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on the  
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**OPERATIONALIZING THE 2011 WORLD DEVELOPMENT  
REPORT: CONFLICT, SECURITY, AND DEVELOPMENT**

Attached for the April 16, 2011, Development Committee meeting is a document entitled "Operationalizing the 2011 World Development Report: Conflict, Security, and Development," prepared by the staff of the World Bank.

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## ABBREVIATIONS AND ACRONYMS

CAS	Country Assistance Strategy
DPO	Development policy operation
FCS	Fragile and conflict-affected situations
FPA	Fiduciary Principles Accord
HR	Human Resources
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation
IMF	International Monetary Fund
INCAF	International Network on Conflict and Fragility
ISN	Interim Strategy Note
MDTF	Multidonor trust fund
MNA	Middle East and North Africa Region
MIGA	Multilateral Investment Guarantee Agency
OAS	Organization of American States
OECD	Organisation for Economic Co-operation and Development
OPCFC	Fragile and Conflict-Affected Countries Group
OPCS	Operations Policy and Country Services
PSD	Private sector development
SME	Small and medium-sized enterprise
SPF	State- and Peace-Building Fund
UN	United Nations
WBG	World Bank Group
WDR	World Development Report

# OPERATIONALIZING THE 2011 WORLD DEVELOPMENT REPORT: CONFLICT, SECURITY, AND DEVELOPMENT

## CONTENTS

Executive Summary .....	iii
I. Introduction .....	1
II. WDR 2011 Findings .....	3
III. Operational Implications for the WBG .....	5
A. Making Country Strategies More Fragility-Focused .....	7
B. Strengthening Partnerships on Development, Security, and Justice .....	9
C. Increasing Attention to Jobs and Private Sector Development .....	12
D. Realigning Results and Risk Management Frameworks for FCS.....	13
E. Seeking Less Volatility in Financing .....	16
F. Striving for Global Excellence in FCS Work .....	18
 <b>Annexes</b>	
Annex A. Five Principles of Engagement in Countries Facing Fragility and Violence .....	25
Annex B. Matrix of Actions.....	26



# OPERATIONALIZING THE 2011 WORLD DEVELOPMENT REPORT: CONFLICT, SECURITY, AND DEVELOPMENT

## EXECUTIVE SUMMARY

1. This paper discusses the implications of the findings of the *World Development Report 2011: Conflict, Security and Development* (WDR 2011) for the World Bank Group's (WBG's) work in fragile and conflict-affected situations (FCS) and countries facing subnational violence and threats from criminal networks. It outlines a framework to guide the Bank Group's overall agenda in these situations over the medium term.

2. ***Paradigm Shift.*** The WDR 2011 calls for a paradigm shift in the development community's work on FCS. The proposed paradigm is that violence and other challenges plaguing FCS cannot be resolved by short-term or partial solutions in the absence of institutions that provide people with security, justice, and jobs. This paradigm is based on the following findings: (a) organized violence takes many forms, is often recurrent, and can mutate over time; (b) successful transitions have involved the creation of "inclusive enough" coalitions and early and convincing "signaling" of intent through concrete and credible actions; (c) building capable and legitimate institutions to deliver citizen security, address injustice, and create employment is key to breaking these cycles of violence; and (d) responding to these priorities requires much greater partnership and discipline by external actors, as well as revised procedures to permit greater speed, allow for longer engagements, and better manage the inevitable risks inherent in assisting countries facing fragility, conflict, or violent crime. Recent events in the Middle East corroborate the importance of building institutions that are both legitimate and functional, and add urgency to the need for development agencies to reform their strategies, behaviors, and results metrics in countries facing fragility and risks of violence.

### A. Implications for the WBG

3. The prominence of fragility, conflict, and violence in today's world and the proposed paradigm shift for international support offer timely challenges to institutions such as the World Bank. They require the Bank to position fragility, conflict, and violence at the core of its development mandate and to significantly adjust its operations model while remaining within its established mandate and focusing on development and poverty reduction. The changes this will entail will not be easy to adopt and will require persistent attention by Management and staff. Under current budget constraints, they will force trade-offs and selectivity in terms of resource allocation, which must not undermine current performance incentives. This note is a first attempt to translate the WDR findings into initial actions by the Bank. Subsequent policy reform recommendations will be submitted to the Board for approval.

4. ***Building on Experience.*** The Bank Group's mandate and experience in institutional development and its business model of delivering through key national institutions are central to countries facing fragility, conflict, and violence. Since 2002, when the Bank launched the Low-Income Countries under Stress (LICUS) initiative, the WBG's assistance has achieved many successes and has also provided lessons to guide reform and improve strategic and operational responses. With the WDR 2011, support to countries facing fragility, conflict, and violence has

moved to the forefront of the Bank Group's agenda, with IDA, IFC, and MIGA all initiating important recent changes. Moving forward, the Bank Group will need to enhance the scope and breadth of its engagement while ensuring strategic focus and selectivity in line with the institution's mandate, convening power, and comparative advantage. This will, in turn, require strong support from shareholders.

5. ***Six Themes.*** For the Bank Group and for its shareholders, the implications of the WDR 2011 findings are best categorized in six themes, summarized below.

***1. Making country strategies more fragility-focused.***

6. The Bank Group will adopt a different approach to Country Assistance Strategies (CASs) and Interim Strategy Notes (ISNs) in countries facing fragility, conflict and violence. The WDR argues for CASs and ISNs for fragile states that (a) identify the stresses that can lead to conflict and violence; (b) assess deficits in the capability of key national institutions that deal with citizen security, justice, and development; and (c) identify transition opportunities to break the cycles of violence and protracted fragility. Developing such documents will require a stronger understanding of political economy issues. Since much of the expertise in security and justice resides outside the Bank, these CASs and ISNs will explicitly promote partnership with relevant agencies such as the UN, key multilateral and bilateral actors, and regional organizations, all in support of country-led national strategies. The WDR's focus on citizen security, justice, and jobs also suggests an approach to selectivity for future CASs and ISNs in countries facing fragility, conflict, and violence. CASs and ISNs will also adopt (within the Bank's mandate) a differentiated time horizon that includes early support for "inclusive-enough" coalitions through confidence-building measures and long-term investments in institutional development. Rapid transitions in otherwise stable, often middle-income, countries underline the need to revise current narrow definitions of state fragility. In addition, CASs for states with subnational conflict and violence could, at governments' request, include Bank assistance to develop appropriate conflict risk management strategies and operations.

