

Evaluation of World Bank Support to Low-Income Countries Under Stress (LICUS) An Approach Paper

I. BACKGROUND

1. Recent research has stressed the importance of strong policy environments, institutions, and governance for aid effectiveness.¹ Countries with strong performance on all three attributes can absorb higher levels of aid and are likely to be more effective in converting aid into economic growth and poverty reduction. But concern that focusing on a small number of “good performers” might hinder equitable reduction of poverty, and that deteriorating governance among “poor performers” might produce adverse spill-over effects for neighboring countries and even globally, has led to new interest in systematically addressing the problems of low-income countries under stress (LICUS). This interest in LICUS is reflected in the growing literature on the problems of “failed states”, “fragile states”, “collapsed states”, and “difficult partnerships.”

2. The World Bank coined the term “LICUS” in November 2001 when it established a task force to examine the challenges faced by low-income countries with particularly weak policies, institutions, and governance.² The task force recommended that the Bank maintain a more consistent engagement in LICUS, and that it improve the quality of its political and economic analysis, policy advice and dialogue, capacity-building programs, frameworks for donor coordination, and aid delivery mechanisms. Following the presentation of the task force’s report to the Bank’s Board of Executive Directors in June 2002, the LICUS initiative was formally launched in the Bank. In October 2002, the Bank set up a special unit in the Operational Policy and Country Services (OPCS) Vice Presidency to coordinate LICUS implementation.

3. The Bank uses two criteria to classify countries as LICUS: (i) low-income; and (ii) poor performance on Country Policy and Institutional Assessment (CPIA).³ Table 1 lists the 26 countries classified as LICUS in FY05.⁴ LICUS have significantly worse social indicators than other low-income countries and have significantly worse portfolio performance. Some are in non-accrual.

1. “Assessing Aid: What Works, What Doesn’t, and Why,” David Dollar and Lant Pritchett, OUP, 1998; “Can the World Cut Poverty in Half? How Policy Reform and Effective Aid Can Meet International Development Goals,” Paul Collier and David Dollar, *World Development*, 29, 2001.

2. Other country characteristics of LICUS countries such as conflict-affected and post-conflict are discussed later.

3. Specifically, the criteria used by the Bank are low-income countries (falling within the threshold of IDA eligibility [FY05 list was created using the FY04 threshold \leq \$865 GNI]) scoring \leq 3.0 on both the overall and governance CPIA averages, plus low-income countries without CPIA data (which include Afghanistan, Liberia, Myanmar, Somalia, Timor-Leste, and Kosovo—a territory).

4. Includes “severe” and “core” LICUS, but not “marginal” LICUS. See Table 1.

Table 1: FY05 LICUS Countries

Severe	Core
Afghanistan**	Burundi**
Angola**	Cambodia**
Central African Republic* **	Comoros**
Equatorial Guinea	Democratic Republic of Congo**
Haiti* **	Republic of Congo**
Liberia* **	Guinea-Bissau**
Myanmar* **	Kosovo (Note: This is a territory)
Solomon Islands**	Lao PDR
Somalia* **	Nigeria**
Sudan* **	Papua New Guinea
Zimbabwe*	Sao Tome and Principe
	Tajikistan**
	Timor-Leste**
	Togo*
	Uzbekistan

*Source: LICUS unit, OPCS, World Bank. Note: * shows countries in non-accrual. ** shows conflict-affected countries. The Bank defines "severe" LICUS as countries with an overall and governance CPIA of 2.5 or less (the overall CPIA is used first as a filter and then the governance CPIA is considered), "core" LICUS as countries with an overall and governance CPIA of 2.6-3.0, and "marginal" LICUS as countries with an overall and governance CPIA of 3.1—these countries score on the edge of what is considered LICUS and hence identified for monitoring purposes only. In FY05, the marginal LICUS were: Chad, Cote d'Ivoire, Eritrea, Gambia, Georgia, Guinea, Niger, and Sierra Leone.*

II. WORLD BANK'S APPROACH TO LICUS

4. Three main documents describe the Bank's approach to LICUS: 2002 LICUS Task Force Report, 2003 LICUS Implementation Overview, and the 2004 Corporate Day Presentation "The LICUS Challenge." According to these documents, all LICUS are characterized by weak policies, weak institutions, and weak governance, many LICUS are conflict-affected⁵, and some LICUS are resource-rich. The Bank's approach to LICUS recognizes that traditional aid programs have not worked well in these countries. Yet, the Bank's approach does not call for total disengagement from these countries but rather emphasizes the need for engaging them differently. Box 1 presents the core principles of the Bank's approach to LICUS. No specific Operational Policies in the Bank govern LICUS work.

