering the whole country), a component of the 2010 Consolidating Peaceful Development Program; and Aceh Conflict Monitoring Updates in Conflict and Development reports.

IFC implemented a number of advisory service projects in Aceh after the tsunami to help revive private sector activities. IFC's advisory service projects were developed under a new multi-donor initiative, the Private Enterprise Partnership for Aceh and Nias (PEPAN). FIAS⁷ cooperated with PEPAN to prepare an investment climate diagnostic and develop an investment promotion strategy for the region. PEPAN played a role in rehabilitating the shrimp sector in Aceh, and was the first international organization focused on providing technical advice to farmers, whereas others were focused on physical reconstruction of infrastructure.

The Philippines. Almost all of the analytical activities in Mindanao have components for developing the institutional capacity of local governments and civil society – since the chosen political solution involved devolution of authority and resources to local institutions. The central analytical output was the Joint Needs Assessment for Conflict-Affected Areas of Mindanao (JNA, 2005, 5 volumes). It was produced and published by the Bank with the participation of a host of stakeholders. Coming at the beginning of the collaboration with the BDA, the JNA became the blueprint for the work together. The JNA recommended working through local government units, with nongovernmental organizations, and with

CDD-type projects. Collaboration on the JNA brought the donors together to support the Multi-Donor Fund for Mindanao (2007-15), discussed earlier.

Other analytical work complemented the JNA. Human Development for Peace and Prosperity in ARMM (2003) identified three critical factors that underpin the substantial disparities in basic human development indicators between ARMM and the rest of the country: extreme poverty, armed conflict, and historical disadvantage. The study was relevant and of good quality, but its impact was not clear. The ARMM Social Fund project, starting shortly before the study was published and then continuing thereafter, makes no reference to the study in its documentation. Gender and Peace-Building Experience in the Philippines report analyzed the gender dimension of the conflict in the Philippines and related gender policy to peace-building at the national level. Violent Conflicts and Displacement in Central Mindanao: Challenges for recovery and development (2011, joint with WFP) provided evidence about recovery needs and development strategies in the conflict-affected areas.

Uganda: The Bank produced several AAA on the **Northern Uganda** conflict region – but no overall needs assessment in conjunction with the donor community. The more important ones were the Public Expenditure Review for Northern Uganda (PER, 2007) and the Uganda Post-Conflict Land Policy and Administration Options: The Case of Northern Uganda (2009). The PER estimated the total public resource flows to the wide North region and covered both on- and off-budget flows. The Land Policy paper addressed land tenure, one of the most pressing issues during and after the conflict in Northern Uganda (and throughout the country), aiming to inform the PRDP and the ongoing preparation of the National Land Policy. It recommended immediate actions in relation to IDPs and land policy. IEG learned that these recommendations were not fully taken on board by the government. In recent years the intensity of analytical work related to Northern Uganda seems to have gone down sharply. IEG was unable to locate recent AAA on the conflict in Northern Uganda or an economic report that would provide a diagnostic and sound analytical underpinning for going forward.

GENDER AND CONFLICT

In addition to several common themes relating to gender impacts of conflicts, there were also specific characteristics in each country relating to the overlap of conflict and gender dimensions. In the Philippines there was human trafficking of young women and children in displaced communities in the ARMM region.⁸ In Indonesia, some women faced sexual violence from soldiers, as a tactic of terror against their communities.⁹ In Uganda, many LRA rebels targeted women for forced marriages.

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In Sri Lanka, several thousand war widows in the North and the East are still without access to adequate resources, housing, or vocational skills and are often denied land rights and exposed to sexual violence and trafficking.¹⁰

Bank strategies emphasize conflict and gender issues in the latter half of the evaluation period (2010 onwards), with the exception of Sri Lanka. Gender issues in conflict-affected areas were primarily addressed through involving women in CDD projects. Findings from focus group discussions in Indonesia (BRA-KDP project) suggest that women-headed households tended to be more actively engaged than other women in attending community meetings and participating actively since they were less likely to be represented by men. While former combatants have found full-time employment since 2006, certain groups, including women-headed households, have not benefited proportionally and are vulnerable to economic shocks.¹¹

In Uganda, NUSAF I made systematic efforts to make the project gender-responsive. NUSAF II built on lessons on gender from NUSAF I by further developing and tracking gender equity outcome indicators and monitoring delivery of project benefits. In Sri Lanka, CDD projects in conflict-affected areas showed success in engaging women both in project implementation and as beneficiaries. There was no systematic coverage of gender issues in conflict-affected areas beyond CDD projects.