***2. Strengthening partnerships on development, security, and justice.***

7. Since the Bank is part of the larger aid architecture, the success of this WDR implementation agenda requires coordination with other partners, in the spirit of the Paris and Accra agendas. Underscoring the need for partnership, the Bank will work more closely with international agencies with expertise the Bank does not possess, or on areas that are outside its mandate. The Bank will also partner with others to consider how to fill current gaps in international responses (e.g., the limitation on supporting the development of police forces in a country where the UN Security Council has not mandated the presence of the Department of Peace-Keeping Operations) and will propose options to support partners able to fill such gaps. The Bank can build on its partnerships in disarmament, demobilization, and reintegration to strengthen the links between security and development (e.g., at the government's request, a Public Expenditure Review that discusses efficiency issues and also covers security spending). In turn, such partners as the UN need to include the Bank earlier (e.g., in Iraq a senior Bank staff member was integrated into the team of the UN Special Representative). The Bank's current review of policies and guidance notes builds on existing partnerships at the international and

local levels, including with the UN, European Union, African Union, and OAS. The Bank is also strengthening its approach to justice reform to emphasize global partnerships and the comparative advantages of others while building on areas of justice reform in which the Bank has experience. The Legal Vice Presidency will soon issue a legal note clarifying the legal parameters for the Bank's work in the justice sector, and a guidance note on mitigating risks in criminal justice reform projects; and a possible LEG-PREM anchor on justice is under discussion to strengthen the Bank's work in this area. The Legal Vice Presidency will continue to provide overall guidance to ensure that the Bank's activities in support of security and justice remain within the Bank's mandate.

### ***3. Increasing attention to jobs and private sector development.***

8. Giving adequate attention to labor-intensive growth in countries facing fragility, conflict, and violence requires early support for public and community-based employment programs that can begin to address unemployment until private sector employment accelerates. The WDR shows that more work is needed on removing the bottlenecks to vigorous private sector investment in FCS, as well as supporting "best fit" approaches for job creation. The Bank Group will implement a Groupwide approach on employment in FCS, developing a continuum of interventions to support jobs and livelihoods that focuses on "quick-win" public and community-based employment, infrastructure investments to open up new markets, and concomitant Bank and IFC investments and MIGA facilities to nurture a private sector response. The WBG will also develop fragility-sensitive operations to facilitate private sector-led employment. IFC will (a) appoint an FCS focal point to help formulate an engagement approach by business line, focusing on such core "conflict" products as microfinance, SME management solutions, and Special Economic Zones; (b) expand the use of products typically deployed in violence-prone situations (e.g., revenue management products to ensure that royalties from extractive industries reach marginalized populations); and (c) finalize the conflict analysis tool it is now piloting in Africa. MIGA will establish a trust fund for FCS that would receive donor support to cover a first-loss facility and will then mobilize private reinsurance capacity. Finally, the Bank Group will advance Groupwide research on private sector development (PSD) in FCS, and will support potential new Bank Group instruments to operationalize this body of knowledge.

### ***4. Realigning results and risk management frameworks for FCS.***

9. Fragility, by definition, implies underdeveloped institutions. Thus work in FCS entails higher risks to both resources (finance, staff) and outcomes. But the risks of inaction (or slow action) can even outweigh the risk to donor resources. The Bank is rethinking its definitions of risk tolerance, risk management, and expected results in these contexts, and Senior Management is sending clear signals to staff and codifying the new understanding through revised policies and guidance. As part of ongoing reform efforts, the Bank will undertake interim updates to Operational Policies, and will produce Guidance Notes on procurement and financial management, to reflect operational experience and the recommendations of the WDR, provide greater clarity, and facilitate effective implementation support in FCS. As Board discussions suggested, as part of this exercise Management will review the extent to which better guidance within current fiduciary policies would enable appropriate speed of response and corruption controls. Any suggested change in fiduciary policies and instruments will be discussed with Board through regular procedures. Management oversight is being enhanced through the MDs'



quarterly meetings on FCS, and the newly established Rapid Response Mechanism is helping to identify and overcome bottlenecks in implementation. To monitor progress in FCS, the Bank will develop results metrics that are sensitive to conflict and fragility, using a combination of objective data, governance progress indicators, and stakeholder perception surveys.

### ***5. Seeking less volatility in financing.***

10. The WDR advocates sustained, long-term support for institutional development. At present, FCS funding for essential national institutions (e.g., those that deliver basic services) is often subject to short-term reductions when the inevitable governance setbacks occur. For the future, the objective will be to ensure that essential institutions receive sustained support over several years, and that the effects of governance setbacks are not amplified by sharp withdrawals of funds. For the IDA16 Mid-Term Review, the Bank has committed to exploring a number of allocation issues, including the need to (a) maintain incentives through increased allocations for cases of better performance, while maintaining minimum thresholds to ensure consistent support for core institutions and basic services; and (b) alter the modalities for delivering assistance to mitigate the risks of deteriorating governance. These mechanisms will require guidelines on the types of eligible activities, ways to monitor outcomes, and country eligibility criteria. Multidonor trust funds (MDTFs) will be streamlined and made sufficiently flexible to ensure that they live up to their potential as instruments of coordination/harmonization. Lastly, the Bank will explore additional resources for the State and Peace-Building Fund to channel to critical projects in countries facing fragility, conflict, and violence.

### ***6. Striving for global excellence in FCS work.***

11. To play a genuine leadership role in FCS, the Bank Group plans several important steps. First, the various work streams across the WBG (political violence, crime, capacity building, and investment support) will be aligned under a consolidated community of practice to ensure a coherent response in countries facing fragility, conflict, and violence. Second, by the end of FY11 the Bank will establish the Nairobi FCS Hub and Center of Excellence to strengthen operational capacity in African FCS and increase the transfer of knowledge across Regions. Third, the Bank will continue its HR reform agenda, putting in place new core competency criteria to recruit and promote a cadre of experts in the field. At present, recruitment is under way for a Chief Technical Specialist on fragility, conflict, and violence, who will have a considerable role in determining the core competencies that are needed in the institution. HR reform will be complemented by partnerships with other agencies, think-tanks, and institutions (including two-way secondments). Fourth, the WBG will add to its body of knowledge on fragility, conflict, and violence by investing in research in new areas identified in the WDR. And finally, given the importance of knowledge and innovation to fit specific FCS contexts, the Bank will revise the Core Course on Fragility to reflect the findings from the WDR and to improve the course's performance as a partnership platform internally and with other development agencies (such as the UN).

