



**IDA18**

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**Special Theme:  
Fragility, Conflict and Violence**

**IDA Resource Mobilization Department (DFiRM)  
May 31, 2016**

## ACRONYMS AND ABBREVIATIONS

Fiscal year (FY) = July 1 to June 30

CCSA	Cross-Cutting Solutions Area
CPF	Country Partnership Framework
CPIA	Country Policy and Institutional Assessment
CPR	Country Performance Rating
CRW	Crisis Response Window
ESCWA	UN Economic and Social Commission for Western Asia
FA	Fragility Assessment
FCS	Fragile and Conflict-affected Situations
FCV	Fragility, Conflict and Violence
GBV	Gender-Based Violence
IDA	International Development Association
IDPs	Internally Displaced People
IDPS	International Dialogue on Peace-building and State-building
IEG	Independent Evaluation Group
IFC	International Finance Corporation
ILO	International Labour Organization
JIP	Joint Implementation Plan
MDB	Multilateral Development Bank
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
MIGA	Multilateral Investment Guarantee Agency
MTR	Mid-Term Review
PBA	Performance-Based Allocation
PCNA	Post-Conflict Needs Assessment
PCPI	Post Conflict Performance Indicator
PSW	Private Sector Window
SDG	Sustainable Development Goal
SME	Small and Medium Enterprise
TAR	Turn-Around Regime
UNHCR	United Nations High Commissioner for Refugees
WBG	World Bank Group

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## EXECUTIVE SUMMARY

i. **Fragility, conflict and violence (FCV) constitute one of the most pressing challenges to the Sustainable Development Goals (SDGs).** Globally, around 1 billion fewer people live in extreme poverty<sup>1</sup> compared to a quarter century ago. However, in Fragile and Conflict-affected Situations (FCS) extreme poverty is rising – with an estimated 50 percent of the global poor expected to live in IDA FCS by 2030. FCV also make pro-poor growth and human development more difficult and can reverse development gains. Meanwhile, recent trends show an increase in the number of conflicts and a change in their nature. Violence is becoming more complex with a growing number of local conflicts supported by external actors and political violence and acts of terrorism causing increased instability. Not all fragile situations are violent, but the threat of violence and conflict is present in many fragile situations.

ii. **FCV risks affect countries beyond the list of FCS<sup>2</sup> and could have regional and/or global dimensions.** Fragility can also be found in higher-capacity countries, including at sub-national levels. The causes and consequences of fragility are often not confined by borders and can generate negative spill-overs for other countries through violent extremism and forced displacement. Violence and conflict have displaced an estimated 60 million people, including 20 million refugees. Fragility is also intertwined with global dynamics such as migratory and demographic pressures, illicit flows of drugs and arms, and climatic and environmental stresses.

iii. **While development in fragile situations is difficult, progress is possible.** Countries such as Timor-Leste, Liberia and Sierra Leone have taken important steps towards peace and stability. Guinea-Bissau, Myanmar and the Central African Republic successfully held elections, which present important opportunities for reform and progress. There are also nascent signs of progress in Sudan, Somalia and Zimbabwe. Implementation of IDA17 commitments continues to be satisfactory, with progress achieved in a number of areas, including jobs, private sector development and gender.

iv. **Responding effectively to FCV requires a differentiated approach.** Sustained engagement in FCS and adapting responses to different forms of fragility – like active crisis or conflict, fragility traps or emerging stability – remains critical. IDA should also broaden its engagement by identifying and supporting opportunities to mitigate fragility risks. This will require programs to directly address underlying causes of FCV including at the sub-national level. Finally, it must support country-level engagements within a regional framework to address fragility arising from regional factors and to deal with the impact of refugees on host countries.

v. **Building on experience to date, IDA18 seeks to substantially strengthen IDA's effectiveness in addressing FCV by:**

- **Deepening IDA's knowledge on FCV and learning from operational experience:**
  - Adopt a risk-based approach for identifying fragility beyond FCS ; and

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<sup>1</sup> Living on less than US\$1.9 per day.

<sup>2</sup> Harmonized list of countries with CPIA ratings 3.2 or below.

- Deepen the Bank’s knowledge on the mitigation/prevention of FCV risks through a flagship report drawing on lessons from operational experience and impact evaluations.
- **Designing integrated World Bank Group (WBG) strategies addressing FCV drivers and building institutional resilience:**
  - Expand the use of fragility assessments to countries at significant risk of FCV<sup>3</sup> and ensure all Country Partnership Frameworks (CPFs) in FCS and countries at risk of FCV are informed by Fragility Assessments;
  - Step up IDA’s efforts to address development challenges stemming from refugees to increase the resilience of host communities in close coordination with partners and clients;
  - Increase the number of operations in fragile contexts that include gender-based violence (GBV) prevention/response and linkages to livelihood activities.
- **Improving staffing, operational effectiveness and flexibility:**
  - Increase staff facetime in IDA FCS and monitor progress through the “facetime index”.<sup>4</sup>
- **Promoting partnerships for a more effective response:**
  - Undertake joint Recovery and Peacebuilding Assessments (RPBA), as openings arise, for engagement in the aftermath of conflict in IDA FCS; and
- **Enhancing financing to support FCS/FCV:**
  - Modifying *the PBA formula to:*
    - ensure that country allocations support a minimum country engagement by increasing the annual base allocation from SDR4 million to SDR15 million;
    - increase the poverty orientation in the PBA formula by reducing the Country Performance Rating (CPR) exponent from 4 to 3; and
    - remove the grant discount and the “Multilateral Debt Relief Initiative (MDRI) netting out.”<sup>5</sup> These modifications would also simplify the PBA formula while retaining the performance orientation principle (Annex 5).
  - Maintaining *the exceptional Turn-around regime (TAR)*. The TAR allows IDA to provide a higher level of financing to countries with significant opportunities for building stability and resilience to accelerate their transition out of fragility. For

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<sup>3</sup> Countries eligible for exceptional IDA allocations to mitigate FCV risks identified on the basis of a cross-country risk scan combining quantitative and qualitative assessments (see Annex 3).

<sup>4</sup> The proposed “facetime” indicator will be calculated on the basis of World Bank staff in-country missions as well as international and local staff and consultants posted in the country.

<sup>5</sup> Countries that have benefited from debt relief under MDRI are subject to a reduction of their annual IDA allocation equal to the amount of annual debt service due. This “netting out” is capped at 30 percent of the annual allocation.

IDA18, the implementation arrangements will be modified only to incorporate the revised yearly minimum base allocation as discussed above;

- *Providing exceptional allocations to mitigate FCV risks to Guinea, Nepal, Niger, and Tajikistan.* This special allocation, is proposed to be up to 1/3 of these countries' regular PBA allocation. Section III.B describes the implementation arrangements.
  
- *For IDA18, Management also proposes creating a US\$2.0 billion sub-window within the Regional Program to finance projects benefiting refugees and their host communities.* Eligibility criteria balance quantitative criteria with qualitative judgement to identify potential beneficiaries. The proposed sub-window aims to generate the necessary incentives for addressing the refugee challenge through a combination of volumes and terms. This flexibility is coupled with strong Board oversight. Robust governance procedures<sup>6</sup> will be used for the refugee sub-window, similar to what is already in place for “transformational” projects under the Regional Program. A progress report on the refugee sub-window will be prepared for the IDA18 MTR.

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<sup>6</sup> A 2-step process of early consultation with and subsequent approval by the Executive Directors will be required for all projects processed under the sub-window.

## I. INTRODUCTION AND CONTEXT

1. **Fragility, conflict and violence (FCV) constitute one of the most pressing challenges to reducing poverty and achieving the Sustainable Development Goals (SDGs).** Today, 473 million people live in 35 Fragile and Conflict-affected Situations (FCS), of which 29 are IDA-eligible countries (see Annex 2).<sup>7</sup> Their progress towards the Millennium Development Goals (MDGs) was slower than non-FCS countries. IDA FCS constitute six percent of the global population, yet account for 21 percent of global poverty. Due to their high population growth rates and lagging development, FCS are expected to be home to more than 50 percent of the global poor by 2030.

2. **Pro-poor growth is more difficult in FCS for many reasons.** Between 2004 and 2014, IDA FCS grew at a rate of 4.2 percent; however, their high rates of population growth meant that GDP per capita increased only 1.7 percent over this period. Despite a slight recovery in 2015, growth in FCS remained low reflecting low commodity prices, the economic effects of the Ebola crisis in Liberia and Sierra Leone, and protracted civil strife and conflict in countries like South Sudan and Yemen. Conflict drives 80 percent of all humanitarian needs<sup>8</sup> and also reverses hard won development gains. Because of the conflict, GNI per capita of Syria has declined significantly<sup>9</sup> and poverty rates are estimated to have risen from 28 percent in 2010 to more than 83 percent in 2014.<sup>10</sup> The aggregate economic cost of conflict and violence on the global economy was estimated at US\$14.3 trillion in 2014, or 13.4 percent of world GDP.<sup>11</sup>

3. **Violence is becoming more complex, shifting from civil wars into local conflicts supported by external actors as well as instability driven by political violence and terrorism.** Between 2014 and 2015, the number of conflicts increased from 41 to 50 while the number of major conflicts decreased slightly from 12 to 11.<sup>12</sup> There are two trends: (i) the number of internationalized conflicts, i.e., internal conflicts in which other states intervene militarily, has increased; and (ii) the nature of intrastate conflicts has shifted from civil wars for control of the state to local contests by elites for control of resources.<sup>13</sup> Overall, the number of terrorist incidents

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<sup>7</sup> The acronym FCV refers to the challenge of fragility, conflict and violence regardless of classification as Fragile and Conflict-affected Situation (FCS). The term FCS is used to refer to The Harmonized List of Fragile Situation for 2016 which consists of 35 countries or territories. Currently, 29 of the FCS are IDA-eligible countries. The remaining six countries are middle-income IBRD-only countries.

<sup>8</sup> United Nations (2016), “One Humanity: Shared Responsibility,” Report by the UN Secretary General for the World Humanitarian Summit.

<sup>9</sup> Syria is currently classified as an IBRD country and is not eligible for IDA resources. However, Syria could be found to be eligible for concessional IDA financing under IDA18. Such determination would require, under existing Bank policy, an assessment which shows that relative poverty determined by GNI per capita in Syria is below the operational cut off (currently US\$1,215 for FY16, and it is estimated that Syria’s GNI per capita is now below this level) and a lack of creditworthiness for IBRD lending. Implementation of a strategy for assistance to Syria would be undertaken when conditions permit and there are systems and institutions in place in Syria to meet IDA’s policy and legal requirements.

<sup>10</sup> United Nations Economic and Social Commission for Western Asia estimates on people living below the upper (moderate) poverty line applied by the Government of Syria based on data from the Syrian Central Bureau of Statistics.

<sup>11</sup> Institute for Economics and Peace (2015) Global Peace Index.

<sup>12</sup> Out of 50 conflicts only one was an interstate conflict. Of the remaining 49 conflicts, 20 were contests for control of the state, the remaining 29 were territorial conflicts for autonomy or secession. There were 11 major conflicts (battle deaths greater than 1000) in 2015 (down from 12 in 2014). Source: UCDP available at: [ucdp.uu.se](http://ucdp.uu.se).

<sup>13</sup> Raleigh, C. and Dowd, C., “The state of violence and conflict in the emerging SDG era,” SIPRI Yearbook 2016 (forthcoming).



has increased by 120 percent since 2012, with deaths from these activities concentrated in Iraq, Afghanistan, Nigeria, Syria and Pakistan.<sup>14</sup> Violent extremists are mobilizing fighters, material support and transnational logistics to carry out strikes in pursuit of ideological objectives rather than communal, ethnic, or local goals.

4. **Not all fragile situations are violent, but the threat of violence and conflict is present in many fragile situations.** Many fragile situations have low levels of violence (Liberia, Bosnia and Herzegovina, Sierra Leone, and Solomon Islands have levels of unlawful homicides comparable to European countries). Still, countries can be stuck in “fragility traps” where there may be no overt violence, but the threat of violence and/or political instability can result in stalled development, a so-called “negative peace.”<sup>15</sup> Of large concern is the group of 17 countries that have been in fragility since the early 2000s.<sup>16</sup> These countries with deep fragility demand particular attention as they are faced with persistent institutional and development challenges and recurrent patterns of violence.

5. **FCV are increasingly affecting middle-income countries.**<sup>17</sup> These countries, several of which are IDA-eligible, can display “pockets of fragility,” subnational conflict or high levels of social violence.<sup>18</sup> Sub-national conflicts with a regional or ethnic identity marker are prevalent in countries in the South and East Asia. Governance failures and lack of trust in governments can also lead to sub-national fragility or conflicts, e.g., in some areas of Pakistan and Nigeria. In Honduras, organized crime and drug trafficking contribute to high levels of violence and in Papua New Guinea violent gangs and interpersonal violence impose substantial development costs. Kenya illustrates how different types of violence – political, extremist, communal, gender based and gang related – can combine to create insecurity. In all these cases localized conflict and high levels of violence have a strong negative impact on development and inclusive growth.

6. **The causes and consequences of FCV transcend borders.** Some fragility dynamics are cross-border in nature, such as the Boko-Haram crisis, and spill over at sub-national, regional, and international levels. Conflict systems – systemic factors that promote expansion of a conflict along ethnic and clan ties, informal trade, migration, or nomadic routes – can spread fragility among countries as in the Sahel and the Mashreq. FCV situations are also increasingly intertwined with regional and global dynamics: vulnerability of state institutions combined with transnational drivers such as organized crime, ideological movements and illicit financial flows can lead to episodes of instability and/or state collapse which, in turn, can generate spill overs that undermine regional and global security.

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<sup>14</sup> Institute for Economics and Peace (2015) Global Terrorism Index.

<sup>15</sup> Institute for Economics and Peace (2015) Global Peace Index.

<sup>16</sup> Defined as countries always on the FCS list since 2005 on the basis of a CPIA score below 3.2.

<sup>17</sup> Countries grouped under the Middle-Income classification are grouped in lower-middle-income and upper-middle-income economies (separated at a GNI per capita of US\$4,125). A large number of lower-middle income countries are IDA-only whereas others are blend countries. Blend countries are eligible for IDA credits and for IBRD loans.

<sup>18</sup> Independent Evaluation Group (2016) “World Bank Group Engagement in Situations of Fragility, Conflict, and Violence – An Independent Evaluation.”

7. **An estimated 60 million people, including 20 million refugees, are displaced because of violence and conflict.**<sup>19</sup> IDA countries are the origin of 13 million refugees, 95 percent of them from IDA FCS.<sup>20</sup> Over half of these refugees originate from Syria, Afghanistan, and Somalia. Sudan, South Sudan, the Democratic Republic of Congo (DRC), Myanmar, and Eritrea are also places of origin for large numbers of refugees. Bordering countries, including those that are or were recently fragile, host an overwhelming majority of these refugees. South Sudan hosts 266,000 refugees, even as conflict has made it the source of 744,000 refugees to other countries. Many of these neighbors are IDA countries, including Ethiopia, Chad, DRC, Kenya, Pakistan, and Uganda.<sup>21</sup> Displacement is often protracted, depriving affected populations of health and education services as well as employment opportunities.

8. **Fragility and conflict often exacerbate GBV.** It is a devastating and targeted facet of campaigns led by groups such as ISIS and Boko Haram, and remains a persistent feature of conflict and displacement in such settings as Somalia, South Sudan and Colombia. While sexual assault and rape are often used as a weapon of war mainly against women and girls, men and boys also experience and witness GBV. Sexualized violence occurs alongside other forms of GBV such as forced marriage, intimate partner violence, physical assault, abduction and human trafficking, as well as sexual exploitation and abuse. These tend to increase during and persist well after the conflict has subsided.

## II. RECENT PROGRESS

9. **The landscape of fragility and conflict is evolving in IDA countries.** New conflicts have flared up and old ones intensified in Afghanistan, Mali, and Yemen. Contestation of existing political settlements has turned violent in countries such as South Sudan, Burundi and Central African Republic (CAR). Extremism and violence have contributed to regional pressures in the Sahel, the Horn of Africa, and the Middle East. Infighting among militias in Libya has had serious implications for security in neighboring IDA countries such as Chad or Niger. The conflict in Northern Nigeria has resulted in over six thousand civilian deaths in 2015 and the displacement of people into Chad, Niger and Cameroon.