Analytical work on gender and conflict was thin, and where it existed, it was not translated into operations. In Indonesia, “Justice for the Poor” looked at reforms in religious courts including easier access for women but no specifics of this program are found in Aceh. Philippines is one of the few countries that included gender and conflict-related analytical work during the evaluation period. ARMM Human Development Sector Study suggested that more boys drop out of school in their early teens than girls, and observed that early dropout rates of boys may itself feed the supply of boys who take up arms. However, there were no follow-up programs that worked with youth who had taken up arms or were ex-combatants. Country Gender Assessments in the Philippines and Uganda did not focus on the gender and fragility.

Assessment

Indonesia: Among cases reviewed, Aceh was the clearest success in terms of ending the conflict. The tsunami shocked the government and GAM into making a peace deal that has lasted so far. Large funding for the physical reconstruction also created many business and employment opportunities for ex-combatants and potential insurgents. Current assessments see a low risk of a return to organized violence. The previously insurgent organization GAM has converted into a recognized political

party, which is now in power as the government of the Aceh province, with a special degree of autonomy.

The willingness of both parties to change to peaceful strategies and the fortuitous flood of funding are the distinctive features of the case, but the Bank was an important facilitator. The Bank's high-capacity presence on the ground prior to the tsunami, through the KDP, and the willingness of regional management to try innovative arrangements enhanced the ability of the Bank to play this facilitating role. The Bank's presence in Aceh since the 1990s had developed local expertise and trust with GAM cadres in the field. With the wave of funding for emergency relief, the Bank assumed a central role in coordinating donor efforts. The Government of Indonesia regarded the Bank as a neutral and nonpolitical player, representing a technocratic approach to development. This was in contrast to the United Nations, which, according to some, was perceived as more politicized institution and conveyed the undesirable impression that Indonesia had a security problem.

The Bank's efforts in the post-tsunami period focused on repairing damage from the tsunami and the impact of organized violence. Although the damage and needs arising from the two overlapped, there was some differentiation, particularly because some donors preferred to focus on one more than (or even to the exclusion of) the other. The Bank worked on both, through trust funds, essentially making the donor funding fungible for meeting whatever needs seemed most urgent. This work was not labeled as conflict prevention, but the creation of jobs and business opportunities in the reconstruction effort played an essential role in demobilizing and reintegrating ex-combatants.

The Bank ended its presence in Aceh in 2012 after the tsunami reconstruction was declared accomplished. No institutional arrangement was left in place to monitor conflict risks in developmental programs. Some government officials, Bank staff, and others have questioned the wisdom of this hasty exit. Although to date major violence has not returned, some of the drivers of the original conflict remain, and governance capacity at provincial level remains weak and very thinly spread. The assets of the Bank's social and human capital in Aceh were allowed to dissipate, although a number of Bank staff and consultants subsequently moved to support the Bank program in Mindanao. IFC closed its office in Aceh in 2010. Since then, IFC has not been active in promoting private sector investments in Aceh, and a large number of early MOUs with investors have failed to materialize.

The Philippines. The Bank Group's engagement in Mindanao is a good example of active and effective long-term Bank Group engagement for FCV situations in MICs. The Bank had the longest engagement in the conflict areas in Mindanao of all four

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cases reviewed, and the peace settlement itself has come in phases. In terms of the violence and conflict problem, the accord signed between the Government of the Philippines and MILF in 2014 was directly related to the goal toward which the Bank's work in Mindanao aimed to contribute - peace and development in one of the poorest regions in the country. Intermediate steps were the ceasefire and other interim agreements, which not only led to the eventual accord but also provided respites from violence, even when there was another interim resurgence.

The Bank's AAA, especially the 2005 JNA, played a pivotal role in coordinating development efforts in Bangsamoro. Even while some violent conflicts continued, the presence of this consensus blueprint for development helped the parties keep in mind that a peace settlement would bring a positive payoff.

As far as other indicators of progress (such as human development), reports of the early 2010s that used data from the 2000s, do not show improvement and sometimes register declines. Peace itself, largely in effect only since 2012, will likely influence positive effects, even before improvements in institutions and funding take effect. Cooperation with the newly formed BDA since 2005 was an achievement in itself that laid the basis for a parallel track of development cooperation alongside the negotiations for a political settlement that proceeded on a slower track. Unlike Aceh, the peace settlement in Bangsamoro/Muslim Mindanao is not yet finalized and there has been no formal transfer of power. The future of peace will to some extent depend on the success in the next steps – including setting up effective governance structures and generating growth and employment.

Uganda: The Bank has long been a major player in the country and stepped in to provide critical assistance when needed. The military action of the government against LRA and the latter's failure to keep the loyalty of the local Acholi population were the main factors in driving LRA into exile and ending major violence. The Bank can claim little credit for this. In IEG interviews, Bank staff reported little risk of reversion to organized violence. Local counterparts, on the other hand, said that there was some risk, as socioeconomic problems persist and, if not addressed, could give rise to other insurgent groups and violence.