5. While originally limited to "post-conflict" countries, OP 2.30 (adopted in 2000) allows the Bank to cover conflict-affected countries more upstream. The Conflict Prevention and Reconstruction Unit in the Social Development Department of the Bank's ESSD Network defines conflict-affected countries as those which have recently experienced, are experiencing, or are widely regarded at risk of experiencing violent conflict. These countries are identified by the Regions. Conflict-affected countries are not the same as "post-conflict" countries which the Financial Resource Mobilization Department of the Bank defines in terms of eligibility for exceptional IDA allocations as determined by Post Conflict Progress Indicators. Post-conflict countries are a subset of conflict-affected countries, and in FY05 included Afghanistan, Angola, Burundi, Democratic Republic of Congo, Republic of Congo, and Timor Leste.

Box 1: Core Principles of the Bank's Approach to LICUS

Within Countries

- Staying engaged
- Anchoring strategies in stronger socio-political analysis
- Promoting domestic demand and capacity for positive change
- Supporting simple and feasible entry-level reforms
- Exploring innovative mechanisms for social service delivery
- Working closely with other donors

Within the Bank

- Providing strong financing of analytical and capacity building work including by disconnecting budgets for economic and sector work and technical assistance from lending volumes in recognition of the importance of maintaining analytical and capacity-building work even when lending is low
- Deploying experienced staff in LICUS including by improving incentives for staff to work on LICUS
- Reviewing operational policies and procedures to assess their applicability in particular low-capacity environments
- Providing support from the Bank's central units to Regional teams for country strategy development and implementation.

Source: 2002 LICUS Task Force Report, World Bank; 2003 LICUS Implementation Overview, World Bank; 2004 Corporate Day Presentation, World Bank.

5. **Four Emerging Business Models for Support to LICUS.** Based on early implementation experience, the Bank has identified four business models for its support to LICUS. The core characteristics of these models differ and each involves a different Bank strategy as shown below.⁶

- ***LICUS with Prolonged Political Crisis.*** These are countries where a normal relationship of alignment between government and the international community is absent, either because of severe conflict or because of international sanctions. The Bank's focus in these LICUS is on rebuilding the stock of country knowledge to prepare for possible reengagement; supporting national dialogue, capacity building, and where appropriate "ring-fenced" social service delivery; and undertaking scenario-planning with other donors to coordinate country assistance strategies and send consistent messages to national counterparts.
- ***LICUS in Fragile Transition.*** These are countries where a peace process, national reconciliation process, or strong internal reform program has created a turnaround in policy direction, but capacity remains weak and political risk high. The Bank's focus in these LICUS is on using joint results frameworks to provide a simple pre-Poverty Reduction Strategy Paper planning tool agreed with both government and donors, covering political, security, economic, and social sectors;

6. Corporate Day Presentation, LICUS Unit, World Bank, May 7, 2004.

and preparing for full IDA re-engagement through grant-based capacity-building, demonstration projects for early reforms, and action on public finances.

- ***LICUS with Weak Governance and Slow Progress.*** These are countries with weak governance which are neither at immediate risk of instability nor have experienced a strong internal turnaround in policy. The Bank’s focus in these LICUS is on implementing highly selective and harmonized strategies; identifying politically feasible reforms that can build momentum for future change; ensuring the right mix of national-level policy dialogue and sectoral projects; and undertaking capacity building in high-impact areas from leadership to local level.
- ***LICUS with Deteriorating Governance.*** These are countries where policies and institutions are deteriorating. In these LICUS, the Bank’s focus is on monitoring early warning indicators; undertaking faster Country Assistance Strategy reorientation; and conducting more study.