10. **Fragility is a spectrum, not just a threshold.** Since the Bank started monitoring fragility in 2003, 20 countries have “graduated” from FCS status. The better performing half (Cambodia, Djibouti, Georgia, Lao PDR, Nepal, Sao Tome and Principe, Tajikistan, Uzbekistan, and Vanuatu) have under 5 mortality of 54 per 1000, poverty rates of 20 percent and violent death rates of 4.8 per 100,000 population – significant improvements over the currently fragile situations. The other half (Angola, Cameroon, Republic of Congo, Equatorial Guinea, Malawi, Mauritania, Niger, Nigeria, and Papua New Guinea) have under 5 mortality of 89 per 1000, poverty rates of 34 percent and violent death rates of 9 per 100,000. Many of these countries continue to experience some fragility and higher performance does not make them fully immune to risks of violence or conflict.

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<sup>19</sup> UNHCR Mid-Year Trends 2015: <http://www.unhcr.org/56701b969.html>.

<sup>20</sup> UNHCR data as of end-June 2015. Estimates include Syria – see footnote 9.

<sup>21</sup> Overall, by the end of June 2015, there were about six million refugees hosted in IDA eligible countries – 60 percent in Sub-Saharan Africa, 35 percent in South Asia Region, and the remaining 5 percent in the Middle East and North Africa Region.

11. **While development in fragile situations is more difficult, progress is possible.** Sri Lanka and Cambodia show that overcoming conflict and fragility is possible while other such as Timor-Leste, Liberia and Sierra Leone have made important strides towards stable peace (Box 1). In many fragile situations, incremental progress is possible. In Guinea-Bissau, voters took part in a peaceful presidential election turning the transitional period opened by the 2012 military coup into an opportunity for reform and progress. In Mali, a peace agreement was brokered in 2014 to end conflict with main rebel groups. In Myanmar, the government and ethnic groups are negotiating a historic nation-wide ceasefire to pave the way to national reconciliation. In CAR, peaceful elections were held in March 2016 and the new government was sworn in. In many of these countries, IDA made important contributions and delivered results. In Somalia, long considered as one of the most fragile situations in the world, slow progress is being made on the Somali New Deal Compact endorsed in 2013, creating a potential pathway for normalizing relations with the International Financial Institutions.

#### **Box 1. Liberia – Progress in the Face of Adversity**

The conclusion of Liberia's second civil war in 2003 marked the end of 14 years of political turmoil and instability. Since then, a strong development strategy has led to a decade of improving human development indicators, economic growth, and increasing stability. In 2011, Liberia's peaceful Presidential and Legislative elections showed the substantial gains made in just eight years.

In 2014, however, the twin shocks of Ebola and the substantial decline in commodity prices put this progress at risk. Thousands died, and economic growth fell. Although Ebola is no longer a threat, FCV risks remain, including inter-ethnic divides, socioeconomic inequality, corruption, and high levels of youth unemployment. Liberia's security situation also remains tenuous.

IDA is helping Liberia tackle these challenges by: strengthening governance and institutions through legal reforms and capacity building; improving health and education outcomes; expanding social protection; and increasing communications access and connectivity through better infrastructure. This momentum will be critical for stability when the government takes over security responsibilities from the UN Mission later this year.

#### **A. PROGRESS ON STRENGTHENING IDA'S FINANCING FOR FCS DURING IDA17**

12. **IDA's financing support for FCS has increased significantly over the last few Replenishments.** There has been a six-fold increase since IDA11 and a doubling of financial support in just the last 10 years – reflecting changes in the allocation system and bigger replenishment volumes (Figure 1). FCS have also benefited from increasingly concessional terms from IDA, with the average grant element of IDA total financing increasing from 61 percent in IDA11 to 72 percent in IDA17.

13. **During IDA17, IDA is implementing its commitments to enhance financing to FCS.** IDA's resource allocation framework was revised by: (i) increasing the poverty orientation of the performance-based allocation (PBA) formula; (ii) increasing the annual minimum base allocation from SDR 3 million to SDR 4 million; (iii) implementing the exceptional Turn-Around Regime (TAR); and (iv) providing a higher level of support for post-conflict and re-engaging countries.<sup>22</sup>

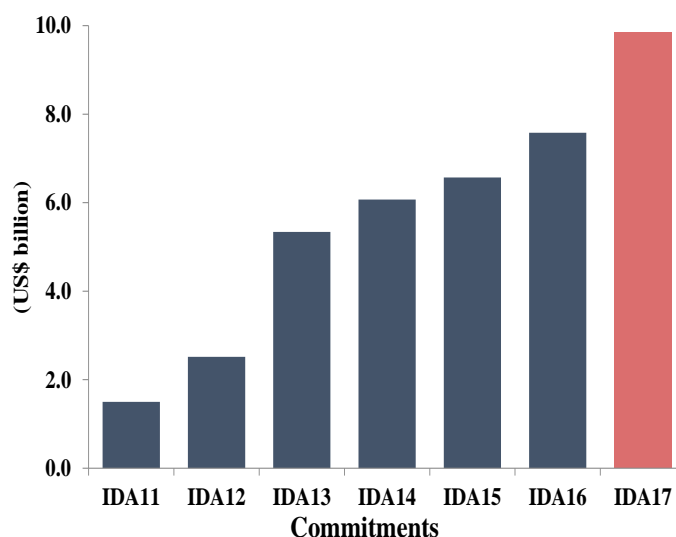
<sup>22</sup> Afghanistan, Burundi, Côte d'Ivoire, DRC, Liberia, South Sudan are eligible under the Post-conflict regime and CAR, Haiti, Myanmar, Togo under the Re-engaging regime. See IDA (2015) IDA17 mid-term review: strengthening support to fragile and conflict-affected states – progress report.

As a result, IDA’s core indicative IDA17 *allocations* to 29 FCS is projected to be around US\$7.2 billion (or 18 percent of total core allocation, including TAR exceptional financing) – 50 percent more than what these countries would have received without the revisions to the allocation framework and 35 percent more than in IDA16.<sup>23</sup>

14. **Meanwhile, total commitments by end-June 2016 are expected to be above US\$5.9 billion, 34 percent above the first two years of IDA16.** In addition to US\$4.8 billion in core IDA allocations to FCS (which include US\$4.6 billion in PBA allocations and US\$250 million under the TAR), they have also benefited from US\$310 million under the Crisis Response Window (CRW), and US\$718 million under the IDA Regional Program.

15. **Exceptional TAR allocations of US\$250 million per year are financing ambitious programs in Guinea-Bissau and Madagascar.** As of February 2016, both countries became eligible for TAR based on their commitment to addressing drivers of fragility, broad international support to bolster the transition process and evidence of early progress. It has also helped to identify potential lessons for the future (Box 2). The TAR for Guinea-Bissau has scaled-up IDA’s annual allocation from US\$10 million under regular PBA to US\$20 million. In addition to core IDA, in FY16 Guinea-Bissau has benefited from additional financing from the Regional IDA window amounting to US\$95 million. Madagascar’s annual TAR allocation amounts to US\$230 million compared to a regular PBA allocation of US\$102 million.

**Figure 1. IDA Financing to Fragile- and Conflict-Affected States**



Source: Business Warehouse and Staff estimates.

Note: IDA17 reflects indicative core IDA allocations. Non-core IDA reflect the following assumptions: (i) full use of arrears clearance set aside; and (ii) projects in the pipeline for the Regional Program.

<sup>23</sup> Estimates based on the FY16 allocation exercise.

### **Box 2. Turn-Around Regime in Madagascar and Guinea-Bissau**

Turnaround eligibility for Guinea Bissau and Madagascar was based on progress in their transition. Key considerations included: (i) evidence of government commitment to a reform agenda, and (ii) shared understanding among key development partners on increasing support to the country. The Bank conducted fragility assessments in both cases to determine eligibility and define broad contours of a work program and the associated monitoring framework.

Both cases raised important lessons for the application of future TAR allocations:

- Turn-around situations are sometimes difficult to spot and decision on the timing of eligibility need to strike a careful balance between evidence of early progress and risks. In both cases, evidence of a turn-around was muddled because of setbacks along the way.
- TAR monitoring frameworks needs to capture incremental progress while adapting to the reality of FCV situations. Reliance on project-level results remains important to gauge signs of success, but their availability in the short-term is limited. For this reason, monitoring frameworks also need to capture positive signals of progress such as the respect of constitutional rule, improvement in macro level indicators (e.g., domestic revenue), and progress on governance reforms.

## **B. PROGRESS ON STRENGTHENING IDA’S EFFECTIVENESS DURING IDA17**

**16. Recognizing that FCS require a tailored approach, the WBG has implemented key reforms to strengthen its operational effectiveness.** These include:

### *i. Deepening the IDA’s knowledge on FCV and learning from operational experience*

**17. The WBG is reviewing its metrics for identifying fragility.** Using an expanded set of metrics, including key outcome indicators and Country Policy and Institutional Assessment (CPIA)-based fragility risk factors, the working model captures fragility across multiple dimensions. The work provides the following recommendations regarding WBG engagement in FCV situations: (i) provide attention to relevant fragile situations beyond FCS; (ii) focus on mitigation in addition to responding to harmful outcomes, through identification of and action to address long-term drivers of FCV risks; and (iii) pay greater attention to supranational dynamics and regional spillovers induced by migratory and demographic pressures, illicit flows of drugs and arms, and climatic and environmental stresses. This, together with a qualitative assessment, was used to identify the four countries eligible for exceptional IDA allocation for FCV risk mitigation in IDA18 (See Section III.B and Annexes 3 and 4).

**18. The WBG launched analytical work on jobs and conflict to improve understanding of the challenge of job creation in fragile countries.** This effort has included a stocktaking of employment and peace-building jointly with the UN and International Labour Organization (ILO), which will be published in a forthcoming report. The WBG has also rolled out in-depth Jobs Diagnostics in six FCS, delivering on an IDA17 commitment.<sup>24</sup> The Jobs Diagnostics process has highlighted important data and knowledge gaps, particularly around understanding the demand side of job creation, and within this, the dynamics of SMEs and microenterprises.

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<sup>24</sup> The six FCS are: Afghanistan, Côte d’Ivoire, Haiti, Kosovo, Sierra Leone, and South Sudan. Also see the accompanying Special Theme Paper on Jobs and Economic Transformation.

19. **The WBG conducted impact evaluations and expanded use of beneficiary feedback mechanisms to expand its knowledge of what works in FCS, in keeping with another IDA17 commitment.** Key results include the 2015 publication presenting the current state of available evidence for FCV operations and an FCV impact evaluation series focusing on four sub-themes: a) jobs for “at-risk” youth; b) public governance; c) GBV; and d) urban crime. As of March 2016, the Development Impact Evaluation Unit oversaw 35 impact evaluations in 13 FCS across these themes, with 20 still on-going.

*ii. Designing integrated WBG strategies and programs to address FCV drivers*

20. **Under IDA17, the IDA committed to use analyses of fragility and conflict drivers to inform all FCS CPFs.** Fragility assessments (FA) are now undertaken as part of country diagnostics and strategy (Box 3). From 2012-2016, the IDA completed 35 FAs at the country level and three assessments at the regional level in the Horn of Africa, Great Lakes and Pacific Islands. In 2016, the World Bank produced a guidance note on FAs to establish a more systematic approach across countries and regions. Increasingly, preparation of FAs includes development partners to ensure a shared vision of the dynamics of fragility and possible responses.

**Box 3. Examples of Fragility Assessments**

*Central African Republic:* In April 2016, IDA along with the UN, DFID, and the French Development Agency prepare a FA in support of an application of IDA17 TAR and a possible Post Conflict Needs Assessment (PCNA). The assessment identified key drivers of fragility, including lack of social cohesion, regional disparity between the capital and the rest of the country, elite capture of political power and scarce natural resources, perceptions of injustice and impunity.

*Guinea:* The FA informed the CPF that was presented to the Board in May 2013. A desk review of fragility and conflict drivers and stakeholders consultations were complemented by focus group surveys conducted by a local company in the capital and across the country. The process was done in collaboration with the Government and results were presented during a workshop with government counterparts.

*Somalia:* A review of the drivers of conflict and fragility was finalized in early 2013, just as the newly formed and internationally recognized government was being established. This analysis served as the basis for a sectoral assessment undertaken jointly with the UN on key challenges and priorities according to the New Deal’s Peace and State-building Goals. This analysis informed consultations with government and international partners in the development of the Somali Compact, which underpinned the IDA’s operations.

21. **IDA, IFC and MIGA made progress on Joint Implementation Plans (JIPs) and improved synergies in several FCS.** As of March 2016, 3 JIPs were being implemented, 4 were in preparation and 8 are still at an early stage in FCS. Most JIPS focus on developing the agribusiness and energy sectors. The Burundi Energy JIP has focused on the hydropower sector and on attracting private investment. In Myanmar, the WBG is leveraging its knowledge and financing to support the power sector and improve access to electricity by 50 percent, connecting 6.2 million people by 2020. This will be achieved by engaging with power utilities in both Yangon and Mandalay on their corporatization and commercialization and through joint IFC-IDA support for development of around 750 MW of new gas-fired power generation.

22. **Ongoing IDA projects addressing GBV have effectively built on analytical and advisory work.** Learning from State- and Peace-building Fund-funded pilots in DRC and Côte

d'Ivoire helped inform the design of the US\$107 million Regional IDA project "Great Lakes Emergency Women's Health and Empowerment Project" approved by the Board in June 2014. The IDA17 Great Lakes Trade Facilitation Project seeks to advance synergies with this project, in part due to prominent role played by women in regional cross-border trade, and in light of the prevalence of gender based violence cases observed at border posts targeted by the project. The Gender Cross-Cutting Solutions Area (CCSA) has produced a resource guide on how to integrate prevention of GBV, response and mitigation into WBG programs.

#### **Box 4. Examples of IDA Forced Displacement Projects**

*Central African Republic Emergency Food and Agriculture Relaunch Project* (March 2014, US\$20 million): As a result of instability and violence, a large number of people in the Central African Republic were internally displaced and/or food insecure. IDA financed critical activities under the strategic response plans of the World Food Program and Food and Agriculture Organization in targeted areas, addressing both the immediate food crisis but also contributing to efforts to revitalize the agriculture sector ahead of the next planting season.

*The Great Lakes Displaced Persons & Border Communities Program* (Zambia) (May 2016, US\$20 million): This series of projects aims to maximize development benefits for internally displaced people, refugee and host populations in the region through investment in public services, livelihood support, land access and social cohesion. Complementing a first project in DRC, a second project in Zambia will support the local integration of former refugees from Angola.

*The Regional Operation on Development Response to Displacement in the Horn* (May 2016, US\$175 million): this regional IDA operation seeks to improve access to social services, expand economic opportunities and enhance environmental management for host communities affected by refugees in targeted areas of Djibouti, Ethiopia and Uganda. The project will be delivered through a Community Driven Development approach and will involve: (i) building and capacitating grassroots institutions; (ii) ensuring the voice of all communities is heard in decision making; (iii) strengthening decentralized government administrative functions; and (iv) investing in public service delivery and social mobilization to enhance social cohesion among beneficiary communities.

23. **IDA has increased its engagement on the challenge of forced displacement primarily through its work targeting assistance to internally displaced people (IDPs) or refugee host communities.** This was a central element of a number of regional initiatives in the Great Lakes, Horn of Africa and the Sahel (Box 4) and has become a pillar of MENA's new regional strategy. The WBG has also increased its analytical work on a range of topics related to forced displacement, including macroeconomic and fiscal issues, labor, strengthening relevant data for evidence based work, poverty, and social development.<sup>25</sup>

#### ***iii. Improving staffing, operational effectiveness and flexibility***

24. **FCV became one of the CCSA during the reorganization of the WBG in 2015.** The FCV CCSA has a global operations support team in Nairobi. The FCV Group supports the WBG's strategic engagement in FCV situations, knowledge management, cross-country support, experience-sharing in addressing drivers of fragility, strengthening partnerships, and improving the response to the forced displacement crisis. Recently the FCV CCSA has assigned dedicated specialists to FCS countries to augment country engagement and coordination with development partners.