## **B. Development Committee Consideration**

12. The following issues are proposed for discussion by the Development Committee:

- Do the Development Committee members agree with the broad directions of the World Bank Group's operationalization of the WDR?
- What are the priorities for the international development community to ensure that all partners take a collective approach to enhancing operational effectiveness in countries facing fragility, conflict, and violence?



# OPERATIONALIZING THE 2011 WORLD DEVELOPMENT REPORT: CONFLICT, SECURITY, AND DEVELOPMENT

## I. INTRODUCTION

1. Assistance to fragile and conflict-affected states (FCS) is at the core of the World Bank Group's (WBG's) mission to reduce poverty and promote socioeconomic growth. From the IBRD's origins in helping rebuild Europe and Japan after World War II to its support for the creation of institutions and services in new nations following their emergence from colonial rule or centrally planned economies, the Bank has assisted countries in successfully reconstructing their government and market systems and delivering services to citizens following severe instability or state collapse. Today, when FCS show significant gaps in reaching the Millennium Development Goals, and middle-income countries' development gains are threatened by violence from criminal networks and challenges from rapid political transitions, attention to their countries' needs is arguably more important than ever. The WBG has recognized this point: acting effectively in FCS is one of the five themes of its post-crisis directions and one of the priority focal aims of IDA16.

2. ***World Development Report.*** *World Development Report 2011: Conflict, Security and Development* (WDR 2011) offers the international community the opportunity to take stock of the lessons of the past decades and reflect them in a new paradigm. This overarching paradigm is that threats to development gains from organized violence, conflict, and fragility cannot be resolved by short-term or partial solutions in the absence of legitimate institutions that provide all citizens equitable access to security, justice, and jobs. Thus, international engagement in countries facing fragility, conflict, and violence must be early and rapid to build confidence, yet sustained over longer periods, and supportive of endogenous efforts and institution building.

3. ***Challenge.*** Despite this emerging consensus on the appropriate response to FCS, assistance programs remain geared to situations in which conventional crises, often involving one-off conflicts or emergencies, are followed by a limited post-crisis recovery phase and an often technocratic approach to institution-building. However, today's realities engage development agencies in protracted periods of sustained violence or transition—and require an approach to restoring confidence and building institutions that is adapted to the local political context.<sup>1</sup> Broadly, the main development challenge in countries facing fragility, conflict, and violence is a mismatch between the development community's current business models and the realities in these situations.

4. ***Bank Experience.*** The Bank, with institutional development at the heart of its mandate, is a critical part of the new aid architecture that must emerge to effectively help countries transition from fragility or recover from conflict or violent criminal networks. The Bank's unique business model of working through national institutions is of particular relevance to countries facing fragility, conflict and violence, and has yielded results. After 20 years of

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<sup>1</sup> In some cases, certainly in the Pacific countries (e.g., Papua New Guinea), cases of fragility are not a consequence of recent unrest and conflict, but are structural realities despite the existence of relatively stable institutions.

systematic engagement in FCS, the Bank has contributed to successful recovery in several countries. For example, Vietnam cut the number of poor people, the depth of their poverty, undernourishment, and infant and under-five mortality by more than 50 percent between 1990 and 2007. Ethiopia more than tripled access to improved water, from 13 percent of the population in 1990 to 42 percent in 2006; and, between 1995 and 2007, Bosnia and Herzegovina increased measles immunizations from 53 percent to 96 percent for children aged 12-23 months. The Bank's role is often to assist countries to establish sound planning and public management systems and to deliver core services and bring them to scale, as well as to serve as a trusted source of technical advice. Applying the lessons learned from its experience, the Bank has also done much to enhance its operational effectiveness in FCS, from increased Management attention to improved cooperation with UN agencies and greater decentralization of operational staff to the field.<sup>2</sup> For example, between FY06 and FY09, the total number of internationally recruited Bank staff in FCS increased from 61 to 105 and locally recruited staff increased from 350 to 457, bringing operational support closer to clients.

5. ***Greater Efforts Needed.*** The prominence of the challenges arising from fragility, conflict, and violent crime in today's world and the proposed paradigm shift for international support offer timely challenges to institutions such as the World Bank. The 20 years of working to support institutions in post-transition countries (e.g., in Africa and Eastern Europe) and a decade of efforts to rebuild the state in high-profile environments (in particular Iraq, Afghanistan, and post-earthquake Haiti), have yielded uneven results. This discomfiting realization is reinforced by new pressures for political transition in the Middle East, themselves a reflection of the need to review the accepted principles of institutional performance. It has become increasingly urgent for the WBG to position countries facing fragility, conflict, and violence at the core of its development mandate and to significantly adjust its operations model. The required changes will not be easy to adopt and will require persistent attention by Management and staff; and they will force trade-offs and selectivity in terms of resource allocation.

6. ***Purpose and Structure of Note.*** The WDR 2011 has taken a comprehensive look at these issues and developed a set of recommendations to guide the development community's future engagement in countries facing fragility, conflict, and violence. The Bank Group's various arms—IBRD/IDA, IFC, and MIGA—have identified similar objectives moving forward. This paper examines the operational implications of the WDR findings and recommendations that are most relevant to the WBG, but with a view to its role as part of a larger joint effort in the global new aid architecture. The proposals set out here build on the Bank's ongoing reform and modernization efforts and take account of related reviews and reforms in the IFC and MIGA. Section II of this paper discusses the specific findings of the WDR that are most important for the WBG, and Section III presents an agenda for WBG action to enhance results in countries facing fragility, conflict, and violence.