III. GOALS AND SCOPE OF THE EVALUATION

6. Responding to interest from the World Bank’s Board of Executive Directors, OED will assess the Bank’s support to LICUS.⁷ The focus of this evaluation will be on the Bank’s support to LICUS in the post-2002 period after the adoption by the Bank of its LICUS initiative. Given the relatively short elapsed time since the Bank’s adoption of its LICUS initiative, this evaluation will identify lessons from the early implementation experience with a view to feeding into further LICUS strategy development by the Bank. The evaluation will also compare recent experience with that of the Bank’s pre-2002 assistance in a sample of LICUS to assess shift’s in the Bank’s strategy following the Bank’s adoption of its 2002 LICUS initiative. Prior to the Bank’s adoption of its LICUS initiative, the Bank supported some LICUS through IDA grants and loans, analytical work, and policy dialogue, but also often disengaged from others, or maintained very limited “watching briefs”.

7. The evaluation will be divided in three main parts as indicated below. The key questions to be addressed under each part are also indicated—they derive mainly from the Bank’s approach to LICUS described above.

What is the Bank’s stated approach to LICUS and how relevant is it?

- What criteria has the Bank used to classify countries as LICUS and to classify them into the four emerging business models? What are the Bank’s overall objectives and approach in LICUS? How has the Bank translated each of the core

7. The operational value of treating LICUS as a separate category has been recognized by the Bank’s Corporate Strategy Group which uses it as one of the client-segments that illustrate the need for differentiation in the Bank’s response to evolving country needs (the other segments being investment grade, core IDA, core IBRD, blend, India, and China).

principles of the LICUS approach into specific strategies in interim strategy notes⁸ or country assistance strategies? How does the Bank's approach to LICUS as identified in interim strategy notes or country assistance strategies differ across the four emerging business models?

- To what extent is the Bank's approach in LICUS different from its approach in other low-income countries? How does the Bank vary its approach to LICUS in conflict-affected countries and in countries with rich or poor resource bases?
- How relevant are the Bank's objectives and approach to the lessons of global experience emerging from other donor and bilateral aid agency approaches to LICUS? What possible omissions in the objectives or approach may have weakened relevance?
- How has the Bank defined intended results and yardsticks of success in LICUS? To what extent did the monitoring and evaluation systems reflect these and include both early warning indicators and measures of long-term progress?

How has the Bank's approach to LICUS been implemented and how effective is it likely to be?

- How did the Bank implement its approach to LICUS across the four emerging business models and is the Bank likely to be more effective in implementing some of the business models than others? How were the core principles of the Bank's approach to LICUS implemented across the four emerging business models? Was there a change, in practice, in the balance between the following elements after the Bank's adoption of its 2002 LICUS initiative: knowledge transfer versus financial transfer, short-term measures versus long-term actions, policy reform versus targeted assistance, loans versus grants, and capacity enhancement of state institutions versus support to independent service authorities?
- Did implementation adequately take account of in-country power and authority relations? Did the Bank design its partnerships taking account of its own and other donor comparative advantage?
- How appropriate were the financing instruments to the needs and circumstances of LICUS?
- What performance indicators were actually tracked? How were monitoring and evaluation data actually used? How effective was the Bank's monitoring and evaluation system in helping to manage performance and in demonstrating progress?
- Overall, how effective is the Bank's approach to LICUS likely to be? What are the emerging challenges? What are the lessons?

8. Interim Strategy Notes include informal briefs, Transitional Support Strategies (TSSs), Country Re-engagement Notes (CRNs), and other documents that are prepared in lieu of full Country Assistance Strategies.

How appropriate are the Bank’s internal policies, procedures, and organizational support for LICUS?

- How appropriate are the Bank’s criteria for allocating administrative budgets across Bank departments? Are the Bank’s budgets for ESW and technical assistance adequate in LICUS?
- To what extent has the Bank deployed experienced staff to work on LICUS? Has the Bank’s incentive system provided adequate incentives for qualified Bank staff to work on LICUS?
- To what extent have the new financing instruments developed during the implementation of the LICUS initiative⁹ assisted in facilitating the implementation of strategies based on LICUS principles?
- How effectively have the Bank’s central units supported country strategy development and implementation in LICUS? How has support from central units differed between the Bank’s “focus”¹⁰ versus “non-focus” countries?
- How effectively has the Bank engaged in external partnerships to facilitate policy consensus and collaborative work to improve aid effectiveness in LICUS?