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<sup>25</sup> This work has been focusing primarily on Middle East and North African and Sub-Saharan Africa regions, but studies have also examined the phenomenon in Europe and Central Asia and South Asia Regions.

25. **Staffing in IDA FCS has been protected during the group-wide Strategic Staffing and cost reduction efforts.** From a peak in 2014, staffing in IDA FCS is down 7.6 percent compared to a reduction of 11.5 percent in IDA non-FCS.<sup>26</sup>

26. **The World Bank has introduced additional operational flexibility for teams working in FCV environments.** To date, 21 percent of investment projects in FCS apply exceptions under OP10.00,<sup>27</sup> and have reduced preparation time by two months on average. The Procurement Framework for investment project financing adopted in July 2015 makes allowances for situations of fragility and allows for the Bank to provide “hands-on expanded implementation support” in situations of fragility or specific vulnerabilities (including for small states). In addition, it opens the way for greater reliance on the procurement rules and procedures of other agencies or organizations including UN agencies, which could greatly facilitate collaboration with these key partners in low-capacity situations.

27. **There is increasing experience on how the WBG can operate in insecure environments by working with other development partners.** WBG teams are increasingly exploring flexibility in portfolio/project design to better cope with insecure environments, including through third party supervision and remote monitoring systems in inaccessible areas as well as execution through NGOs or UN agencies. Lessons from Afghanistan demonstrate that despite security risks, the WBG can support effective implementation if there is flexibility and willingness to adopt innovative approaches (Box 5). The Bank is also increasing its preparedness to transition better and faster from program suspension to program resumption. For example, the Bank set up the Yemen Re-engagement Team to design early recovery activities and re-open the country office when conditions are appropriate.

#### **Box 5. Operating in Insecure Environments – Lessons from Afghanistan**

A review of Afghanistan’s Interim Strategy Note in 2014 found that the WBG supported implementation by taking a number of measures to address increasing risks to staff security. With much of the program subject to Afghanistan Reconstruction Trust Fund (ARTF) funding cycles, longer-term programs are often approved initially for a short period and then extended with additional financing if they are performing well. This allows greater flexibility to restructure in a timely way and transfer funds between operations. Recognizing the increasing security risks of a large presence of international staff in the Kabul office, the majority of international staff were moved to Dubai in March 2014. A small country office was opened in Mazar-e-Sharif in the north, where staff are able to travel more freely. Third party monitoring was undertaken for four important, geographically scattered investment programs.

#### ***iv. Promoting partnerships for a more effective response***

28. **The WBG has strengthened its partnerships in FCV situations.** IDA17 has promoted a more effective response in FCS by encouraging joint activities with the UN, Multilateral

<sup>26</sup> For consistency, the country list used for all years is the FY16 Harmonized List of Fragile Situations, IDA recipients only. When excluding Afghanistan, from which several staff have been relocated to Dubai due to security concerns, total World Bank staff in IDA FCS is down 6.4 percent since 2014.

<sup>27</sup> Especially Para 12 of O.P. 10 provides flexibilities around processing, procurement, safeguards, implementation modalities and project preparation resources which can be applied in FCS countries, Small Islands States, in situations of capacity constraints and in areas of fragility in non-FCS.



Development Banks (MDBs), and bilateral development partners. The WBG has also continued to engage in the International Dialogue on Peacebuilding and Statebuilding (IDPS) – a partnership that brings together the g7+ countries,<sup>28</sup> donors and civil society actors.

**29. UN-WBG collaboration has seen progress at both the strategic and operational levels.** Joint analytical work spans areas such as security and justice (Box 6), extension of state authority and scaling up support to regional partners. Joint FAs were carried out in Guinea-Bissau and Cameroon in 2015 and in CAR in 2016. A joint PCNA was conducted in response to the Peace Agreement reached in Mali in 2015. To strengthen the partnership between the UN, WBG and the EU in transition situations the methodology of PCNA is being reviewed and updated. A High Level Advisory group has been established recently to guide this process. The WBG has also expanded its partnership with the UN High Commissioner for Refugees (UNHCR) building on experience from regional operations in the Great Lakes and the Horn of Africa regions.

**Box 6. UN-Bank Partnership Work on the Security – Development Nexus**

UN and Bank teams have been working jointly on analytical work to strengthen approaches to the security and justice sector. This followed the joint Public Expenditure Review in Liberia of 2012 which identified the fiscal needs upon the draw-down of the UN peacekeeping mission. Such exercises are useful tools for policy-makers to assess key issues including: (i) effectiveness and how the sectors' institutions are aligned against stated government objectives and budget allocations; (ii) affordability and how the aggregate cost of sector budgets are aligned with available resources; (iii) efficiency and an analysis of the unit costs of delivery of security and justice services; and (vi) financial management, oversight and accountability related to the execution of public security expenditures. In 2015, the two organizations conducted a joint PER of the security sector in Somalia, which informed the debate on the structure of the security and justice services against the backdrop of the wider move toward a federal state. The government in Guinea Bissau has called for the two partners to undertake a Public Expenditure Review for its security sector. In light of these requests, the Bank and UN will publish guidance materials for ministries and practitioners, drawing upon the expertise, competencies and mandates of the respective institutions.

**30. Innovative partnerships were developed in Myanmar, Yemen, CAR, and Somalia in support of political transitions.** In the area of crisis response, the UN and WBG regional and country teams have worked together to support the immediate Ebola response and longer-term recovery planning for the Ebola-affected countries. At the same time the Ebola crisis highlighted remaining operational challenges such as the difficulty for borrowers with low capacity to contract UN Agencies for implementation.<sup>29</sup> The UN and the WBG have set up a working group seeking to solve the operational bottlenecks both through reforms, but also through dissemination to teams of the different modalities available for collaboration.

**31. The WBG is actively supporting the New Deal for Fragile States.**<sup>30</sup> An independent review of the New Deal's five-year pilot period was completed in January 2016, noting the WBG's

<sup>28</sup> The g7+ is a voluntary association of 20 countries experiencing fragility and conflict. The group is an important constituency advocating for peace and state-building goals to be the foundation for exiting fragility and conflict. See [www.g7plus.org](http://www.g7plus.org).

<sup>29</sup> The UN-WB Fiduciary Principles Accord under which UN Agencies implement project activities or components using their own fiduciary procedures is not applicable to IDA financing.

<sup>30</sup> The New Deal is an agreement between fragile and conflict-affected states, development partners, and civil society to improve the current development policy and practice in fragile and conflict-affected states. It was developed through the forum of the International Dialogue and signed by more than 40 countries and organizations at the 4th High Level Forum on Aid Effectiveness on November 30th 2011 at Busan, Korea.

constructive and consistent support in pilot countries and at global level through its engagement in the International Dialogue on Peace-building and State-building (IDAPS). At a ministerial meeting of the IDPS in Stockholm in March 2016, Participants reconfirmed the importance of the New Deal as a partnership framework led by the g7+ countries.

### C. CURRENT STATUS OF IDA PORTFOLIO IN FCS

32. **At the end of the third quarter of FY16, the IDA FCS portfolio consists of 241 projects totaling US\$15.94 billion.** More than half of the projects were split between: Governance (29 percent), Transport and ICT (14 percent) and Social, Urban, Rural and Resilience (11 percent). Africa Region has the largest portfolio with almost 60 percent in terms of the number of projects and a total value of US\$6.51 billion. South Asia has US\$6.03 billion worth of projects. Simpler project design and intensified implementation support increased the disbursement ratio to 25 percent in FCS at the end of FY15. IEG data show that portfolio performance in FCS continues to perform as well as non-FCS countries.<sup>31</sup> Currently, IDA's FCS portfolio has only two over-age projects compared to nine in the non-FCS portfolio. The share of actual problem projects is similar – 17 percent in FCS versus 15 percent in non-FCS.

## III. WAY FORWARD AND PROPOSED POLICY ACTIONS

33. **Addressing challenges of conflict and fragility requires a differentiated approach tailored to the circumstances of each country.** There is marked heterogeneity across FCS, with varying causes and manifestations of fragility as well as in levels of conflict and violence. Ways of mitigating and eventually overcoming risks of fragility and conflict will thus have to be context specific. Equally, the IDA's engagement in FCS will also have to evolve based on experience and knowledge. This section (a) outlines the WBG's framework for strategic engagement on FCV for IDA18; (b) proposes ways to enhance financing for FCS; and (c) sets out policy actions for strengthening the IDA's engagement in FCV.

### A FRAMEWORK FOR IDA'S STRATEGIC ENGAGEMENT ON FCV

34. **A new conceptual framework provides a starting point for devising appropriate instruments and responses in FCV.** Effectively responding to FCV in IDA18 will require: (i) responding to FCS across the spectrum of fragility; (ii) mitigating fragility risks in non-FCS; (iii) addressing sub-national FCV in higher-capacity countries; and (iv) addressing the regional dimension of fragility and mitigating the impact of forced displacement..

#### *i. Responding to FCS*

35. **Fragile situations include low-income countries struggling with unstable political settlements, weak institutions and strained social contracts.** While present in all regions, this pattern is especially common in the Africa region. Sources of fragility in these countries are heterogeneous and their situations are dynamic – where countries move in and out of conflict or political crisis, and experience varying levels of violence. In these countries, apart from tailoring

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<sup>31</sup> In FY14, 79 percent of FCS projects had an outcome rating of moderately satisfactory or higher compared to 70 percent of non-FCS projects.

engagement to individual contexts and adapting to changing circumstances – it must also be sustained through cyclical crises. Coordination with organizations that provide support to humanitarian, security and political processes, including regional organizations, the UN and EU, will be important in these countries.

**36. For countries in active conflict or prolonged crisis, IDA can engage in policy dialogue, contribute to knowledge and analysis, and convene key stakeholders to plan for post-conflict or post-crisis recovery.** During transitional periods, IDA can provide advisory and technical support to interim governments, and help maintain minimum levels of public service delivery, and implement economic safeguard programs to prevent or reduce negative longer-term economic impacts. In fragile or deteriorating situations where pockets of stability exist and delivery is possible, IDA can adapt its programs to help affected populations. Innovative approaches including working with UN agencies, the private sector, or civil society will be necessary for engagement in these situations.

**37. Supporting countries in breaking out of fragility traps requires sustained engagement to build legitimate governing institutions and restore citizens’ trust in the state.** Overcoming fragility depends in large part on public institutions that can deliver core state responsibilities like security and justice, economic management and revenue collection and that can mediate state-society relations at all levels of society.<sup>32</sup> IDA can also play a role in laying the foundations for long-term institutional development by promoting equitable access to basic infrastructure and service delivery, and stimulating private sector growth. Evidence shows that 40 percent of conflicts return within a decade, making it critical to strengthen engagement and support for transitional processes during peaceful transfers of political power and other “turn-around” moments.

**38. As countries move out of fragility, IDA needs to provide sustained support to build pathways to institutional resilience and increased prosperity.** Institutional transformations can take decades and this process is often subject to setbacks. Abrupt changes in aid levels can have significant negative consequences for fragile countries.<sup>33</sup> In more stable situations, where people’s confidence is growing and governments have increased domestic revenues and can access external finance, IDA can help through high-impact operations, facilitate private sector investments and strengthen governance.

## *ii. Mitigating fragility risks*

**39. IDA could broaden engagement by identifying and supporting actions that mitigate fragility risks.** Most FCV-informed strategies and operations to date have focused on countries already in a situation of “observable fragility” or post-crisis situations. Mitigating fragility risks requires earlier and better-informed engagement as well as appropriate tools to identify and assess risks and steps to build institutional resilience. As laid out in the World Development Report 2014 on Risk and Opportunity, early interventions to address risk factors are the most cost-effective

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<sup>32</sup> See IDA18 Special Theme Paper on Governance and Institutions.

<sup>33</sup> See World Development Report 2011.

approach to improve resilience.<sup>34</sup> Within the context of a broader coalition, the WBG working in partnership with the UN and other development actors can contribute to address selected risk factors that can exacerbate fragility, and, hence, increase resilience to political or other shocks.

**40. Reducing fragility risks will require scaling up programs that directly address the underlying causes of FCV and build institutional resilience.** Key interventions include tackling grievances surrounding economic marginalization and uneven development; reducing conflicts surrounding land use; reducing regional imbalances by investing in excluded regions; creating meaningful livelihood sources for youth at risk; increasing transparency in natural resource governance; and improving the quality of justice and conflict resolution services at the local level. IDA interventions will also need to contribute to strengthening institutions that can withstand stress and build state-society interaction and accountability, including strengthening civil society actors to hold governments accountable. These areas of focus can provide important pre-requisites for long-term poverty reduction and equitable economic growth. In recent years, IDA has built its expertise and knowledge in this area with a growing number of operations.

*iii. Addressing sub-national FCV*

**41. Fragility, including in IDA higher-capacity countries (i.e., with CPIA scores higher than 3.2), can affect sub-national areas.** In IDA non-FCS, risks of fragility may stem from weak social cohesion; low levels of economic opportunity for a growing middle class and youth; unbalanced urbanization; and political exclusion. Violent conflict, insurgencies or high levels of fragility at sub-national level constitute a specific challenge. While the state is generally able to contain rebellions to their area of origin, violence takes a heavy toll on poverty reduction and development efforts. Regional spill-overs, such as the Boko Haram crisis or pressures from external shocks like large inflows of refugees, may increase the level of overall fragility in otherwise higher capacity societies.

**42. IDA can play a constructive role through active engagement in sub-national FCV situations.** Community-driven development projects have proven to be an effective entry point to engage even in situations of ongoing violence. The lessons from implementation and credibility among the parties to the conflict have important payoffs once there is a peace settlement.<sup>35</sup> IDA programs can also help deal with the consequences of violent conflict, promote social cohesion and address socio-economic drivers of violence. Extending nation-wide programs (e.g., on education) to conflict zones comes with higher costs and requires careful tailoring to the environment but it can deliver important development outcomes and contribute to conflict risk mitigation. The World Bank has accumulated a wealth of knowledge that it has learned from experiences in countries such as Uganda, Indonesia (Aceh) and the Philippines (Mindanao).

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<sup>34</sup> The call for strengthened global leadership in preventing and ending conflicts and increased investments in fostering stability and peaceful societies is a central message in the UN SG's report for the World Humanitarian Summit.

<sup>35</sup> Independent Evaluation Group (2016) "World Bank Group Engagement in Situations of Fragility, Conflict, and Violence – An Independent Evaluation."

*iv. Addressing the regional dimension of fragility and forced displacement*

43. **Addressing regional dimensions of fragility will require country-level engagements to be implemented within a regional framework.** Spillovers may exceed national capacities, and require coordinated regional interventions across countries. Responses should take place across many dimensions, including economic development and improvements in security. It is important to leverage synergies across international partners based on their comparative advantages on diplomatic, security, humanitarian, and development issues. IDA is strengthening its ability to engage on fragility issues at the regional level, in terms of both analysis (e.g., through regional FAs) and appropriate programs.

**Box 7. Key Elements of a Development Approach to Forced Displacement**

A development approach to tackling forced displacement aims to go beyond refugee protection and subsistence activities and to foster economic opportunities. This approach to forced displacement views the displaced and their hosts as economic agents, who have choices and respond to incentives. It aims to build partnerships with and between governments, the private sector, and civil society.

A development response to forced displacement would help support four groups of people: the forcibly displaced; the displaced who have achieved a legal durable solution but may still experience displacement-related vulnerabilities; people living in host communities; and those who remain in conflict zones. For the first two groups, the displacement experience often leads to specific vulnerabilities, some of which cannot be reduced or eliminated using traditional poverty reduction efforts. For host countries and host communities, the arrival and inclusion of large numbers of people create both risks and opportunities, but in most situations, they materially transform the environment. For development actors, the goal is to help host countries and communities adapt to these new circumstances while continuing progress on poverty reduction and shared prosperity. In many situations of generalized violence, the overwhelming majority of the population stays behind. However the risk of staying may be worth taking only if economic subsistence is possible. Development actors can play an important role in helping strengthen resilience of those who stay, especially in relatively stable parts of otherwise unstable countries.