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<sup>2</sup> In particular, the Bank's assistance to FCS was consolidated and enhanced following the launch of the LICUS initiative in 2002; see *Report of the Task Force on Low-Income Countries under Stress*, September 2002. [http://siteresources.worldbank.org/INTLICUS/Resources/388758-1094226297907/Task\\_Force\\_Report.pdf](http://siteresources.worldbank.org/INTLICUS/Resources/388758-1094226297907/Task_Force_Report.pdf)

## II. WDR 2011 FINDINGS

7. This section briefly summarizes five of the WDR findings that are most relevant to the WBG's mission and work.

*Violence that threatens development outcomes takes many forms and often mutates or recurs (e.g., political violence, criminal violence, cross-border spillovers). This is true not only in fragile states but also in certain low- and middle-income countries where violence in subnational areas and cities severely undermines local development outcomes.*<sup>3</sup>

8. The WDR argues that deficits in institutional capacity, inclusion, accountability and legitimacy are the root cause of vulnerability to different forms of violence and conflict—both political and civil conflict and the growing violence now taking place in the organized crime and trafficking arenas—and that the remedies, while differing greatly in detail, must be based on this understanding. Moreover, the recurring nature of violence in fragile situations—sometimes long after a formal cessation of hostilities—calls for continuous preventive action and much more realistic timeframes for attaining measurable results.

*Building capable and legitimate institutions is the key to breaking repetitive cycles of violence.*<sup>4</sup>

9. The WDR argues that a society's or country's formal and informal institutions are what enable it to deal with the internal and external stress factors that can provoke conflict. Solutions imported from other contexts often do not work unless local recipients are able to adapt them to their sociopolitical situation. The WDR also notes that the path to a stable environment for development depends on progressively broadening and adapting institutions through multiple transitions, a process in which local learning is essential. In countries facing fragility, conflict, and violence, the acquisition of legitimacy means both combating the mistrust caused by past government failures or abuses and ensuring the effective delivery of results to citizens. If institutions are to be seen as legitimate, governments must establish rules that citizens broadly accept as fair. The need to create confidence, and thereby buy-in, argues for early “signaling”—evidence of change that convinces relevant stakeholders, especially citizens, that the direction of change is desirable, real, and potentially durable. This requires development partners to recognize and support the acquisition of both capability and legitimacy—an approach to institutional development that implies a stronger focus on the political economy of institutions than is commonly the norm in development agencies' programs.

*Fragile situations are very different from more stable situations. Rather than simply being at the low end of a spectrum of capacity and results, fragile situations exhibit a twofold risk dynamic: the risk of failure (e.g., in markets, government, results) is high,*

<sup>3</sup> World Bank, *World Development Report 2011: Conflict, Security and Development* (grey cover), February 2011, chapter 1. Hereinafter WDR 2011.

<sup>4</sup> WDR 2011, chapters 2, 3, 5, and 6.

***and the impact of such failure can be more catastrophic, implying a high risk from inaction or delayed action.***<sup>5</sup>

10. The WDR and other research indicate that in countries facing fragility, conflict, and violence, political and economic market signals are chronically distorted; formal and informal institutions are characterized by discontinuities in performance and reach; and overall confidence in public authority is either low or polarized. In these environments, government, market, and collective action failures can lead to a breakdown of political compacts. The WDR suggests that the Bank and other aid agencies need to rethink their approaches in these contexts. The WDR offers several important findings in this area: (a) it takes a long time to build legitimate and capable institutions (it commonly takes a generation or more for a fragile national institution to achieve reasonable functionality and legitimacy); (b) this process is commonly subject to setbacks, which are not adequately foreseen in development planning; (c) many of the most appropriate approaches for countries facing fragility, conflict, and violence are found in the experiences and expertise of other practitioners with experience in similar contexts, rather than in the “best practices” of more developed, more complex economies; (d) reforms in these environments can often increase the short-term risk of instability unless very carefully managed and prioritized; and (e) fragile environments exist at multiple levels—countrywide, regional, urban—and a country’s high average income level alone is no guarantee against their occurrence.

***In an increasingly multipolar and globalized world, external stresses need to be explicitly addressed.***<sup>6</sup>

11. Some problems are beyond the power of single states to deal with alone—in particular, encroachment into fragile states and regions by foreign fighters and traffickers. The WDR points out that globalization has fostered more effective criminal and terrorist networks that can overrun, circumvent, or undermine legitimate local authorities and even states. It also indicates that violence next door affects neighboring countries and compromises their growth. At the subnational level, including in cities and especially in middle-income countries, violence is often linked to illicit activity that crosses borders (e.g., drugs and human trafficking). The WDR argues that in some contexts there are strong returns to cross-border activities (e.g., transport, trade, and rural development across remote and unstable areas) as well as to regional pooling of services and facilities. It also advocates greater support to and coordination of international attempts to address regional or global public goods challenges that affect fragility, conflict, and violence—for example, tracking of illegal cross-border/global financial transactions, illicit natural resource movements, and small arms trafficking. Besides illicit actions, other external stresses—such as food and fuel price increases—can also drive fragility, conflict, and violence.

***Provision of citizen security, justice, and jobs is essential to mitigate the stress factors that typically lead to violent outcomes; but a simplified focus of this kind requires much better coordinated action among external actors.***

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<sup>5</sup> WDR 2011, chapters 1, 2, and 6.

<sup>6</sup> WDR 2011, chapters 1, 7, and 9.

12. The WDR points to three areas as especially important to peace- and state-building. Successful states invest in assuring citizen security (security of persons and property that extends beyond elite groups), establishing political and economic justice systems that are both effective and widely accessible, and expanding economic opportunities to better conform to expectations and cushion shocks. Investments in these areas are important in their own right but also are catalytic. For example, improved security and justice establish a context of credible exchange that can encourage markets, allow human development to proceed, and provide space for innovation. The WDR and other research underscore the need for investments to be interdisciplinary and for programs to be well integrated. The complex environment in FCS and in countries facing violent criminal networks presents both opportunities (given the availability of a wider spectrum of expertise and resources) and challenges (given the increasing difficulty in coordination, complementarity, and coherence of action among different disciplines).

### III. OPERATIONAL IMPLICATIONS FOR THE WBG

13. The WDR 2011 outlines a comprehensive approach to enhance the development community's engagement in countries facing high risks of violence: (a) providing more, and better-integrated, assistance for citizen security, justice, and jobs; (b) reforming internal agency systems to support rapid action to restore confidence and long-term institution building; (c) acting regionally and globally on external stresses; and (d) marshalling support from lower-, middle-, and higher-income countries and global and regional institutions to reflect the changing landscape of international policy and assistance. This paper seeks to extract immediate priorities relevant for the Bank Group given its mandate and comparative advantage, with a view to addressing these four tracks.