IV. EVALUATION INSTRUMENTS AND METHODS

8. This evaluation will use six main instruments. First, a *literature review* will cover key literature on failed states, fragile states, collapsed states, difficult partnerships, poor performers, and post-conflict issues. Second, a *portfolio review* (covering both lending and non-lending assistance) will assess the design, implementation, and likely effectiveness of the Bank’s approach to LICUS in a stratified sample of four countries in each of the four emerging business models for a total sample of 16 countries. OED Country Assistance Evaluations will be a rich source of evaluative information.¹¹ Third, *field-work will be undertaken in six LICUS* (within the sample of 16) representing each of the four emerging business models taking a deeper look at the design, implementation, and likely effectiveness of Bank support in those six countries.¹² Fourth, a *survey of country clients, Bank staff, other donor staff, and academics/researchers* in the same sample of 16 countries will elicit views on the effectiveness of the Bank’s LICUS approach and strategy and on what a useful future role for the Bank might be in each of the four emerging

9. For example, the LICUS Implementation Trust Fund which provides grants to LICUS in non-accrual and, to a lesser extent, the identification of LICUS as a focus area for the Institutional Development Fund which provides grants for priority capacity building in social service delivery institutions.

10. The Bank has identified some countries as “focus” countries for intensive support based mainly on demand from the respective country departments. The FY03 “focus” countries were: Angola, Central African Republic, Haiti, Papua New Guinea, Somalia, Sudan, and Tajikistan. The FY04 “focus” countries were: Burundi, Comoros, Guinea Bissau, Liberia, Togo, and Zimbabwe. The FY05 “focus” countries are: Cambodia and Nigeria

11. Currently, OED Country Assistance Evaluations are available for 6 of the 26 LICUS: Cambodia, Haiti, Papua New Guinea, Solomon Islands (forthcoming), Togo, and Zimbabwe.

12. In addition to ensuring that the four emerging business models are represented among the six field work countries, regional representativity and representation of conflict-affected, resource rich and poor, and some of the older “focus” countries will be ensured.

business models. Fifth, a *survey of Bank staff* will assess the effectiveness of the Bank's internal organizational support and human resource/budgetary policies (including incentives) for LICUS work within the Bank as perceived by Bank staff themselves. Sixth, a *desk-assessment of the same issues as covered in the survey of Bank staff* will supplement Bank staff perceptions. An illustrative matrix showing which of the different instruments will be used to address specific evaluation questions is presented in the Annex. A three-person Advisory Panel of experts on fragile states will advise the LICUS evaluation team.

V. DISSEMINATION

9. During the evaluation, contact will be maintained with the Bank's LICUS unit to tap into any Bank and non-Bank events on LICUS at which the design or findings of OED's LICUS evaluation can be shared and disseminated. In addition, OED will undertake its own dissemination. Following CODE review, the final report will be disseminated widely both within the Bank and outside through a variety of means including OED's internal and external websites, and presentations to donor agencies involved in providing support to LICUS.

VI. BUDGET, SCHEDULE, AND TASK MANAGEMENT

10. The total budget for the evaluation is estimated at US\$630,000 of which about \$418,000 will be for FY05 and \$212,000 for FY06. Partial funding from trust funds and/or OED's evaluation partnerships will be sought. The final evaluation report will be submitted to CODE by June 2006 (see Table 2 for the schedule). This timing was chosen to enable the evaluation to inform the Bank's proposed FY07 Comprehensive Review of LICUS. The evaluation will be prepared by a team of OED staff and consultants under the task management of Soniya Carvalho, and the guidance and direction of Alain Barbu, Manager, OEDSG.