44. **The forced displacement crisis poses a special challenge and calls for a dedicated response.** In a number of situations, the forcibly displaced are uprooted for extended periods of time, making traditional humanitarian responses insufficient. There is a pressing need for a coherent response with a medium- to long-term horizon, and for an effective framework to build on the complementarity between humanitarian and development actors. The WBG has recently identified the main pillars of a developmental approach to addressing the global forced displacement crisis (Box 7).<sup>36</sup>

**B. ENHANCING FINANCING FOR FCV**

45. **In the first IDA Replenishment Meeting in Paris, Participants have requested Management to develop options for increasing IDA allocations to FCSs and to address forced displacement.** In addition, Development Committee has also urged WBG Management to explore options to address forced displacement, in line with its mandate and complementary role vis-à-vis other development and humanitarian actors. In response, Management proposes a package of modifications to IDA's resource allocation framework. These modifications preserve the principle of performance orientation while simplifying it and building on existing instruments.

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<sup>36</sup> World Bank (forthcoming) Forced Displacement and Development.

*i. Increasing concessional core IDA allocations to FCS*

46. **In IDA18, Management proposes to modify the IDA17 allocation framework to substantially increase IDA’s financing to FCS.** The proposed increase would respond to the FCS strong demand for IDA financing in IDA18, which would reach US\$20-23 billion.<sup>37</sup> The increased demand is driven by a number of factors including: large reconstruction and re-engagement needs in a number of conflict-affected countries; external headwinds, which increase domestic pressures to create growth and jobs in FCS; the global development agenda increased ambition, as reflected in the WBG goals and the SDGs; and the need to address increasingly pressing global challenges such as forced displacement.

47. **Previous experience shows that a number of FCS were able to absorb larger levels of financing, but risks need to be carefully managed.** Since the adoption of the exceptional Post-Conflict and Re-engaging regimes, 14 FCS were given access to exceptional IDA country allocations compared to regular PBA. IDA commitments to these countries<sup>38</sup> indicate that most were able to fully use their enhanced allocations over time. Standard portfolio indicators also show that, on average, disbursement ratios for these countries have remained at par with other FCS and non-FCS. However, substantial risks remain as these countries are more susceptible to crises and need enhanced operational support and fragility-sensitive design of operations.

48. **The following changes to the IDA PBA allocation framework are proposed under IDA18 to enhance IDA’s financing for FCS:**

*Modifying the PBA system to:*

- ensure that country allocations support a minimum country engagement by increasing the annual minimum base allocation from SDR4 million to SDR15 million;
- increase the poverty orientation of the regular PBA formula by reducing the CPR exponent from 4 to 3; and
- remove the grant discount and the “MDRI netting out”.<sup>39</sup> These modifications would also simplify the PBA system while retaining the performance orientation principle (Annex 5).

*ii. Exceptional IDA allocations to FCV*

*Turn Around Regime*

49. **In IDA18, the TAR will continue to provide exceptional support to countries committed to reform that have a significant opportunity for building stability and resilience.** Consistent with proposal at the IDA17 MTR, Management would increase the annual minimum

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<sup>37</sup> IDA (2016) “The Demand for IDA18 Resources and the Strategy for their Effective Use.”

<sup>38</sup> Excluding South Sudan, as IDA eligibility was granted only in FY13.

<sup>39</sup> Countries that have benefited of debt relief from the Multilateral Debt Relief Initiative are subject to a reduction of their annual IDA allocation up to the amount of annual debt service cancelled under the MDRI. This “netting out” is capped at 30 percent of the annual “gross” allocation.

TAR base allocation to the SDR15 million level proposed under regular PBA. Other implementation arrangements would remain as agreed in the context of IDA17.<sup>40</sup>

*Exceptional FCV Risk Mitigation Regime*

50. **The proposed exceptional risk mitigation regime would provide a vehicle for enhanced support during IDA18 to four countries (Guinea, Nepal, Niger, and Tajikistan).** These countries present increasing risks of FCV and their governments are committed to addressing them. This exceptional support would be additional to their regular PBA allocations. In next Replenishments, Management will present the cases for eligibility at the time of the first meeting of an IDA Replenishment and finalize the eligibility discussions in subsequent meetings, similar to the process followed for countries graduating from IDA:

- **Purpose:** Support under the regime is intended to help the four eligible countries address risks identified through FAs and build institutional resilience to manage them.
- **Eligibility:** Countries eligible for risk mitigation support in IDA18 are identified on the basis of the following criteria: (i) evidence of significant FCV risks; (ii) evidence of government commitment to address the identified risks; (iii) stable macroeconomic framework; (iv) availability of financial resources (Table 1). Annex 3 reports details of the methodology followed to select these four countries and Annex 4 includes the assessment carried out.
- **Volume:** Support for an eligible country would amount to up to 1/3 of the country’s indicative IDA18 allocations with a cap of US\$300 million per country per replenishment.
- **Financing terms:** The financing terms will follow the regular PBA allocation.
- **Reporting:** Management will report the implementation experience at the IDA18 mid-term review (MTR).

**Table 1. Overview of Eligibility Criteria for FCV Special Allocations**

Regime	Purpose	Eligibility
Turn Around	To provide enhanced support to countries at a critical juncture in their development trajectory providing a significant opportunity for building stability and resilience. <sup>41</sup>	<p>Determined using a two-filter approach that aims at ring-fencing access to countries:</p> <ul style="list-style-type: none"> <li>(i) Where fragility and conflict have a significant development impact on the country;</li> <li>(ii) Are facing a turn-around situation and are committed to reform.</li> </ul> <p>Evidence base for the second filter is provided by:</p> <ul style="list-style-type: none"> <li>(i) Expectation of continued stability;</li> <li>(iii) Presence of a national plan associated with the turn-around situation;</li> <li>(iv) Effective national counterpart;</li> <li>(v) Concerted international support;</li> <li>(vi) Potential for a well-defined role for the Bank;</li> <li>(vii) Evidence of satisfactory early performance.</li> </ul>

<sup>40</sup> See “Implementation Arrangements for Allocating IDA Resources to Countries Facing Turn-Around Situations,” IDA (2013).

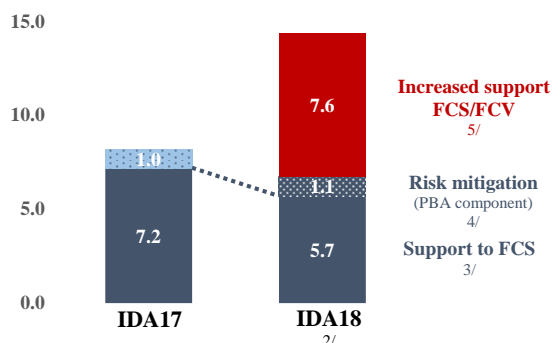
<sup>41</sup> These situations include, (i) cessation of an ongoing conflict, (ii) Bank re-engagement following a prolonged period of disengagement, (iii) a “turn around” in a country’s policy priorities and/or significant openings for change.

<b>FCV Risk Mitigation</b>	To provide targeted support to beneficiary countries for addressing key FCV risks and building institutional resilience.	Criteria: (i) IDA countries with high FCV risks identified; (ii) Evidence of commitment from the Government to address the identified risks; (iii) Appropriate macroeconomic framework; (iv) Availability of other financial resources.
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**iii. Impact of the proposed changes**

51. **The proposed changes to the allocation framework would increase IDA support to FCS/FCV from US\$7.2 billion in IDA17 to US\$14.4 billion in IDA18 under the Base Scenario.**<sup>42</sup> Country allocations to IDA FCS in IDA17 are estimated US\$7.2 billion or 18 percent of the IDA17 concessional Core envelope. Under the IDA18 Base Scenario, IDA’s core envelope would amount to US\$52.3 billion. Absent changes to the allocation framework, core IDA allocations to FCSs would decline to US\$5.7 billion in IDA18, including the existing TAR cases. The proposed changes to the allocation framework would contribute to an increase IDA’s FCS/FCV allocations to US\$14.4 billion, a 100 percent increase relative to IDA17 (Figure 2). The impact of the different contributing factors is outlined in Table 2 and further discussed in Annex 5.<sup>43</sup>

**Figure 2. Core Concessional Allocations to FCS/FCV in IDA17 and IDA18**  
(In billions of U.S. dollars)



**Table 2. Contributing Factors to IDA18 Allocation to FCS-FCV 1/**  
(In billions of U.S. dollars)

<b>Total increase:</b>		<b>7.6</b>
Contributing factors:		
i)	Possible "Turn-around" cases 6/	2.6
ii)	Increased financing volume	2.3
iii)	Changes to PBA formula	2.0
	Increase poverty orientation	0.8
	Increase minimum base allocation	0.5
	Eliminate MDRI netting out	0.2
	Eliminate grant discount	0.6
iv)	Risk mitigation	0.6

Source: Staff estimates.

Source: Staff estimates.

1/ For changes to the PBA formula, the table presents their “marginal” (i.e., increased FCS financing once preceding modifications have been implemented). The assumed sequence of implementation was: (i) poverty orientation increase; (ii) minimum base allocation increase; (iii) MDRI netting out elimination; and iv) grant discount elimination. For an analysis of the stand-alone impact of the change, see Annex 5.

2/ Reflects the Base Scenario in the Ask Paper.

3/ Refers to concessional Core allocations to countries in the FY16 FCS list. It is assumed, for simulation purpose, that countries currently eligible under the TAR (Guinea-Bissau, until FY17 and Madagascar, until FY18) will re-apply for exceptional allocation and will be granted eligibility for the entirety of IDA18 at the same level of support granted in IDA17.

4/ Refers to pure PBA-based allocations to the 4 non-FCS eligible for risk-mitigation support. Allocations to these countries are not included in IDA17 as risk mitigation considerations were not reflected in core concessional allocations during IDA17. In IDA17 PBA allocations to the 4 non-FCS countries would have amounted to US\$1.1 billion.

5/ Includes the top up for the pure PBA-based allocation for the 4 non-FCS eligible for risk-mitigation support.

<sup>42</sup> IDA (2016) “The Demand for IDA18 Resources and the Strategy for their Effective Use.”

<sup>43</sup> Annex 6 summarizes the allocation framework for core concessional resources that would apply in IDA18.



6/ Includes US\$1 billion of support for Syria assumed under the Base scenario in the Ask Paper. Syria is currently classified as an IBRD country and is not eligible for IDA resources. Indicative figure to be reassessed if and when eligibility discussions occur. Syria could be found to be eligible for concessional IDA financing under IDA18. Such determination would require, under existing Bank policy, an assessment which shows that relative poverty determined by GNI per capita in Syria is below the operational cut off (currently US\$1,215 for FY16, and it is estimated that Syria's GNI per capita is now below this level) and a lack of creditworthiness for IBRD lending. Implementation of a strategy for assistance to Syria would be undertaken when conditions permit and there are systems and institutions in place in Syria to meet IDA's policy and legal requirements. The amount assumes that TAR allocations include an annual minimum base allocation of SDR15 million.

*iv. Proposed IDA Regional Sub-Window for Refugees*

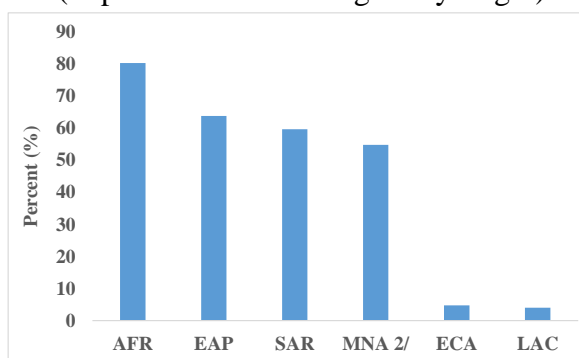
52. **Addressing the challenge of refugees requires a different approach compared to the traditional IDA-country-based model.** Half of the refugees world-wide originate from IDA countries, which are also host to one third of the global refugee population. There is a growing consensus that countries hosting refugees provide a global public good. Rapid increases in population resulting from cross-border flows of people can constitute an exogenous shock for host countries, especially where governments already face daunting challenges associated with high rates of poverty. A development approach to refugee crises aims to help refugees deal with vulnerabilities resulting from their displacement. By the end of IDA17, more than US\$1 billion of IDA resources are expected to fund operations in support of forcibly displaced people in IDA-eligible countries.

53. **For IDA18, Management proposes creating a US\$2 billion Regional IDA sub-window to finance projects benefiting refugees and their host communities.** Its eligibility and financing terms aim to increase the incentives for governments to support refugees. Support for IDPs or returnees would not be provided under the sub-window since, as citizens, they can benefit from operations financed under regular IDA allocations or other IDA windows (e.g., Regional Program). In addition to this sub-window, the WBG is preparing a Global Crisis Response Platform which would also have a component addressing the refugee issues in middle income countries.

54. **The Regional IDA Program provides an effective framework to support the proposed approach.** Refugee crises have a strong regional component, as the majority of IDA refugees is hosted in IDA countries in the same region (Figure 3). It would also enable regional collaboration on addressing forced displacement, such as part of the Great Lakes, Horn of Africa, and the Sahel regional initiatives.

55. **Introducing special criteria for enhanced support for countries hosting refugees will increase the likelihood that governments embrace this support and use it to generate important development outcomes.** Project beneficiaries would include both host communities and refugees, which will contribute to reduce fragility, promote refugee inclusion and make governments more likely to

**Figure 3. Refugees Remaining in Region of Origin 1/**  
(in percent of total refugees by origin)



Source: UNHCR and staff calculations.

1/ Refugees including refugee-like situations.

2/ Includes Syria.

accept support. Previous experience show that it is critical to provide support to both refugees and host communities, and that this will generate more effective, equitable and sustainable solutions for helping countries address both the needs of refugees and their own citizens.<sup>44</sup>

**56. The proposed implementation arrangements for the sub-window are:**

- **Activities:** Projects in host countries that focus on refugees' and host communities' development, not humanitarian, needs. Priority initiatives would include projects that: (i) promote refugees' welfare and labor force participation; (ii) support the achievement of sustainable solutions; (iii) help ensure access and quality of services available to refugees and host communities; (iv) support people whose livelihood is negatively affected by the refugees' presence; and (v) strengthen government finances where these have been strained by a significant inflow of people.
- **Eligibility Criteria:** A country would qualify as a "host country" if it hosts at least 25,000 UNHCR-registered refugees<sup>45</sup> and has a framework for the protection of refugees in line with international obligations.<sup>46</sup> Country eligibility will also be informed by qualitative analysis on the impact of refugee flows at the country or regional level. For example, fiscal burden on host governments and/or potential for increased instability could be considered. The Refugee sub-window would provide support for projects benefitting a single host country because refugees flow from another, often fragile, country.
- **Financing Incentives for the Refugee Sub-window:** Experience with current projects under preparation suggests that countries already have incentives to use the regional IDA window to support *host* communities. To motivate governments to also address the development needs of *refugees*, it is proposed that financing incentives in the form of additional volumes and more favorable terms be provided as discussed below.<sup>47</sup>
  - *Terms of financing:* For high risk of debt distress countries, top up funding from the sub-window will be provided on grant terms only. For moderate and high risk of debt distress countries, top up funding will be provided 50 percent in grants and 50 percent in applicable credit terms of the beneficiary country.<sup>48</sup>
  - *Requirements for national IDA contributions:* Regardless of the risk of debt distress, national contributions would be half those required under the IDA Regional Program.

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<sup>44</sup> Strategies to Support the HIV-related needs of refugees and host populations: A joint Best Practice publication of UNHCR and UNAIDS, 2005.

<sup>45</sup> 21 IDA-eligible countries. Syria could also qualify if granted access to IDA in IDA18.

<sup>46</sup> The World Bank will determine the adequacy of a country's refugee protection framework based on criteria such as the ratification of the 1951 Convention or the 1967 Protocol or a framework that is consistent with international protection standards.

<sup>47</sup> An alternative approach would be to provide all top up financing from the sub-window in grant terms while maintaining the same requirements for national contributions under the Regional window.

<sup>48</sup> Where projects will only benefit refugees and not host communities (e.g. economic integration of refugees in local labor market), on a case by case basis, top up funding for moderate and low risk of debt distress countries could be considered in 100 percent grant terms.