14. ***Paradigm Shift.*** The WDR implies that a paradigm shift is required in the international aid architecture in general, and for the WBG as part of this architecture. The lessons of the WBG's many years of engagement in FCS, and of the WDR 2011,<sup>7</sup> indicate that to achieve better results in FCS and in countries dealing with violent criminal networks, the Bank will need to transform the way it engages in questions of state fragility, political conflict, and organized criminal violence, in at least six dimensions:

- ***Making country strategies more fragility-focused.*** The Bank Group needs to adopt a different approach to Country Assistance Strategies (CASs) and Interim Strategy Notes (ISNs) in FCS and in countries dealing with violent criminal networks than in non-fragile situations. The WDR argues that CASs and ISNs for these countries should (a) identify the stresses that can lead to conflict and violence; (b) assess deficits in the capability of key national institutions that deal with citizen security,

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<sup>7</sup> MIGA and IFC findings and recommendations from their recent reviews are consistent with the findings and recommendations of the WDR 2011: see MIGA, *Conflict-Affected and Fragile States Facility*, internal document, May 2010; and IFC, *IFC in Fragile and Conflict-affected Situations: Moving Forward in the Context of the 2011 WDR on Conflict, Security and Development*, internal document, February 16, 2011.



justice, and jobs; and (c) identify transition opportunities that have the potential for breaking cycles of violence.

- ***Strengthening partnerships on development, security, and justice.*** Security and justice are of particular relevance in countries facing risks of violence, underscoring the need for the Bank to work more closely with international agencies with expertise the Bank does not possess, or on areas that are outside its mandate. The Bank's current review of policies and guidance notes on CASs and ISNs builds on existing partnerships at the international and national levels. The Bank is also strengthening its approach to justice reform to emphasize global partnerships and the comparative advantages of others while building on areas of justice reform in which the Bank has experience.
- ***Increasing attention to jobs and private sector development.*** Giving adequate attention to labor-intensive and inclusive growth that addresses the issue of inequality requires early Bank Group and donor support for public and community-based employment programs that can make a quick, visible, and sustained dent in unemployment until private sector employment accelerates.
- ***Realigning results and risk management frameworks.*** Fragility, by definition, implies deficits in institutional capacity, accountability or legitimacy. Thus, it entails higher risks to both resources (finance, staff) and outcomes. But the risks of inaction (or slow action) can even outweigh the risk to donor resources. The Bank needs to rethink its definitions of risk tolerance, risk management, and expected results in these contexts.
- ***Seeking less volatility in financing.*** The WDR advocates sustained, long-term support for institutional development. At present, FCS funding for essential national institutions (e.g., for basic services) is often subject to short-term reductions when the inevitable governance setbacks occur. For the future, the objective will be to ensure that essential institutions receive sustained support over several years, and that the effects of governance setbacks are not amplified by sharp withdrawals of funds.
- ***Striving for global excellence.*** To play a genuine leadership role and respond to changing client demands in countries facing risks of conflict or violence, the Bank Group plans several important steps. The WBG will align several work streams to provide a coherent response. The Bank will strengthen the cadre of experts in fragility, conflict, and organized violence, rather than continuing to rely principally on generalists who have acquired cross-country sector experiences. To complement this, it will decentralize staff to a hub on FCS in Nairobi, enhance its learning agenda, diversify skills to ensure local knowledge, and enhance its links with partners.

15. ***Reviewing WBG Engagement in FCS.*** Moving forward, the Bank Group will need to enhance the scope and breadth of its engagement, while ensuring strategic focus and selectivity in line with the institution's mandate, convening power, and comparative advantage. This section outlines ongoing or proposed actions that are required to adapt and evolve the business model so

that the Bank Group can better provide urgent and critical support for building institutions that can manage the risk of conflict in fragile states.<sup>8</sup> It is important to note that such an enhanced engagement in FCS is likely to require additional resources.

### **A. Making Country Strategies More Fragility-Focused**

16. The WDR indicates that situations defined by fragility and the potential for violence require strategies that integrate security, justice, and economic concerns. This argues for strategies that identify internal and external stresses and address them through the creation of capable and legitimate institutions over time, and in a way that allows for inevitable interim setbacks. This, in turn, requires a proper and consistent definition of fragility across institutions, and calibration of expectations on risks and results. It also requires a shift from focusing solely on responding to crises to considering modes of prevention or preparedness for future shocks. It is also critical to recognize that approaches to situations of fragility and countries dealing with organized violence and crime require alternative perspectives at the sectoral level as well. In the education sector, for example, a comprehensive approach across different horizons is needed to build capacities that serve changing environments (e.g., building higher-level capacities, not just providing basic education).

17. ***Balance and Flexibility.*** To contribute to sustainable peace and development in FCS, the Bank will balance early wins with incremental institution building, and will invest in flexible and consistent engagement, with a long-term horizon for results. Given the pressure for results and the need to support incremental action for long-term institutional development, the Bank will need to take a longer-term view of its engagement and of its expectations. Early engagement will strike the right balance between confidence-building “quick wins” (e.g., restoration of key infrastructure, job creation, community empowerment) and longer-term investments to help institutions emerge. Early engagement also implies better prevention that is based on an understanding of risk of conflict and violence. Focusing on results, the Bank’s assessment of success will recognize the length of time it takes to build institutions, and the potential for setbacks. These are all objectives that are well known in the institution, and that reflect Senior Management’s statements about the Bank’s engagement in FCS and in countries dealing with violent criminal networks. Moving forward, the Bank will codify this approach to ensure its implementation at the Regional and country levels.