Table 2: Schedule

Activity	Date
Approach Paper to CODE	December 2004
OED One-Stop Review on Full Draft	February 2006
Final Report to CODE	June 2006

Annex. Illustrative Matrix of Evaluation Questions and Instruments that will be Used to Address Them

Evaluation Questions	Instruments*					
	LR	PR	FW	SC	SB	DA
What is the Bank's stated approach to LICUS and how relevant is it?						
What criteria has the Bank used to classify countries as LICUS and to classify them into the four emerging business models? What are the Bank's overall objectives and approach in LICUS? How has the Bank translated each of the core principles of the LICUS approach into specific strategies in interim strategy notes or country assistance strategies? How does the Bank's approach to LICUS as identified in interim strategy notes or country assistance strategies differ across the four emerging business models?		X				
To what extent is the Bank's approach in LICUS different from its approach in other low-income countries? How does the Bank vary its approach to LICUS in conflict-affected countries and in countries with rich or poor resource bases?		X				
How relevant are the Bank's objectives and approach to the lessons of global experience emerging from other donor and bilateral aid agency approaches to LICUS? What possible omissions in the objectives or approach may have weakened relevance?	X	X				
How has the Bank defined intended results and yardsticks of success in LICUS? To what extent did the monitoring and evaluation systems reflect these and include both early warning indicators and measures of long-term progress?		X				
How has the Bank's approach to LICUS been implemented and how effective is it likely to be?						
How did the Bank implement its approach to LICUS across the four emerging business models and is the Bank likely to be more effective in implementing some of the business models than others? How were the core principles of the Bank's approach to LICUS implemented across the four emerging business models? Was there a change, in practice, in the balance between the following elements after the Bank's adoption of its 2002 LICUS initiative: knowledge transfer versus financial transfer, short-term measures versus long-term actions, policy reform versus targeted assistance, loans versus grants, and capacity enhancement of state institutions versus support to independent service authorities?		X	X	X		
Did implementation adequately take account of in-country power and authority relations? Did the Bank design its partnerships taking account of its own and other donor comparative advantage?		X	X	X		

Continued>

* **LR**: Literature Review; **PR**: Portfolio Review; **FW**: Field Work; **SC**: Survey of Country Clients, Bank staff, Other Donors, Academics/Researchers on the Bank's country level assistance to LICUS; **SB**: Survey of Bank Staff on the Bank's internal organizational support to LICUS work; **DA**: Desk-Assessment of Bank's Internal Organizational Support to LICUS work.

Evaluation Questions	Instruments*					
	LR	PR	FW	SC	SB	DA
How appropriate were the financing instruments to the needs and circumstances of LICUS?		X	X	X		
What performance indicators were actually tracked? How were monitoring and evaluation data actually used? How effective was the Bank's monitoring and evaluation system in helping to manage performance and in demonstrating progress?		X	X	X		
Overall, how effective is the Bank's approach to LICUS likely to be? What are the emerging challenges? What are the lessons?		X	X	X		
How appropriate are the Bank's internal policies, procedures, and organizational support for LICUS?						
How appropriate are the Bank's criteria for allocating administrative budgets across Bank departments? Are the Bank's budgets for ESW and technical assistance adequate in LICUS?					X	X
To what extent has the Bank deployed experienced staff to work on LICUS? Has the Bank's incentive system provided adequate incentives for qualified Bank staff to work on LICUS?					X	X
To what extent have the new financing instruments developed during the implementation of the LICUS initiative ¹³ assisted in facilitating the implementation of strategies based on LICUS principles?					X	X
How effectively have the Bank's central units supported country strategy development and implementation in LICUS? How has support from central units differed between the Bank's "focus" versus "non-focus" countries?					X	X
How effectively has the Bank engaged in external partnerships to facilitate policy consensus and collaborative work to improve aid effectiveness in LICUS?					X	X

* **LR**: Literature Review; **PR**: Portfolio Review; **FW**: Field Work; **SC**: Survey of Country Clients, Bank staff, Other Donors, Academics/Researchers on the Bank's country level assistance to LICUS; **SB**: Survey of Bank Staff on the Bank's internal organizational support to LICUS work; **DA**: Desk-Assessment of Bank's Internal Organizational Support to LICUS work.

13. For example, the LICUS Implementation Trust Fund which provides grants to LICUS in non-accrual and, to a lesser extent, the identification of LICUS as a focus area for the Institutional Development Fund which provides grants for priority capacity building in social service delivery institutions.