- **Governance:** This sub-window will follow the same governance structure approved by the IDA Deputies in IDA17 for case-by-case exceptions for regional transformational projects.<sup>49</sup>
  - *Oversight.* A 2-step process (similar to the CRW) of early consultation with and subsequent approval by the Executive Directors will be followed. A note outlining the rationale for the proposed support will be sent to the Board for consultation. The note would include: (i) evidence that the country eligibility criteria are met; (ii) evidence of a government plan to address the refugee situation; (iii) an analysis of the refugee and host community targeted by the project; (iv) description of proposed project development objectives and activities; (v) the financing terms for the project and national contribution; and (vi) evidence of coordination with other development partners and relevant humanitarian agencies, in particular UN agencies. Given the particularly difficult environment in which some of these projects will be implemented, it will be important that the projects put extra emphasis on risks to achieving project objectives, and to ensure that all projects are gender-informed.
  - *Project Approval.* Following the Board consultation, projects under the refugee sub-window would be processed following the same procedures established for the Regional window.
- **Other implementation issues.**
  - *Notional regional allocations:* At the beginning of a Replenishment period, notional regional allocation would be determined based on the number of refugees in IDA countries eligible for support under this sub-Window at the beginning of an IDA cycle. Allocations per country in a Replenishment under the special sub-window will be capped at US\$400 million. This threshold would help assist more countries to benefit from the sub-window.
  - *Reporting:* The FCV special theme progress report at the IDA18 MTR will include an update on progress and challenges, assess the proposed criteria and financing options for the sub-window, and the governance structure.

### C. STRENGTHENING THE BANK'S ENGAGEMENT MODEL ON FCV

57. **During IDA18, IDA will strengthen its engagement on FCV in four priority areas:** (i) deepening knowledge on FCV and lessons from operational experience; (ii) designing integrated WBG strategies and programs to address FCV drivers and build institutional resilience; (iii) improving staffing, operational effectiveness and flexibility; and (iv) promoting partnerships for a more effective response.

58. **Within these priority areas, IDA has identified a set of new commitments that build on lessons from previous IDA Replenishments and other efforts including IEG evaluations and consultations with key stakeholders.**<sup>50</sup> Policy commitments reflect the need for another step

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<sup>49</sup> IDA (2014) "IDA17 Deputies Report: Maximizing Development Impact."

<sup>50</sup> These include activities supported by the State- and Peace-building Fund as well as on consultations and feedback received from IDA deputies, Country Directors, g7+ ministers and other stakeholders.

change in the way the WBG conducts business in FCV to ensure that increased resources can be delivered effectively. Strong links with other IDA special themes is critical to maximize IDA's collective impact in FCV (section D below).

**59. Monitoring of results will also be strengthened as the 83 indicators of the IDA18 Result Measurement System (RMS) will be disaggregated for IDA's FCS to the extent possible.** Three new indicators will be included in the RMS that specifically track results related to the FCV special theme. Tier 1 will include one indicator to track the number of refugees and one for IDPs; and Tier 3 will measure the World Bank presence on the ground in FCS through the introduction of a face-time indicator.

*i. Deepening IDA's knowledge on FCV and learning from operational experience*

**60. IDA aims to deepen its knowledge on tackling FCV and use it to support clients and shape the dialogue with international partners.** To accomplish these goals, IDA will further develop methods to assess fragility risks, work on capturing better data on the impact of FCV and forced displacement, and expand global knowledge for development effectiveness in countries confronting FCV.

**61. During IDA18, IDA will adopt an expanded approach to identify fragility beyond the Harmonized List of FCS and identify risks of violence, conflict and instability.** This approach will recognize the multi-dimensional nature of the drivers of FCV, internal and external risk factors and stresses, including spill-overs effects. It will also identify fragility outcomes such as conflict, high levels of violence, forced displacement and the breakdown of state functions or political settlements. To identify fragility risks, IDA will draw information from various sources including qualitative assessments produced by internationally recognized organizations. The risk-based approach to FCV aims to promote earlier interventions which could help build institutional resilience and support mitigation of fragility drivers and internal and external stresses.

**62. IDA recognizes the critical need for good-quality data to understand and analyze context-specific risks of violence, conflict and instability, and monitor trends over time.** Without disaggregated and timely data, designing relevant and effective policy interventions is difficult. In IDA18, IDA will promote a Data for Peace initiative, which aims to produce better macro-and micro-level data on FCV and forced displacement. This will include: (a) adapting surveys to FCV environments, including conflict and displacement modules; and (b) introducing micro-surveys in refugee host countries to inform programs and targeting for host communities and refugees. Finally, IDA will improve data collection in crisis situations, including through household surveys and rapid enterprise surveys. Partnering with the UN will be critical for collecting comprehensive data in crisis situations and enabling cross-organizational data exchange, including from geospatial and non-traditional data sources. The WBG will ensure that gender and youth dimensions of FCV are integrated across data initiatives.

**63. IDA will prioritize research on responses to FCV issues, which will include a flagship report on mitigation of FCV risks.** The WBG's knowledge and learning agenda is an integral part of its response to FCV. The changing nature and manifestations of fragility and the benefits of risk mitigation and prevention call for renewed investments in research. To deepen knowledge and inform operations to mitigate FCV risks the WBG will undertake an analytical. The report,

which will draw on lessons from operational experience and findings from impact evaluations, is expected to be published in FY18. The WBG will also leverage analytical work on other IDA18 themes, including gender, governance and institutions, jobs and economic transformation in fragile environments (Section D).

*ii. Designing integrated WBG strategies addressing FCV drivers and building institutional resilience*

64. **In IDA18, the WBG will expand the use of FAs<sup>51</sup> to countries at significant risk of FCV and strengthen diagnostics on the role of state and societal institutions.**<sup>52</sup> The WBG will conduct FAs for countries flagged on the basis of a new method for identifying significant risks of FCV, and these will feed into the Systematic Country Diagnostics and CPFs. CPFs will explicitly consider modes of mitigation and national preparedness for future shocks. In collaboration with the Governance Global Practice, the FCV CCSA will identify opportunities to deepen the analysis in FAs on the capability and legitimacy of state and societal institutions in key sectors. Cross-sectoral teams will increasingly take responsibility for conducting FAs so they reflect expertise from across the Global Practices and partnerships with other development partners.

65. **To achieve better results in situations of FCV, IDA interventions need to more directly target FCV drivers and build institutional resilience.** IDA's priority in FCV settings is to ensure that its interventions "do-no-harm," i.e., that programs and implementation modalities do not inadvertently worsen conflict, exacerbate fragility or undermine local institutions. Tools that enable the analysis and monitoring of interactions between context and specific projects will be critical for minimizing negative outcomes. Beyond that, it is necessary to support work on FCV, i.e., to undertake the "right projects" to address the root causes of FCV and contribute to building peace and legitimate institutions. This can take the form of tackling the residual effects of prolonged conflict (e.g., activities related to demobilization, and reintegration of war-affected people into civilian life; support for people subject to sexual and GBV; livelihoods and service delivery to IDPs and refugees) and/or, in a more preventive way, directly addressing the fundamental issues that are at the core of fragility.

66. **During IDA18, IDA will apply tools to design fragility sensitive programming and develop a methodology for assessing the effectiveness of the portfolio in addressing FCV.** Building on experiences from countries such as Kyrgyzstan, DRC, or Nigeria,<sup>53</sup> IDA will develop a practical toolkit on FCV sensitive approaches to programming. Relevant tools may include conflict or fragility filters, project conflict assessments or project (risk) monitoring mechanisms. Building on these tools and approaches, a monitoring methodology will be put in place to track the share of IDA projects that are addressing FCV drivers and to establish if projects are designed

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<sup>51</sup> As of FY17, due to the broader understanding of FCV and the emphasis on risk mitigation of conflict and fragility, FAs will in some cases be called Risk and Resilience Assessments (RRAs).

<sup>52</sup> These countries are those proposed for eligibility under the exceptional risk mitigation regime (Guinea, Nepal, Niger and Tajikistan).

<sup>53</sup> In Kyrgyzstan a conflict filter was rolled out to help making all the projects in the portfolio and pipeline conflict sensitive. The conflict filter consisted of a set of issues that each projects needed to incorporate and support by a Senior Social Specialist to help teams in adjusting project design to the conflict environment. In Democratic Republic of Congo, the Great Lakes Facility funded by the UN-WB trust fund is providing human and financial resources so that teams can bring in local and conflict expertise when designing and implementing their projects.

in a conflict sensitive way. This information will be critical for assessing the progress IDA is making addressing the underlying causes of FCV.

67. **In IDA18, IDA will increase its engagements to address the development challenges stemming from hosting refugees and forced displacement.** Responding to strong client demand, IDA will increase its support for those who are already or are at risk of becoming forcibly displaced and communities negatively affected by fulfilling their responsibilities to host refugees. Its approach will be preventive, exploring ways to increase the resilience of citizens who do not leave conflict-affected countries and increase the preparedness of countries that are likely to receive inflows of refugees. IDA will also work closely with clients, and other partners to strengthen evidence-based dialogue and programming that contribute to alleviating the tremendous stress on displaced populations and host countries.

*iii. Improve staffing, operational effectiveness and flexibility*

68. **Successful implementation of IDA’s program on FCV requires effective staffing and sufficient resources for strategic engagement and portfolio support.** Making progress in countries affected by FCV tends to be more expensive than in other environments because of security concerns and higher operating costs. Planned increases in funding to FCS commensurate increase in staffing and other operational support.

69. **During IDA18 IDA will aim to increase staff “facetime” in IDA FCS and monitor progress through the “facetime index” included in the IDA18 RMS.**<sup>54</sup> IDA will review the HR situation for FCS to ensure that the right mix of staff is in place, reflecting the unique needs of the country. Operational and fiduciary staff will be needed to support the design and implementation of an expanded IDA portfolio. In addition, FCV specialist staff, whether from the CCSA or other units, will need to be placed in priority FCS settings or sub-regional offices to promote greater fragility-sensitivity in project design and more strategic engagement, including with other development partners. The institution will continue to rely on local staff where possible and is committed to their development.

70. **IDA aims to attract strong performers with the appropriate skills to FCS by offering enhanced professional and career development opportunities.** It will also ensure that staff in FCS bring to their work sufficient experience from other contexts and a thorough understanding of World Bank operations and procedures. The FCV CCSA is leading the development of mandatory online training for all staff working in FCS. The World Bank is also strengthening structures for coordination, networking and rapid deployment of FCS staff across the institution. This includes developing a more active community of practice, which will help develop and disseminate emerging good practice, and an effective surge staffing system for post-conflict or post-crisis engagement. The World Bank plans to give greater weight to FCS experience in job selection and promotion criteria and will promote active next-assignment planning processes, including a possible “FCV Talent Forum,” to facilitate placement of staff returning from FCS assignments.

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<sup>54</sup> The proposed “facetime” indicator will be calculated on the basis of World Bank staff in-country mission as well as international and local staff and consultants posted in the country.

71. **The WBG incurs higher costs of project preparation and supervision, and security and administrative expenses in FCS.** Between FY07 and FY12, the WBG allocated to a core group of 20 FCS, 9 percent more on average for project preparation and 19 percent more on average for supervision than countries that were never on the list.<sup>55</sup> The WBG is forming a working group in FY16 to provide recommendations on budgeting for these additional costs going forward. IDA will implement these recommendations in IDA18.

*iv. Promoting partnerships for a more effective response*

72. **IDA will deepen partnerships both at the global and country levels, with emphasis on increasing cooperation with the MDBs and the UN and its agencies.** The MDBs will form a joint secretariat to operationalize their new strategy for tackling forced displacement.<sup>56</sup> The political legitimacy, operational field presence and security umbrella of the UN are important for the IDA's engagement in FCS. The World Humanitarian Summit in May 2016 has put a spotlight on the humanitarian-development nexus and will help increase awareness of the need for greater collaboration among humanitarian actors and the WBG. Meanwhile, the WBG will continue to play a key role in the International Dialogue on Peace-building and State-building and work bilaterally with g7+ and other relevant associations of clients.

73. **During IDA18, IDA will promote strategic partnership between the WBG and the UN.** The institutions expect to adopt a revised and ambitious Strategic Results Framework for cooperation in 2017. It will set out key areas for thematic and country-specific collaboration, and reinforce the governance structures of the partnership. One priority will be to further progress in improving the 'inter-operability' of Bank and UN policies and fiduciary systems, to facilitate contracting of UN agencies under IDA-funded projects, including in situations of low capacity and urgent need, in which UN implementation can be critical to achieve development results. To this end, both organizations will develop a set of common operational agreements. Lessons from the Ebola crisis will inform this process. The institutions will initiate a portfolio review of their joint work later this year to identify its strengths and weaknesses, and recommend how to strengthen their joint work.

74. **During IDA18, IDA will take action to strengthen humanitarian-development coherence and tackle forced displacement as part of its work with the UN.** Both organizations will increase their collaboration with a focus on the collection of data and evidence to develop a shared understandings of humanitarian needs, common assessments and multi-year work plans. IDA will continue to expand its collaboration with UNHCR in particular, as well as a number of other bilateral and multilateral partners, each with distinct comparative advantages.

75. **At the country level, IDA will work with partners to increase "joined up" approaches to address FCV and enhance its convening role in FCS.** IDA will look for opportunities to increase joint assessment and monitoring processes, undertake common strategic planning exercises and build common financing and coordination platforms. IDA will also promote greater coordinated support to end conflict-related crises through scaled up use of lighter and more flexible

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<sup>55</sup> IEG (2013) "World Group Assistance to Low-Income Fragile and Conflict-Affected States."

<sup>56</sup> MDB paper on forced displacement.

joint Recovery and Peacebuilding Assessments (RPBA) based on the 2008 Joint Declaration with the UN and EU.<sup>57</sup> These assessments offer a unique platform to help governments and national stakeholders prioritize key activities in response to conflict, and to avoid early fragmentation of international support in these contexts. In countries implementing the New Deal framework, IDA will use its convening power to promote the New Deal principles and support multi-stakeholder engagement.

#### **D. LINKS WITH OTHER SPECIAL THEMES**

76. By establishing close linkages across the special themes, IDA18 will increase attention to the FCV dimension in the areas of gender, jobs and economic transformation, governance and institutions and climate change.

##### *Gender*

77. **To address entrenched gender challenges in FCV in IDA18, IDA will continue to build the knowledge base on what works, through rigorous research and impact evaluations that can help increase evidence-based programming.** IDA will seek to produce new and operationally-relevant evidence on effective GBV prevention and response, specifically addressing social norms and behaviors that contribute to the acceptability of this violence. This will include building on the emerging findings from a series of impact evaluations led by the WBG Gender Innovation Labs, and it will expand on other evidence emerging from initiatives supported under the Learning on Gender and Conflict in Africa (LOGiCA) trust fund. This agenda will prioritize the development of knowledge products with operational significance that practitioners can leverage to inform and translate into future programming.

78. **Under IDA18, IDA will increase the number of operations in fragile contexts that include GBV prevention/response,, particularly through the lens of livelihoods as part of resilience and recovery efforts.** This will draw on lessons from the growing body of knowledge emerging from IDA operations, in the Great Lakes and elsewhere. IDA will also increasingly include prevention of GBV in sector operations, such as in the Great Lakes Trade Facilitation Project. Finally, IDA will explore opportunities to understand more clearly the intersection of livelihoods and GBV, examining how livelihood investments advancing resilience and recovery in FCS can be leveraged to prevent or mitigate against the consequences of violence/GBV. IDA will further use these programs to help shape attitudes that contribute to gender equality, drawing from lessons of programs like the Adolescent Girls Initiative, which promotes the transition of young women from school to productive employment.

##### *Job creation and economic transformation*

79. **Difficult business environments and sector-specific challenges constrain private investment flows into many FCS markets.** Regulatory environment issues and investment climate issues contribute to the ease (or lack thereof) of doing business and affect support for basic infrastructure investments in power, utilities and transportation that private businesses need to

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<sup>57</sup> The methodology and approach for Recovery and Peacebuilding Assessments, previously called Post-Conflict Needs Assessments (PCNA) have been revised based on global lessons learned since 2008. See Garrasi, Donata, and Allen (2016), "Review of Experiences with Post-Conflict Needs Assessments: 2008-2015." World Bank, Washington, DC.



conduct their operations. Sector-specific challenges – frequently due to weaknesses, financial or otherwise, of the institutions and players that comprise these sectors – complicate countries’ ability to attract investment to priority areas even more. These in turn constrain IFC and MIGA’s ability to scale up business to support private investment into FCS. Given different country situations, targeted approaches are needed in FCS.