18. ***Role of CAS and ISN.*** The Bank’s CAS or ISN can support a coherent, country-led strategy that seeks to tackle the issues of security, justice, and jobs. Security, development, diplomatic, and humanitarian actors need to pool their expertise in combined teams at every stage of fragility and crisis, rather than as a linear succession that tends to result in disjointed accountability. A more “joined-up” approach would be consistent with current global

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<sup>8</sup> Some of the immediate actions proposed here have already been authorized by Bank Management—for example, on January 5, 2011, the Managing Directors’ quarterly meeting on FCS authorized work on a set of “quick wins” intended to address well-known or documented operational challenges for which solutions are already at hand or within reach. Some require minor clarifications in policy/procedures and interpretations, while others will require more thorough revisions to policies or incentives.

commitments on coordination and harmonization.<sup>9</sup> While CASs and ISNs are essentially “Bank-specific” documents, the process by which they are prepared and the Bank’s comparative advantage in institutional development can foster, or at least contribute to, a collective country-led approach.

19. ***Capacity Building.*** When CASs and ISNs include capacity building, they will integrate both technical and political economy sensitivity to adapt development models to local realities. Recent joint UN-World Bank work on capacity development in FCS<sup>10</sup> has shown that FCS remain challenging for international efforts to build capacity. Often the need for quick visible results in high-risk environments encourages parallel implementation and technically driven short-term responses without regard to complex political economies. The Bank will ensure that its approach to capacity development supports a long-term institution-building agenda and minimizes the negative impact of the actions needed to provide visible short-term outcomes that reinforce the credibility and legitimacy of governments in countries emerging from conflict.

### ***Actions***

20. ***Develop a new framework for Bank strategy formulation in FCS.*** New guidelines for CASs/ISNs in FCS will reflect the need for these strategies to include (a) a deep understanding of the political economy aspects and the drivers of conflict, and fragility, and violence ; (b) clear guidance on reflecting the risks of operating in these situations, weighed against the risk of inaction; (c) assessment of local markets and private sector responses to inform procurement strategies; (d) candor in noting challenges to implementation and the need for implementation support; and (e) ways in which the Bank will engage with partners. Moreover, these strategies will also discuss incorporating long-term actions that go beyond the standard cycles (12-18 months for ISNs or 3-4 years for CASs) to align World Bank programs with more realistic time horizons. They will need to focus much more on social cohesion and contributing to building peace in the longer term; thus the objectives of growth and poverty reduction will need to be complemented by those of reconciliation and greater state legitimacy.

21. ***Integrate the role of security actors to fully inform Bank strategies and operations in FCS and in countries faced with violent criminal networks.*** To work effectively with other actors in these situations, Bank teams need to be familiar with issues of security that are relevant to development outcomes (e.g., the implications of economic choices on security, the emerging role of military personnel in delivering development aid). The Bank will build on its successful work in support of disarmament, demobilization, and reintegration—where Bank assistance is carefully coordinated with that of other actors—to coordinate with partners to enhance security and development investments (e.g., at the government’s request, a Public Expenditure Review that includes discusses efficiency issues and also covers security spending). This will require a

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<sup>9</sup> This would advance Paris Declaration and Accra Action Plan agreements to emphasize operational collaboration at the country or subnational level—for example, allowing for multidonor trust funds or multisectoral programs that integrate security and justice alongside development inputs.

<sup>10</sup> Joint UNDP-OPCFC Statebuilding Initiative in Liberia and Sierra Leone (2009-2010) and UNDP, OPCFC, and WBI Expert Workshop on Capacity Development in FCS (2010).

review of current policies (including OP 2.30, *Conflict and Development*) and guidance documents on strategy preparation.

22. ***Enhance the effectiveness of capacity development in FCS.*** Bank teams will build on recent analyses to better develop and administer viable approaches to capacity development, and to innovate and quickly respond to the local context as it shifts. This will involve working with internal and external partners to systematically analyze and document successful capacity-development approaches, build expertise within the FCS global practice, and identify future reforms to help build the critical capacities required for effective state-building.

## **B. Strengthening Partnerships on Development, Security, and Justice**

23. Ultimately, the Bank’s capacity to effectively contribute to a collective approach to FCS and in countries dealing with violent criminal networks is only as great as the extent to which it can partner with and complement other international agencies with specialized expertise in the political, security, and justice areas. As part of the global aid architecture, the Bank will work in greater partnership with others, especially in these priority sectors. The WBG will also seek partnership with UN agencies, regional institutions, multilateral development banks, and bilateral and other relevant actors earlier than previously, recognizing that the principle of partnership is relevant at all phases of interventions, not only at particular sequenced stages. This partnership will need to be clearly reflected in CASs, ISNs, and other instruments (including projects and analytic work).

24. ***WBG Leadership.*** As a global institution, the WBG has the knowledge, convening power, and multicountry operational experience to contribute to the regional and global dimensions of addressing fragility. Over the years the Bank has complemented its country-level focus on local institutions by supporting partnership at the global and regional levels, and it has shown leadership in dealing with several global collective needs (e.g., governance and anticorruption, climate change). It has provided support on issues of justice, including transitional justice (e.g., components of the Stolen Asset Recovery Initiative), and has produced knowledge on various aspects of state functions and ways to improve them. Given the need for regional actions identified by the WDR, the Bank Group’s work in multicountry projects and partnership with regional organizations are crucial to responding to regional drivers or effects of fragility and violence.<sup>11</sup>

25. ***Increased Knowledge.*** To ensure that the Bank’s knowledge base meets the needs of FCS, the Bank will, within the confines of its mandate, seek to increase its understanding of issues related to drugs and subnational violence. The Bank proposes to selectively engage in regional and global research-focused dialogue on two issues: (a) the dynamics behind drug-related criminal violence, policies in advanced economies, and development challenges in FCS; and (b) the nature, consequences, and solutions to subnational violence in otherwise stable

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<sup>11</sup> Under IDA16 the Bank now has a greater opportunity to expand its work on regional and cross-border issues, as it has been agreed that special regional allocations may be considered for “regional” projects with a minimum of two countries (rather than three), only one of which need be an FCS.

governance environments, especially in middle-income countries. These activities will require an active dialogue with police, justice, and defense establishments. Within the limits defined by the Articles, the Bank will explore solutions such as assistance to crop conversion programs and anti-money-laundering programs. The Bank will build on ongoing efforts in both IFC and MIGA to clarify, operationally, how this would work.