NUSAF – the flagship operation in Northern Uganda – is generally viewed as a useful intervention that provided much needed infrastructure and support for income generation. However, insufficient consideration of whether the CDD design was relevant for the special environment of the IDP camps resulted in less than expected uptake of the community infrastructure component, as most people preferred private rather than public goods. People living in the camps were not all from the same villages, which made group formation and selection of a community infrastructure

very difficult. Nevertheless, the conflict mitigation and community reconciliation component of NUSAF was an important part of helping communities begin the healing process. This component may have helped to reduce conflict and improve community relations. At the same time, pressure to rapidly disburse in a weak fiduciary environment was a contributing factor to substantial misuse of funds.

Sri Lanka: There are three key features to the Bank's engagement in Sri Lanka that helped inform the work in the North East conflict areas: (i) incorporation of fragility features into the national education program; (ii) the use of CDD for delivering assistance directly to communities and forming strategic alliances between key stakeholders; and (iii) recognition that integration and coordination of key projects is essential. While many of the projects were delivered through different sector boards and by different task team leaders, there was a consistent narrative that informed the projects in Sri Lanka, and an understanding among the task team leaders of what had to be done and where the emphasis needed to be to make the projects work. This was due to pragmatic and flexible use of country strategy to inform the conflict response; steady confidence in local staff; and development of project systems that ensured that even when conflicts arose, the mechanisms could be switched on and off based on circumstances.

Conclusions and Lessons

- *Sustained engagement* in subnational FCV situations – through analytical work or CDD projects – ahead of the peace settlement and during the ongoing violence was helpful. The lessons learned and development of contacts with and credibility among the parties to the conflicts have important payoffs once there is a peace settlement (Mindanao, Aceh).
- *Direct dialogue* by the Bank with an insurgent group can help the parties move toward a peace agreement. Initial approval of the government is needed, but the dialogue can continue even through periods of renewed fighting that interrupts the interaction between government and insurgents. This way, the Bank's financial support for projects can start before the peace settlement and continue on at least a maintenance level during intervals when violence resurfaces.
- *Comprehensive assessment* of the situation with participation from both sides of the conflict – the government and the insurgent organization (or its development wing) – helps to set the stage for subsequent reconstruction and development efforts. Such exercises in Aceh and Mindanao helped greatly; the

absence of one in Northern Uganda probably diminished the Bank's effectiveness.

- *CDD projects* have proven a useful entry point for the Bank into the conflict-affected areas and a convenient tool for facilitating participation of local stakeholders. Three important features of CDD projects were (i) perception of the Bank's role as impartial and technocratic player, (ii) sustained presence and engagement in the conflict-affected area, and (iii) Bank's support to building capacity in local organizations and partners, such as BDA in Mindanao.
- *Flexibility* of project design and ability of management at various levels (project and country) to take quick decisions is key. The Bank adapted the KDP project to the circumstances of Aceh during the conflict, and reallocated resources quickly after the tsunami, as needs changed.
- *Support to the education sector* can be important in dealing with issues of fragility, particularly as they pertain to psycho-social issues among children and providing safe spaces for integration and community cohesion to develop. The Sector-Wide Approach (SWAp) program in Sri Lanka showed that national-level programs can effectively identify fragility issues and engage specific instruments that address these in relevant areas while still adhering to the commitments at the national level.
- *Creating opportunities for employment* and local entrepreneurial success can help making a peace settlement last. This happened in Aceh, and while it was the massive donor funding after the tsunami that helped enable this, it is possible that even more modestly funded post-conflict programs could replicate this by giving priority to infrastructure projects executed by local firms and workers. This might come at the expense of some funding for human development projects, but these have a longer time to payoff, a longer term that the area might never reach if conflict were to restart.
- *IFC engagement* was relatively limited, especially when compared to the Bank and other donors. Opportunities were sometimes missed due to the lack of coordination and communication between the Bank and IFC. The One Bank Group approach, including the co-location of offices, could have improved joint contributions. IFC was not flexible enough to make necessary changes to its instruments or staff incentives in FCV situations in non-FCS countries, despite the high demonstration effect of its active presence for the private sector.
- *Continuity* in Bank staffing policy in FCV situations in non-FCS was not common, but when it happened, the payoff was clear. The transfer of many Bank staff who worked on conflict and violence issues in Aceh, Indonesia, to

the Bank's Philippine country office resulted in the effective transfer of knowledge and expertise that benefited the program in Mindanao.

- *Maintaining presence* (even nominal) in former conflict zones may be necessary to help sustain peaceful development. Various sources – nongovernment organizations, donors, and former Bank staff – expressed concern that the Bank's exit from Aceh was too sudden and too early, given the weak capacity of the local government and the potential risk of resuming the conflict and violence.