**80. In IDA18, the WBG will introduce a Private Sector Window (PSW) to enable IDA to work with IFC and MIGA to mobilize the private sector in IDA countries, with emphasis on FCS.**<sup>58</sup> Aligned with efforts to leverage IDA’s equity and as a complement to existing instruments supporting the private sector, US\$2.5 billion of IDA’s equity would be set aside for direct interventions with the private sector with or without sovereign guarantees. This amount would be provided for both existing and new financial instruments on non-concessional terms. The PSW would enable IDA to respond to private sector opportunities, through IFC and MIGA, with enhanced project-level guarantees and risk sharing to cover selected project risks especially related to off-taker and other government commitments. The proposed financial structure has the advantage of further leveraging IDA’s equity and enabling IFC and MIGA to meet their economic sustainability objectives, while investing their capital in low-income IDA countries and FCS.

#### *Governance and Institutions*

**81. Building resilient institutions capable of mediating state-society relations and delivering public goods are critical to countries in consolidating pathways towards durable peace and development.** Strengthening public sector performance for better service delivery, including through interventions in building core civil service and PFM functions is fundamental in FCV settings and in particular the aftermath of conflict. IDA has been innovating in its support, notably through combining recurrent cost financing to ensure salary payments with policy dialogue and promoting reform. Targeted approaches in the areas of extractives and concessions management, procurement, recovery of stolen assets and illicit financial flows can have important benefits in strengthening accountability and transparency in FCV situations, and leveraging international co-operation. Building accountable tax systems are a key element of building the social compact between citizens and the state and of increasing domestic resource mobilization from a very low base is necessary in many IDA countries to transition from donor dependence.

**82. As part of IDA18 special theme on governance and institutions special consideration will be given to FCV situations and to tailoring assessments, interventions and instruments to their reality.** This recognizes that the process of institution-building occurs over decades and is far from a linear process. While IDA may need to respond to the urgencies and immediate needs of the present, it is well placed to deliver on long term objectives of building country systems and a transition to more sustainable policies. This will require an understanding of the domestic political economy and how political stability is consolidated after conflict, recognizing and building on institutional legacies and working in an incremental manner using flexibility to adapt instruments.

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<sup>58</sup> See accompanying paper on the proposed Private Sector Window for IDA18.

*Climate Change*

83. **Climate risks and demographic factors can act as threat multipliers in environments where basic government functions are weak and societies are not cohesive.** Repeated cycles of conflict and violence may hamper appropriate mitigation and adaptation policies, adding the effects of climate change to communities already devastated by violence. In higher-capacity environments, they can exacerbate conflict risks, through for example increased resource competition, volatility of food prices and transboundary water management disputes. Further efforts are also needed to better understand the impact of climate change on migration, migration as a mechanism for adaptation, and the needs of fragile communities that ultimately migrate due to (or in part) to climate change.

### Annex 1: IDA18 Commitments

OBJECTIVES	RECOMMENDATIONS/PROPOSED ACTIONS
<b>FRAGILITY, CONFLICT AND VIOLENCE</b>	
Deepening IDA’s knowledge on FCV and learning from operational experience	<ul style="list-style-type: none"> <li>• Adopt a risk-based approach for identifying fragility beyond FCS.</li> <li>• Deepen the Bank’s knowledge on the mitigation/prevention of FCV risks through a flagship report drawing on lessons from operational experience and impact evaluations.</li> </ul>
Designing integrated WBG strategies addressing FCV drivers and building institutional resilience	<ul style="list-style-type: none"> <li>• Fragility assessment inform all CPFs in FCS and countries with significant risks of FCV.<sup>59</sup></li> <li>• Increased number of operations targeting refugees and their host communities (baseline: IDA17).</li> <li>• Increase the number of operations in fragile contexts that include gender-based violence prevention/response and linkages to livelihood activities (baseline IDA16).</li> </ul>
Improving staffing, operational effectiveness and flexibility	<ul style="list-style-type: none"> <li>• Increase staff “facetime” in IDA FCS and monitor progress through the “facetime index”.<sup>60</sup></li> </ul>
Promoting partnerships for a more effective response	<ul style="list-style-type: none"> <li>• Undertake joint Recovery and Peacebuilding Assessments (RPBA) as openings arise for engagement in the aftermath of conflict in IDA FCS.</li> </ul>
Enhancing financing to support FCS/FCV	<ul style="list-style-type: none"> <li>• Enhance IDA’s country allocation for FCV through:               <ul style="list-style-type: none"> <li>○ Increasing the base allocation to SDR15 million;</li> <li>○ Removing the grant discount and the MDRI netting out;</li> <li>○ Reducing the exponent of the Country Performance Rating in the PBA formula to 3;</li> <li>○ Providing exceptional allocations to mitigate FCV risks.</li> </ul> </li> <li>• Establish a US\$2 billion Regional IDA sub-window for activities supporting refugees and host communities.</li> </ul>

<sup>59</sup> Countries eligible for exceptional IDA allocations to mitigate FCV risks identified on the basis of a cross-country risk scan combining quantitative and qualitative assessments. See Annex 3 “Identification of countries at high risks of FCV” for further detail.

<sup>60</sup> The proposed “facetime” indicator will be calculated on the basis of World Bank staff in-country missions as well as international and local staff and consultants posted in the country.

**Annex 2: Harmonized List of Fragile Situations FY16**

IDA-Eligible Countries			
Afghanistan	Guinea-Bissau	Marshall Islands	Togo
Burundi	The Gambia	Micronesia, FS	Tuvalu
Central African Republic	Haiti	Myanmar	Yemen
Chad	Kiribati	Sierra Leone	Timor-Leste
Comoros	Kosovo	Solomon Islands	Zimbabwe
Congo, Dem. Republic	Liberia	Somalia	
Côte d'Ivoire	Madagascar	South Sudan	
Eritrea	Mali	Sudan	
IBRD-Eligible Countries			
Bosnia and Herzegovina	Iraq	Libya	Lebanon
Syrian Arab Republic			
Territories			
West Bank and Gaza			

### Annex 3: Identification of Potential Beneficiaries for the FCV Risk Mitigation Allocation

#### Overview

	Purpose	Country Criteria
<b>FCV Risk Mitigation</b>	To provide targeted support to eligible countries for the purpose of addressing key FCV drivers and building institutional resilience.	(i) IDA-countries with high FCV risks identified (ii) Evidence of commitment from the government to address the identified risks (iii) Appropriate macroeconomic framework (iv) Availability of other financial resources

#### Methodology

1. For the purpose of selecting a first set of potential beneficiaries for the FCV risk mitigation allocation a preliminary review of county eligibility was undertaken on the basis of the following criteria:

- Identification of high risks of FCV that could manifest itself in the short to medium term e.g., as a result of spill-over from neighboring countries, situation of economic marginalization, political exclusion, insecurity, as determined by a quantitative and qualitative risk-scan.
- Government commitment to address the identified risks, as evidenced by the formulation of a clear strategy, which has been consulted with key stake-holders.
- The existence of an appropriate macroeconomic framework, as determined by the successful review of an IMF program, outcome of Article IV missions, or presence of IDA's budget support operations.
- Clear financing constraints, as needs are expected to exceed remaining available resources, including domestic revenues, and other sources of external financing.

#### 1) Identification of countries at high risks of FCV

2. The identification of countries with high risks of FCV is based on a cross-country risk scan combines quantitative and qualitative assessments. This methodology will be tested and further refined over the following months.

##### a) Quantitative assessment on the basis of the following indicators

- *FCV outcome indicators:* The outcome indicators used are high level of violence (battle-deaths higher than 300 per year and intentional homicides higher than 1000/100,000 per year) and a very high level of displacement in proportion of the population (higher to 10 percent).
- *Policy and institutional exposure to risk of FCV outcomes:* Lead flags of policy and institutional exposure to risk of FCV outcomes (CPIA flags). Indicators include four out of 43 sub-indicators of the CPIA that are most commonly associated with instability and lack of overall resilience. The chosen sub-dimensions of CPIA are in line with the four

dimensions emphasized in the PCPI framework: economic management, social inclusion, government corruption and legitimacy, and security. For each, a very low threshold is selected (CPIA sub-dimension <3.000). Countries with at least one flag were selected.

#### **b) Qualitative assessment of FCV risks**

3. In a second stage a qualitative assessment of FCV risks is undertaken by the FCV CCSA drawing on various sources, including FAs (when they exist) and external sources such as International Crisis Group reports. This assessment provides an initial analysis of specific risks of conflict and violence which may need to be complemented by further country-level assessment of fragility risks to understand the underlying drivers and proximate causes and define an approach to manage and mitigate identified risks.

#### **2) Government commitment to address the identified FCV drivers in the short and medium term**

4. Meeting this eligibility criteria requires a recognition by the government of the nature of the risks, their causes and main drivers and a willingness to address them. Evidence would need to show: (i) an effective national counterpart for the Bank exists, (ii) a development response to the risks has been articulated, e.g., in the form of an action plan, vision exercise or other document that provides the basis for programs and possible interventions, (iii) the government or national counterpart has taken initial steps toward identified risk mitigation activities.

#### **3) Existence of appropriate macro-economic framework**

5. Only countries with a sound macroeconomic framework or committed to maintain macroeconomic stability would be eligible to receive additional resources. This is necessary to ensure that the additional resources provided under the risk mitigation special allocation will be used for the intended use in a situation that is fiscally and externally sustainable and that the amount of resources provided in foreign currency would be consistent with identified local costs. Evidence would need to be demonstrated through, for example, the successful review of an IMF program, outcome of Article IV consultations, or presence of IDA's budget support operations.

#### **4) Availability of other financial resources for FCV risk mitigation**

6. This criteria assesses the extent of which the country benefits from access to significant resources under IDA and/or from other sources, including the international capital market. It also assesses fiscal constraints which derives from the identified FCV risks.

#### **Identification of Eligible Countries**

7. **Guinea, Nepal, Niger, and Tajikistan are identified based on the adopted criteria.** Key quantitative indicators and a summary of the other criteria are reported below. Annex 4 includes country specific assessments.

- *Quantitative assessment.* According to the 2015 CPIA assessment, all four countries have at least one fragility flags (See Table A1). Fragility of policies and institutions in Guinea and Tajikistan results also in overall World Bank’s CPIA scores below 3.2.
- *Identification of FCV risks.* Niger and Tajikistan have identified risks of conflict and violence due to internal and external stresses, including violent extremisms. Nepal faces increasing risks of violence due to perceived ethnic marginalization in the Southern states. Guinea’s fragility risks stem from lack of confidence in state institutions.
- *Government commitment.* All governments are committed to address the identified risks, e.g., through programs aimed at marginalized areas and inclusive processes of policy consultations.
- *Adequacy of the macroeconomic framework.* The macroeconomic framework of Niger, Nepal and Tajikistan is assessed as adequate, despite increasing downward risks due to the unfavorable external environment and increased instability. The government of Guinea is committed to successfully conclude the IMF-supported program, with evidence of actions taken to re-establish fiscal and external sustainability.
- *Availability of other sources of financing.* The four countries are IDA-only and face significant fiscal pressure because of external and internal stresses.

**Table A1. Countries at High Risk of FCV**

Countries	Economic Foundations	Policies for Social Cohesion	Corruption & Legitimacy	Security	CPIA Flags	IDA status	Markers	Identified risks
Guinea		x	x	x	3	IDA-only	Fragility	Fragility Violent
Niger			x		1	IDA-only		Extremisms Violent
Tajikistan			x	x	2	IDA-only	Fragility	Extremisms Violence/Ethnic marginalization
Nepal			x	x	2	IDA-only		

Source: Staff estimates.

## **Annex 4: Profile for Proposed Country Selection for Exceptional Risk Mitigation Allocation**

### **Guinea**

1. **Context:** Guinea is in the midst of preparations for local elections due to be held in October 2016. Ahead of the elections tensions between the government and the opposition remain. In October 2015 presidential elections were held and they resulted in the re-election of President Condé. The president formed an alliance with the second runner up and his party. Meanwhile, the main opposition party, the Union of Democratic Forces of Guinea (UFDG), has experienced a bitter power struggle between its leader and the party vice president which has resulted in violent clashes. In addition, managing social tensions and popular expectations remains a challenge. Trade unions and universities have conducted several demonstrations earlier this year and the opposition has threatened a series of social protests in the upcoming months. These developments happened against the background of the 2015 Ebola outbreak which affected Guinea and its neighboring countries and increased overall fragility of the country with a particular negative economic impact across key sectors.

2. **FCV risks:** Guinea's most recent overall Bank's CPIA score is below 3.2. It includes two fragility flags on key CPIA sub-dimensions: Security, and Corruption and Legitimacy. It also has a high level of ethnic economic marginalization. The introduction of democratic elections in 2010 brought with it political competition based on ethnic divisions which have exacerbated and reignited underlying social tensions. The key sources of fragility as identified in the Guinea FA of 2013 include a lack of confidence in state institutions; politicization of ethnic tensions and the role the military plays in politics. Insecurity from neighboring countries due to recent security threats in the sub-region has become a rising issue in Guinea as well.

3. **Government commitment:** The government has initiated a number of measures in recent years aimed at promoting resilience. They include security sector reforms and the establishment of a commission and since January 2016 a Ministry in charge of national reconciliation. The government has also recognized the need to address issues of spatial inclusion. In 2012 the government adopted a national decentralization and local development policy as part of the poverty reduction strategy paper. The government is now preparing a national five year development plan to succeed the PRSP3 and the Post-Ebola Economic Recovery Plan. This new plan is expected in October 2016. The government in 2014 also developed a master plan for ancillary transport infrastructure that will also support spatial inclusion through infrastructural development.

4. **Macroeconomic framework:** The government is committed to re-establish macroeconomic stability, but faces substantial challenges. Guinea was declared free of the Ebola epidemic at end-2015 and after two years of stagnant activity, growth is expected to rebound in 2016. Economic challenges, made more acute by a significant decline of international prices of main export commodities, contributed to severe deterioration of external and fiscal balances in 2015. The government intends to successfully complete the current program supported by the IMF's Extended Credit Facility and adopted a series of corrective measure to restore fiscal balance improve reserves coverage to three months of imports, and keep inflation within single digits.



Guinea's debt dynamics remain sustainable at moderate risk of debt distress but near-term vulnerability has increased.

## Nepal

5. **Context:** Nepal has in the last year faced a wave of protests over a new constitution that was passed on 20 September 2015. These protests resulted in over 57 deaths and a political crisis that threatens the country's long-term stability. The new constitution was instituted after a 10 year long civil war ended in 2006 between Maoist rebel groups and the state. The earlier protests also included a blockade by protestors of the Nepal-India border which had a significant impact on livelihoods. The geographic demarcation of the proposed federal structure, discontent with the proposed draft constitution, religious and ethnic polarization – as well as increasing fissures in communal harmony between those in hill districts and those from the Madhesh (southern plains) – have been at the source of the increasing tensions. The divide broadly pits the Madhesi and Tharu communities against the 'Upper-caste' communities from the hills known as the 'Pahade' and a smaller group known as the Dusnami who speak Nepali.

6. **FCV Risks:** Nepal's most recent overall CPIA is 3.4, it exhibits two flags on key CPIA sub-dimensions: Security, and Corruption and Legitimacy. Nepal also has a high level of ethnic economic marginalization. The key risks for the country relate to the long-held grievances of the Madhesi and Tharu communities from the south of Nepal, and other ethnic minorities. These communities saw the opportunity of a new constitution as a chance to address their various historical grievances while also giving them a bigger voice in the country's politics. A key area of dispute is the manner in which the new constitution established states as part of the federal system. Several other issues of dispute include perceived discrimination towards the right of women to pass complete citizenship to their children. The International Crisis Group warns in a recent briefing that there is a risk of increased violence in Southern Nepal if the political crisis is not resolved.