### *Actions*

26. ***Deepen cross-Regional knowledge and operations work.*** The Bank will work to exchange knowledge within and between Regions on the development aspects of political, security, and justice reforms, including experiences of government requests to incorporate these issues into public finance work and local-level community development programs. As recent programs to support local level violence prevention in Latin America demonstrate, such support can be provided through development policy operations (DPOs) as well as through investment projects. In considering the implications for Bank action in response to government requests, the Bank will remain mindful of its mandate and comparative advantage, and of partnership with the UN and regional institutions that play a lead role on security and justice issues.

27. ***Deepen regional and global approaches.*** The Bank has already undertaken significant work to deepen global consensus and action in FCS. On the knowledge front, the Bank is a contributing member of the OECD's International Network on Conflict and Fragility (INCAF), and it co-chairs the INCAF Task Team on State-building. The Bank will continue its investment in this important forum, and will ensure full support to the affiliated International Dialogue on Peacebuilding and Statebuilding that a number of FCS governments have established. The Bank will also strengthen its ties with southern networks and non-OECD development partners. On the operational front, the Bank will expand its work on regional and cross-border issues, including exploring investment projects that ease the management of cross-border commons. The Bank continues to implement its Regional integration strategies—especially those for the Africa (AFR) and Middle East and North Africa (MNA) Regions, where regional public goods remain undersupplied and capacity for regional action is underdeveloped. Enhanced support to the AFR strategy might include, for example, engagement with the African Union Border Program and regional peer review mechanisms; support for the MNA strategy might focus on knowledge exchanges on experiences of political transition, entrepreneurship, and regional infrastructure; and support in Latin America and the Caribbean might focus on the development actions that can support an effective regional response to rising crime and violence.

28. ***Build on current partnerships with regional and global actors that take a lead on security and justice issues.*** To reflect the Bank's efforts to enhance its work in FCS, all guidance to staff on security and justice will stress existing and future partnerships. For example, the wider adoption of integrated approaches to conflict prevention means that many military and political actors, such as the African Union, European Union, and the United Nations' Department of Political Affairs, Department of Peace-keeping Operations, and Office of Drugs and Crime—as well as nongovernmental organizations working in these areas—are increasingly engaging with development actors from the outset in countries facing fragility, conflict, and criminal violence. Often, the Bank is already helping to ensure results on the ground by engaging in dialogue with these actors in relation to the social and economic sectors. Improving policy guidance on the Bank's engagement with political and security-oriented organizations and

defining the limits of the Bank's work with them will assist staff in positioning the Bank in integrated approaches to violence prevention.

29. ***Strengthen partnerships with the UN peace-building, development, and humanitarian agencies.*** In the framework of the 2008 UN-World Bank Partnership Framework for Crisis and Post-Crisis Situations, both the UN and the Bank institutions made concrete commitments to strengthen collaboration, particularly with regard to post-conflict needs assessments and MDTFs. In October 2008, the Bank and 11 UN agencies also signed a Fiduciary Principles Accord (FPA), creating a model for cooperation and fiduciary assurance that is centered on shared principles. The FPA will be reviewed by both agencies to identify revisions to enhance future use. The UN and the Bank are holding semiannual high-level meetings to address strategic partnership issues. Furthermore, a Swiss-financed and World Bank-administered \$3 million trust fund for UN-WB collaboration is now in place, financing cross-secondments of staff and identification of joint initiatives in a few pilot countries: Central African Republic, Democratic Republic of the Congo, Guinea-Bissau, and Liberia. Moving forward, the Bank and the UN will ensure proper execution of these initiatives and will seek further agreements, including advancing the principle of including senior Bank staff in future integrated UN missions in FCS (e.g., in Iraq a senior Bank staff member was integrated into the team of the UN Special Representative).

30. ***Expand work on justice and determine partnerships with agencies specializing in the topic.*** The WDR also stresses the role of justice in transitions out of fragility, and calls for support to legitimate justice institutions—both formal and informal—that adjudicate economic matters (e.g., land), governance (e.g., traditional justice), and human development (e.g., gender). The Bank will expand its analytic, operational, and partnership work on justice, but will need enhanced expertise that can respond to local contexts as part of long-term institution building. It will need to assess its current and potential comparative advantages in this regard, in view of what others are doing, and identify where it needs to rely on partnerships. A first step is to survey the development community to identify agencies with expertise in the sector with which to partner. In parallel, through training and, when resources permit, through recruitment of new staff, the Bank will build new skills to help improve service delivery by justice sector institutions (e.g., in court reform, access to justice, and prosecutorial reform in the contexts of anti-money-laundering reforms and stolen asset recovery).

31. ***The Bank's work on justice will fit into the broader aid architecture, but will be limited to the Bank's mandate and strengths.*** The Bank is strengthening its approach to its justice reform programming, which will be a platform to operationalize and scale up support for rule-of-law issues in FCS. The Legal Vice Presidency will soon issue a legal note clarifying the legal parameters for Bank work in the sector and a guidance note on mitigating risks in criminal justice reform projects. In addition, a possible LEG-PREM anchor on justice is under discussion to strengthen the Bank's work in this area. The Bank is working with OECD/INCAF and the UN on strengthening the links between justice work and the security/policing sector, and on supporting South-South partnerships on justice reform in FCS. The Legal Vice Presidency will provide continuing guidance to ensure that activities and partnerships remain within the Bank's mandate.

32. ***This expanded work program will complement the Bank's regular work on public sector and economic governance and public financial management, and its overall governance***

*and anticorruption agenda.* The new priority areas are possible only with concomitant investments in other core functions of the state, which the Bank’s assistance will continue to emphasize—essential institutions for public management and service delivery that remain at the heart of any functioning state, and hence of the Bank’s mission. For instance, engagement on public financial management and sectoral institutional reforms remains relevant to helping states deliver security and manage markets to attract investments.

### **C. Increasing Attention to Jobs and Private Sector Development**

33. With central competence on economic matters, the Bank provides analysis and operations that can support a continuum of labor-intensive and inclusive growth in FCS, with a focus on jobs and labor markets, employment creation through evolving markets, and private sector activities and entrepreneurship (formal and informal). Adequate attention to labor-intensive growth in countries facing fragility, conflict, and violence requires early Bank and donor support for public and community-based employment programs to immediately tackle unemployment and create a bridge that can serve until private sector employment accelerates.