7. **Government commitment:** Talks between the government and the Madhesi parties on the issue of constitutional amendments have taken place on several occasions even though progress has been limited to date. The new constitution seeks to address some of the historical grievances that contributed to conflict through reforms of the federal system. The government maintains its commitment to keep channels of dialogue open, which provides entry points to find a potential solution to the current crisis.

8. **Macroeconomic framework:** The December 2015 IMF Article IV consultations conclude that the macroeconomic framework is adequate. The earthquakes in April and May 2015 have held back growth and together with the recent unrest and disruptions to trade routes, they also pushed up inflation. Financing data indicates that the budget remained in surplus for the third year in a row. Growth is expected to gradually rebound as economic activity recovers and reconstruction gains momentum. High remittance inflows have supported a strong external position, with official reserves at 8 percent of imports, as well as high broad money growth, which needs to be carefully managed to control inflation. Public debt remains on a declining path and the 2015 debt sustainability concludes that Nepal's risk of debt distress remains low. Downside risks include continued political instability, a continuation of the recent disruptions to economic activity and

trade from the south and the government's capacity to boost capital spending to support post-earthquake reconstruction and medium-term growth.

## Niger

9. **Context:** Niger has since independence maintained a tradition of establishing inclusive elite coalitions at the national level. Nevertheless, this practice has changed over the years and has resulted into a policy in which governments co-opt some members of the opposition into government. Moreover, there is currently a strong sense of disillusionment by the youth who feel unrepresented by the political elite which is drawn from a different generation. Recent presidential elections led to the re-election of the incumbent with very low participation and one of the main contender kept in jail while declared eligible to run by the Supreme Court and the national electoral commission. The security situation deteriorated in 2015 with a series of attacks by Boko-Haram within Niger, resulting in an estimated 200,000 refugees and IDPs, disruptions to trade, revenue shortfalls, and new expenditure pressures.

10. **FCV Risks:** Niger's most recent overall CPIA is 3.4. Despite having only one flag on key CPIA sub-dimensions of Corruption and Legitimacy, it has a high level of ethnic economic marginalization. Niger has a long history of political instability which has on four occasions resulted in military coups, since independence. In 2015 the government announced that it had foiled an attempted coup. The military has historically played the role of arbiter when political elites fail to agree. Niger faces several external stresses identified in the recent 2016 Niger FA, particularly related to instability from violent extremist groups operating in neighboring Libya, Mali and Nigeria. Youth in southern part of Niger have been recruited into violent extremist groups such as Boko Haram in the past. Key drivers of fragility at the national level include a delegitimized political class and a lack of political inclusion; high demographic growth; the impact of climate change and climatic vulnerability and the poor management of natural resources.

11. **Government commitment:** The government has embraced several policies that are designed to address issues related to fragility. In 2011 the government established the High Authority for the Peace Consolidation which has played an important role in anticipating and mitigating social, religious and community tensions. The government has supported a program of decentralization through the 2012 national decentralization policy as one of the key initiatives for promoting spatial inclusion. Since 2012 the government has also acted to contain or reducing food insecurity, with tangible results, even though a quarter of population remains exposed to food insecurity. Finally, the government has promoted policies to allow communities to benefit from resources extracted in their territory. As a result the most marginalized region in the country, Diffa is expected to benefit from a program in which 15 percent of oil royalties will be transferred back. The same policy is also expected to benefit local communities in mineral producing parts of the country.

12. **Macroeconomic framework:** The macroeconomic framework is adequate. Growth in the country slowed down in 2015, due to slower agricultural production, but it is expected to remain sustained in the medium term. Inflation remains below the WAEMU target of 3 percent, the fiscal situation, after a deterioration in 2014, reflecting overspending, revenue under-performance, and shortfalls in external financing, has been improving in 2015. The key risk is the persistence or intensification of armed hostilities, which could aggravate budgetary pressures and divert spending

priorities away from development projects. Other downside risks include further declines in oil and uranium prices, droughts or floods that could compound food insecurity and social instability. Public debt remains sustainable at moderate risk of debt distress.

## Tajikistan

13. **Context:** The Tajikistan context has been subject to some significant changes including a 2016 referendum that approved among other things the removal of presidential term limits; the reduction in the age of eligibility to run for president, and the outlawing of political parties that are formed on religious grounds. In the previous year the Islamic Revival Party was banned.

14. **FCV Risks:** Tajikistan's most recent overall CPIA is just below 3.2, it exhibits two fragility flags on key CPIA sub-dimensions: Security, and Corruption and Legitimacy. The country has a high level of economic exclusion, lack of access to economic opportunities due to regulatory barriers and corruption. Tajikistan is simultaneously grappling with two domestic challenges to stability. Firstly, the *de facto* abandonment in 2015 of the power-sharing agreement that was established as part of the 1997 peace agreement. Secondly, the significant systemic economic crisis due to a poorly performing and largely uncompetitive domestic economy affected by economic recession in Russia, a major source of remittances.<sup>61</sup> Tajikistan faces also external challenges related to violent extremism. Hundreds of Tajiks have travelled to several of the conflicts in the Middle East. The concern is that a combination of state capture, exclusion from economic opportunities in the private sector, among other issues may lead to more radicalization especially among young people, which constitute more than 50 percent of the total population. Finally, increasing instability in northern Afghanistan, where Central Asian militants are allied with the Taliban, poses a threat to Tajikistan.

15. **Government commitment:** Peace and stability are declared to be an important objective of the Government's domestic policy agenda in the aftermath of devastating civil war of the 1990s. The Government has emphasized the importance of addressing external threats to fragility related to the risks of the potential spread of extremism and radicalism from Afghanistan and beyond. The Government is also strongly committed to job creation and skills development for youth as a tool to give young people a sense of hope. As for economic inclusion in the private sector, the Government has declared its commitment to pass liberal laws and regulations, however, it has not yet demonstrated the commitment necessary to enforce and implement a more conducive environment for inclusive and competitive private sector as an engine of prosperity and job creation.

16. **Macroeconomic framework:** The 2015 Article IV consultations concluded that the macroeconomic framework is adequate but concerns remain about the impact of ongoing external shocks and increasing vulnerabilities stemming from the financial sector and SOEs. Growth is expected to remain low in 2016 due to the decline in the U.S. dollar value of migrants' remittances, lower export earnings, and exchange rate depreciation. However, during 2016, the macroeconomic framework has improved, largely due to dialogue under the World Bank's preparation of a Development Policy Operation and a possible IMF program. Following years of good fiscal

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<sup>61</sup> Remittances account to about 40 percent of the GDP (Crisis Group, 2016; BTI, 2016). In 2015 an estimated 200,000 migrants returned home.

performance the government targets in 2016 a balanced fiscal budget and aims to implement an accommodative monetary policy to ease exchange rate pressure. Public debt has increased in 2016, but remains below the anchor of 40 percent of GDP.

## Annex 5: Modifications to the PBA Formula

1. **This annex discuss the impact of the proposed changes to the PBA formula.** Simulation under the IDA18 Base Scenario show that:

- All country groupings benefit from increased concessional Core allocations. This reflects a higher concessional Core envelope in IDA18 relative to IDA17; which help address potential tradeoffs resulting from the proposed increased financing for FCS/FCV.
- In aggregate terms, FCS/FCV and Small States benefit from the largest increases.
- Concessional Core financing for FCS/FCV would reach US\$14.4 billion in IDA18 (Table A2). This represents:
  - a 100 percent increase relative to FCS financing in IDA17 (US\$7.2 billion);<sup>62</sup>
  - a 150 percent increase relative to FCS/FCV financing in IDA18 under a “status quo” Scenario (US\$5.7 billion).<sup>63</sup>
- As discussed in the next paragraphs, the proposed adjustments to the PBA formula contribute significantly to the increase in FCS/FCV core concessional financing.

**Table A2. Core Allocation under Alternative Scenarios**

	FCS	Non-FCS	Total Core
(In billions of U.S. dollars)			
<b>IDA17 Core allocation</b>			
IDA17	7.2	31.9	39.1
IDA18 Status quo	5.7	33.4	39.1
<b>IDA18 Preferred Core allocation</b>			
IDA18 Volume effect	12.4	40.5	52.9
IDA18 Base	14.5	38.4	52.9
(In percent of total)			
<b>IDA17 Core allocation</b>			
IDA17	18.4	81.6	100.0
IDA18 Status quo	14.6	85.4	100.0
<b>IDA18 Preferred Core allocation</b>			
IDA18 Volume effect	23.5	76.5	100.0
IDA18 Base	27.4	72.6	100.0
(Compared to IDA17, in percent)			
<b>IDA17 Core allocation</b>			
IDA17	..	..	..
IDA18 Status quo	-20.8	4.7	0.0
<b>IDA18 Preferred Core allocation</b>			
IDA18 Volume effect	73.2	26.9	35.4
IDA18 Base	101.9	20.5	35.4

Source: Staff estimates.

<sup>62</sup> Includes Core IDA allocations to the countries classified as FCS as per the harmonized list of FCS in FY16.

<sup>63</sup> Under the “status quo” Scenario, concessional Core allocations in IDA18 are based on a core IDA envelope equal to that in IDA17 and the IDA17 allocation framework.

2. **Four changes the PBA formula are proposed for IDA18.** In addition to redistributing resources across countries, the proposed changes would also simplify the allocation process and increase its transparency. The objectives pursued by the proposed changes and the means through which these objectives would be reached are as follows:

- *Ensuring that allocations are at scale for a minimum country engagement* by increasing the annual minimum base allocation from SDR4 to SDR15 million. While not exclusively targeting FCS, a large number of FCS are small states and will benefit disproportionately from this modification. Furthermore, this change would benefit non-FCS small states, several of which are vulnerable to shocks and the impact of climate change.<sup>64</sup>
- *Increasing the poverty orientation of the regular PBA formula* by reducing the exponent of the CPR from 4 to 3. This change would benefit most FCS, since by definition, most of these countries are at the low end of the performance spectrum.
- *Removing the 20 percent grant discount and the “MDRI netting out.”* Removing the grant discount will disproportionately benefit FCS. In IDA17, grants are expected to represent 42 percent of concessional Core financing to FCS, compared to 8 percent for non-FCS. FCS would also benefit from eliminating the MDRI netting. Several FCS are MDRI recipients (and have their allocations netted out by the MDRI debt service relief); but they receive only a small portion of the netted out amounts reflecting their low performance.

3. **The proposed changes to the allocation framework would increase support to FCS that do not have access to exceptional support under the TAR or risk-mitigation regimes.** The combined effect of the proposed changes is an increase core allocations to FCS by US\$2.0 billion (Table A3).

**Table A3. IDA18 Allocations to FCS and for FCV Risk Mitigation**

	Volume effect	Base	Difference	Change (%)
FCS	12.3	14.4	2.0	16.6
Other	7.7	9.8	2.0	26.4
TAR	2.9	2.9	0.0	0.0
Risk mitigation	0.6	0.6	0.0	0.0
Syria <sup>1</sup>	1.0	1.0	0.0	0.0

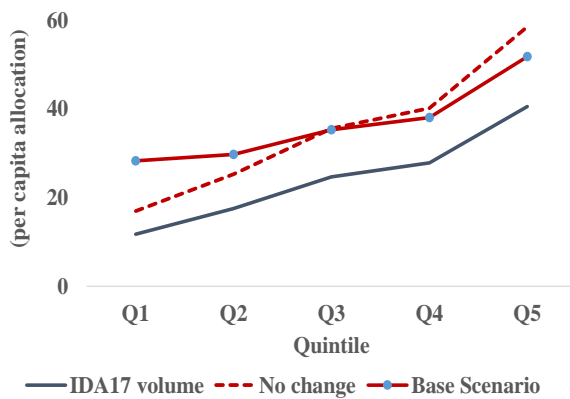
Source: Staff estimates.

<sup>1</sup> Syria is currently classified as an IBRD country and is not eligible for IDA resources. However, Syria could be found to be eligible for concessional IDA financing under IDA18. Such determination would require, under existing Bank policy, an assessment which shows that relative poverty determined by GNI per capita in Syria is below the operational cut off (currently \$1215 for FY16, and it is estimated that Syria’s GNI per capita is now below this level) and a lack of creditworthiness for IBRD lending. Implementation of a strategy for assistance to Syria would be undertaken when conditions permit and there are systems and institutions in place in Syria to meet IDA’s policy and legal requirements.

<sup>64</sup> Defined as countries with population under 1.5 million.

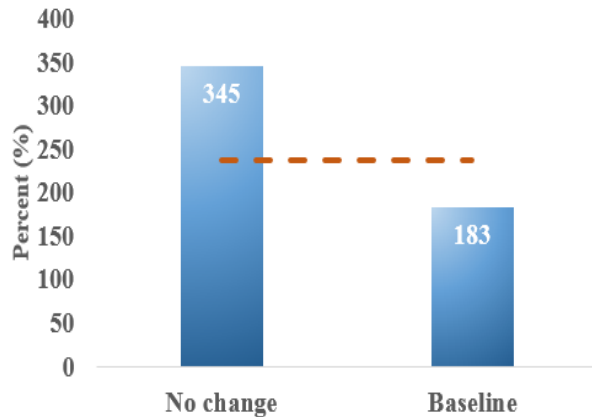
4. **The revised allocation framework would preserve the principle that better performers receive larger per-capita allocations.** As illustrated in Figure A1, the increase in volumes relative to IDA17 results in an increase in per-capita allocations across all clients (shift from blue to red dotted line). The proposed changes in the PBA formula pivot the per-capita allocations in a way that all countries continue to experience allocation increases, but the largest increases go to countries in the lowest performance quintiles (shift from red dotted line to full red line). In addition, while the changes lead to a reduction in performance orientation, best performers would continue to benefit from larger per capita allocations (Figure A.2). The ratio of per capita allocations to best performers to per capita allocations to worst performers under the “no change” scenario would reach 344 percent. Under the Base Scenario, which includes all the proposed changes to the PBA formula, the ratio would drop to 183 percent. This compares to a ratio of 250 percent in IDA17.

**Figure A1. Performance Orientation of IDA18 PBA under Alternative Scenarios**  
(In U.S. dollars)



Source: Staff estimates.

**Figure A2. Ratio of Per-capita Support. Strong Performers vs. Weak Performers**  
(In percent)

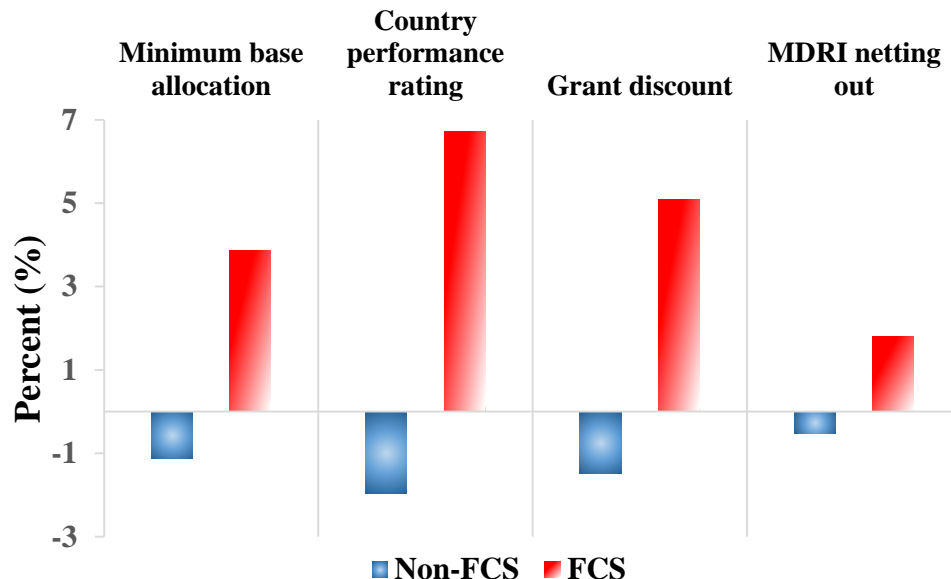


Source: Staff estimates.

5. **Each of the proposed modifications results in significant net increases in FCS/FCV financing with relatively small reductions in allocations to non-FCS** (Figure A).<sup>65</sup> On the flip side, each of the proposed modifications transfers resources from countries with relatively higher per-capita allocations to those with relatively lower ones.

<sup>65</sup> This paragraph presents the “isolated” impact of each of the proposed changes. Figures differ slightly from those in paragraph 52, which discuss the “incremental” impact of the changes assuming a sequence of implementation (see footnote 2 in Table 2 of the main text).

**Figure A3. Contribution to FCS Allocations under IDA18 Base Scenario**  
(in percent of “Volume effect” scenario)



Source: Staff estimates.

Note: Excludes impact of MDRI netting out on exceptional allocations regimes.

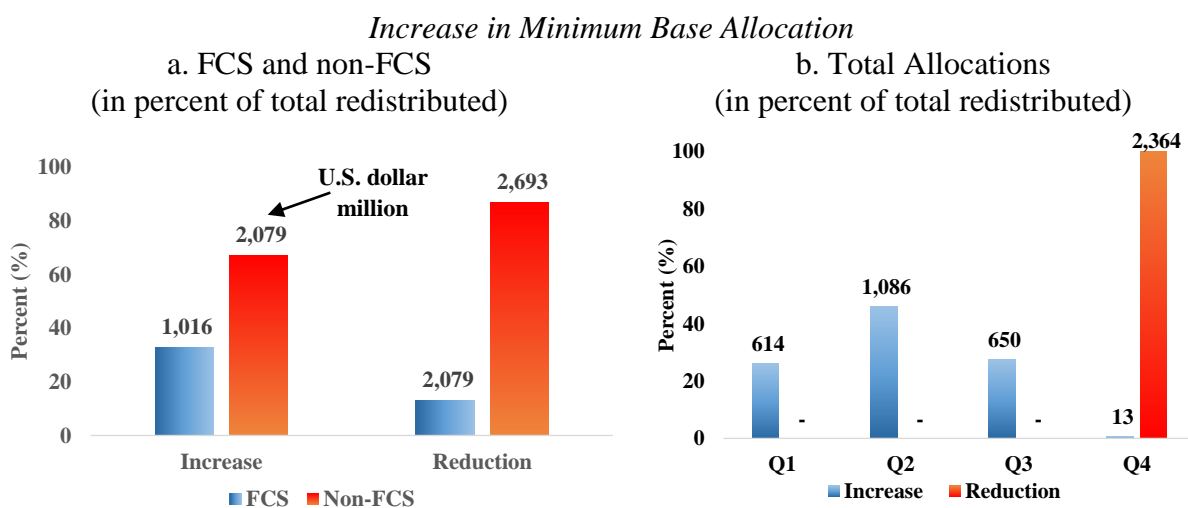
- ***Increase in minimum base allocation from SDR4 to SDR15 million.*** This change redistributes US\$3.1 billion across all IDA clients and results in a US\$0.5 billion net transfer from non-FCS to FCS (Figure A4.a). The redistribution is entirely financed by countries with the largest per capita allocations (Figure A4b). In addition, among the countries with smallest allocations, those with per-capita allocations below the median would benefit the most.
- ***Reduction in the CPR exponent from 4 to 3.*** This change results in a redistribution of about US\$1.6 billion, almost entirely financed (98 percent) by a reduction of allocations to non-FCS. FCS experience a net gain of US\$0.8 billion. About 90 percent of the redistributed resources come from countries with the highest per-capita allocations and benefit of FCS, most of which are in the lowest pre-capita allocation quartiles (Figure A4c and d).
- ***Removal of the 20 percent grant discount.***<sup>66</sup> This change results in a redistribution of US\$3.6 billion, 99 percent of which comes from non-FCS. The net gain for FCS is of about US\$0.6 billion. As with the other proposed changes, most resources are transferred from countries with relatively higher per-capita allocations to those with the lower ones (Figure A4e and f).
- ***Removal of the MDRI netting out.*** Partner resources provided to IDA to compensate for reflows forgone in every fiscal year due to the MDRI are redistributed using the PBA

<sup>66</sup> Grant allocations are subject to a 20 percent upfront reduction in volume and they increase the overall concessionality of IDA’s support. Post-conflict states are an exception with the volume discount limited to 7 percent. See IDA (2004a). “Debt Sustainability and Financing Terms in IDA14: Further Considerations on Issues and Options.” IDA/SecM2004-0779, December. <http://siteresources.worldbank.org/IDA/Resources/DebtSustainabilityNov04.pdf>



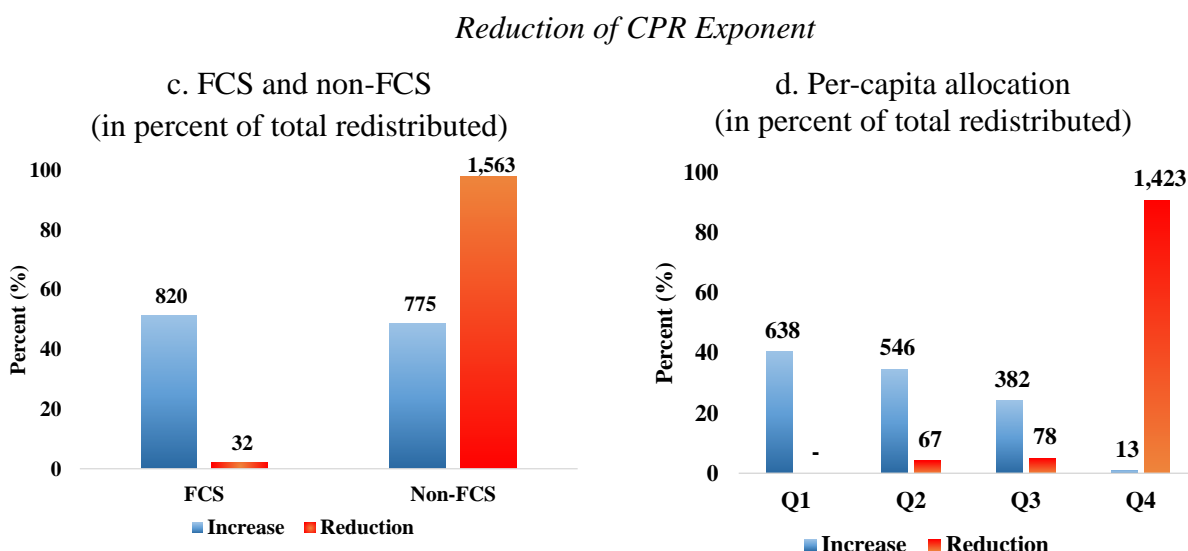
system to all IDA-only, non-gap, countries. The proposed change entails a redistribution of about US\$1.3 billion, 83 percent of which from non-FCS countries. For FCS the net gain is of about US\$0.2 billion. Under this change, the flow of resources goes from countries with higher allocations per capita (which contribute by 83 percent), to the benefit of countries in the lowest two quartiles of per-capita allocations (Figure A4g and h). While this modification brings the least net increase to FCS, it still represents a 24 percent increase in per-capita allocations (only a six percent reduction in allocations for non-FCS).

**Figure A4. Effects of Proposed Modification to IDA's PBA:  
Total Resources Redistributed**



Source: Staff estimates.  
Note: Excludes impact on exceptional allocations regimes.

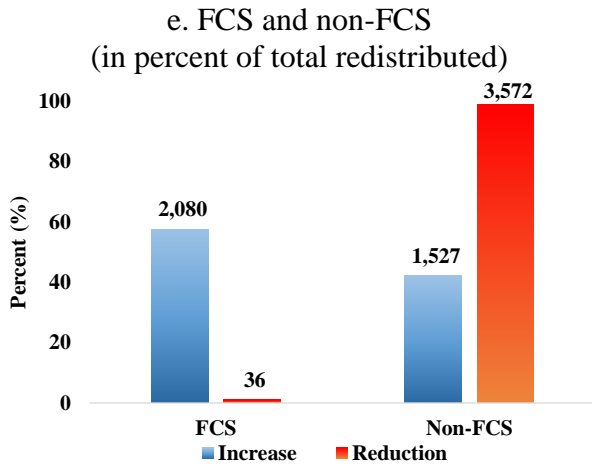
Source: Staff estimates.



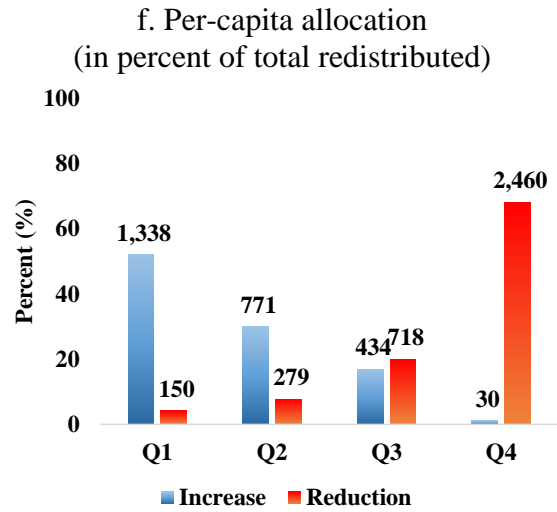
Source: Staff estimates.

Source: Staff estimates.  
Excluding small states.

*Removal of Grant Discount*

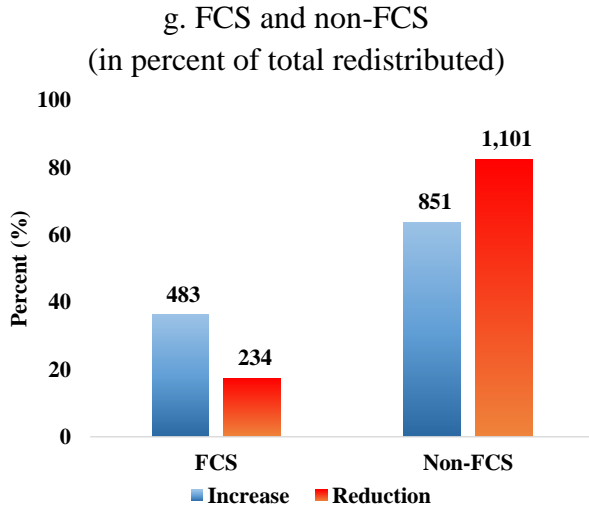


Source: Staff estimates.

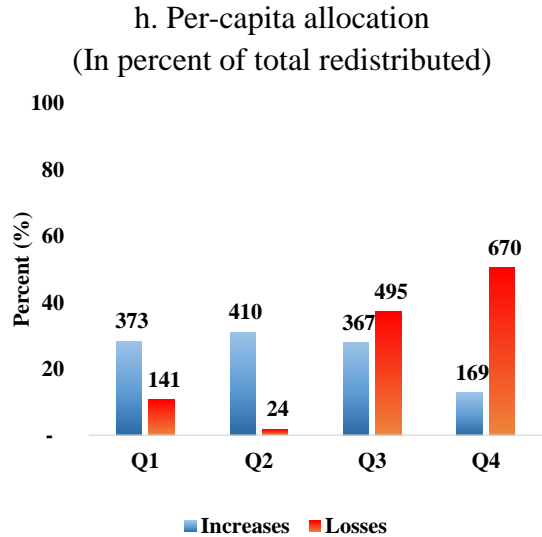


Source: Staff estimates.  
Excluding small states.

*Removal of MDRI Netting Out*



Source: Staff estimates.



Source: Staff estimates.  
Excluding small states.

## Annex 6. Allocation Framework for Core Concessional Resources

1. During IDA18, core concessional allocations to any given IDA client will be determined under:
  - The regular PBA formula. Most of IDA core concessional resources will be allocated through regular PBA. Simulations in the ask paper (Base Scenario) show that an estimated 89 percent of total core concessional envelope would be allocated using the PBA formula (71 percent for FCS only).<sup>67</sup> For these countries, the key factor determining actual core concessional allocations will be their performance as measured by their CPIA and PPR.

And/or

- An exceptional allocation regimes. The exceptional allocation regimes aim at preserving a performance orientation principle while addressing the special circumstances faced by eligible countries.<sup>68</sup> During IDA18 there will be three exceptional allocation regimes:
  - Post-conflict regime. Only South Sudan (FCS) will benefit from exceptional support under this regime during IDA18. South Sudan gained eligibility for exceptional post-conflict support in FY13. As per the implementation arrangements under this regime, South Sudan will benefit from full support under this regime until FY17 and the exceptional support will be phased out to the regular PBA formula levels by FY23 (as per the original phase out period established under the post-conflict regime). In IDA18, all other countries eligible for post-conflict support in IDA17 will return to the regular PBA system as – following the extension agreed in the context of the IDA17 discussions – the phasing out period will end in FY17.<sup>69, 70</sup>
  - Turn-around regime. Currently two countries are benefitting from exceptional support under this regime.<sup>71</sup> By the end of IDA17 two additional cases could gain eligibility. During IDA18, this regime would continue to be available and would be implemented following the arrangements agreed in the context of IDA17, plus any amendment that may be agreed with respect to the minimum base allocation for IDA18. This regime would continue to be the only tool for providing exceptional

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<sup>67</sup> This corresponds to SDR\$7.0 billion allocated through regular PBA out of a total of SDR\$9.8 billion core IDA allocations to FCS. For non-FCS, PBA-based allocations would represent 98 percent of Core IDA or SDR\$26.5 billion out of a total core allocation of SDR27.1 billion.

<sup>68</sup> The performance orientation link under these regimes is maintained by using a modified metric to assess the eligible country's quality of policies and institutions – the PCPI – or by linking the level of support under the exceptional allocation regime to the PBA-based allocation. The post-conflict and turn-around regime follow the first approach, while the risk-mitigation regime would follow the second one.

<sup>69</sup> Countries eligible for exceptional support under the Post-conflict regime in IDA17 are: Afghanistan, Burundi, DRC, Côte d'Ivoire, Liberia, and South Sudan.

<sup>70</sup> The four countries (Central African Republic, Haiti, Myanmar, and Togo) that benefitted from exceptional support under the re-engaging regime would also reach the end of the phasing out period in FY17 and would revert to the regular PBA system in FY18.

<sup>71</sup> Guinea-Bissau will be eligible for two years (FY16-17) and Madagascar for three years (FY16-18). Access beyond the eligibility period to Turn-around allocation for these two countries would be subject to a re-assessment following the implementation agreements.

financial support to countries (FCS and non-FCS) committed to reform that are facing significant opportunities for building resilience (see Box A1).

- Risk-mitigation regime. Four countries (Guinea, Nepal, Niger, and Tajikistan) would benefit from exceptional support under this regime.
2. Reflecting the agreed implementation framework, exceptional support under the post-conflict (only South Sudan) and Turn-around regimes would substitute for the eligible countries' allocations under the regular PBA formula. As per the proposed implementation arrangements, for the risk mitigation regime, support under this exceptional regime will be additional (i.e., top up) to the eligible countries' PBA allocation.

#### **Box A1. Implementation Arrangements for the Turn-around regime<sup>1</sup>**

Exceptional IDA financing under the Turn-around regime is provided to IDA-eligible countries facing a “Turn-around” situation that are committed to reforms.

For the purpose of the exceptional regime, a **“turn-around” situation** is a critical juncture in a country's development trajectory providing a significant opportunity for building stability and resilience marked by:

- (i) the **cessation of an ongoing conflict** (e.g., interstate warfare, civil war or other cycles of violence that significantly disrupt a country's development prospects);
- (ii) the **commitment to a major change in the policy environment** following:
  - a prolonged period of disengagement from Bank lending; or
  - a major shift in a country's policy priorities addressing critical elements of fragility.

Eligibility for exceptional support under the Turn-around regime is determined using a two-filter approach which aims at ring-fencing access to the exceptional turn-around regime to countries:

- (a) where fragility and conflict are imposing significant obstacles to development; and
- (b) are facing a turn-around situation, as defined above, and are committed to reform.

In cases where Management determines that a potential candidate meets the requirements for the provision of exceptional turn-around support, a process of consultation with the Executive Directors is launched, similar to the process for the allocation of resources from IDA's CRW. The consultations with the Executive Directors, which takes place in the context of an oral briefing, include a presentation of the parameters for the provision of exceptional support and its duration. The final eligibility decision will take account of the guidance received during these consultations and will be formalized in the next country strategy or country operation document.

<sup>1</sup> See “Implementation Arrangements for Allocating IDA Resources to Countries Facing Turn-around Situations – Background Note,” October 2013.