34. ***WBG Framework.*** Working in partnership with IFC and MIGA, the Bank will develop a WBG-wide framework for supporting employment expansion in countries facing fragility, conflict, and violence. This framework may include programs that expand available employment through public works; infrastructure investments to open up new markets; policy work; and targeted, time-bound support to jobs-producing industries. Clearly, this approach needs to be nuanced to reflect the weak public sector capacity in FCS and the more advanced private sector in middle-income countries facing violence, and to ensure that these schemes do not become entrenched. However, if properly structured, such programs can significantly support nascent industries (e.g., contracting, works) and develop skilled labor.

#### ***Actions***

35. ***Support employment generation through a common WBG approach.*** The Bank Group will generate and implement a common approach to elevate the issue of employment in FCS and in middle-income countries in transition or facing violence, an issue that is affecting stability in economies around the world. Internally, this requires a collective approach that includes IFC and MIGA, which have reflected this issue in their new strategies. This collective approach will involve a continuum of operations to support jobs and livelihoods, focusing on “quick-win” public and community-based employment, infrastructure investments to open up new markets, and concomitant IFC investments and MIGA facilities to nurture a private sector response. This approach will be informed by partnerships with the UN, the International Labor Organization, key multilateral and bilateral organizations, and regional think-tanks. In this regard, the WBG will further its collective understanding of employment generation in different contexts and design operations to support durable economic opportunities in FCS.

36. ***Develop fragility-sensitive Bank Group instruments and investments to facilitate private sector-led employment.*** To ensure that IFC’s interventions contribute to stability, IFC will (a) appoint an FCS focal point to help formulate an engagement approach focusing on core “conflict” products such as microfinance, SME management solutions, and Special Economic Zones; (b) consider products not typically deployed in conflict countries for use in violence-

prone situations in otherwise stable low- and middle-income countries (e.g., revenue management products that help ensure that royalties from extractive industries investments reach marginalized populations); and (c) finalize and disseminate the conflict analysis tool it is now piloting in Africa. MIGA is establishing a trust fund for FCS countries that would receive donor support to cover a first-loss component, and it will then mobilize private reinsurance capacity. MIGA's planned facility is informed by its research showing that investments in labor-intensive industries require a facility under which the commercial risk is assumed by the entrepreneur and the "noncommercial" risk is absorbed by donors. These products can be considered for deployment in a range of the Bank's partner countries that are affected by subnational violence or temporary fragility from transition, as well as in lower-income or fragile and conflict-affected states.

37. ***Undertake Bank Group-wide research on private sector development (PSD) in situations of conflict and fragility, and support potential new Bank Group instruments to operationalize this body of knowledge.*** PSD during and soon after conflict has gained increasing attention, given the important contribution of the private sector to peace-building and state-building as a stabilizing economic force and source of sustainable growth. Indeed, the private sector plays a role not only in employment provision, but in governance and broader state-building. A growing body of research shows that the transition to peace requires the participation of the private sector, and that an exclusive focus on the public sector neglects the driving force for economic, and subsequently political, stability.<sup>12</sup> To complement work being done by IFC and MIGA, the Bank will undertake research on the effects of conflict on the private sector.

#### **D. Realigning Results and Risk Management Frameworks for FCS**

38. Countries facing fragility, conflict, and violence vary in their characteristics and challenges, so they require aid institutions to take differentiated approaches to defining and managing risk. It has long been recognized that operating in FCS presents operational risks that are both greater than and different from risks found in other low-capacity environments. Fragility, by definition, implies underdeveloped institutions of social, economic, and political contracting; so in fragile environments the risks to both resources (finance, staff) and outcomes are very high. At the same time, the development community now recognizes that the risks posed by inaction (or slow action) can sometimes outweigh the risk to donor resources. For example, even when there are risks of corruption arising from weak fiduciary or procurement capacity, not acting to fund urgent medical supplies leaves populations exposed to increased risk of morbidity and mortality. Donors have long focused their concern about risk on protecting the use of resources entrusted to them; there is now greater acceptance that the true spectrum of risk includes failure in human and institutional outcomes. Thus, the Bank will reexamine its definition of risk to understand risk in both absolute and contextual terms.

39. ***For quicker results, targeted early investments and DPOs are critical to rebuilding and sustaining services in FCS and to enhancing the performance and legitimacy of governments.***

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<sup>12</sup> See the Donor Committee for Enterprise Development (DCED) website for a full bibliography on PSD in FCS: <http://www.enterprise-development.org/page/useful-references>.



The WDR suggests that community-driven development, infrastructure, and employment-generating activities (massive public works, community-based activities, and private sector initiatives) can help in sustaining peace, security, and citizen confidence in the state. Results such as providing security, household and community transfers, and pay for civil servants can sometimes be addressed through DPOs or other support to government budgets. Whether investment projects or budget support operations are used, the key issue is that short-term results must be consistent with longer-term aims such as enhancing the capacity, accountability, and legitimacy of institutions in FCS.<sup>13</sup>

40. ***However, the speed with which these projects are implemented is often constrained by the risk-averse behaviors of development partners, including the Bank.*** Thanks to policy changes in 2007, Bank-funded projects in FCSs are now designed faster than before.<sup>14</sup> The Bank has achieved good development results in countries such as Afghanistan, Bosnia and Herzegovina, Burundi, Liberia, Rwanda, Timor-Leste, and West Bank and Gaza; however, in other countries its engagement and performance are regarded as mixed. Several reviews of Bank performance indicate considerable space for improvement in translating into actual practice the Bank's commitment to greater assumption of risk in FCS. For example, a review of the emergency response policy (OP/BP 8.00) found that while processing time had been reduced, there was little change in the speed of implementation of emergency operations.<sup>15</sup> The WDR attributes this to risk aversion in development partner agencies. This problem can be seen especially in the area of procurement: many of the delays in FCS operations are due to lack of disbursement tied to procurement bottlenecks arising from conservative interpretations of policies. Although a robust procurement policy is important to mitigate fiduciary risks, it can result in longer processes or standstill if firms in FCSs do not have access to information, capacity, and security.

41. ***Speed and risk management require a more sophisticated delineation of risks, and the recognition that risks related to the use of funds are different from risks of unmet short- and long-term development results.*** Indeed, these different types of risks are often in conflict with each other. While working to better address the risks of unmet development needs, the Bank will remain mindful to effectively address the risks of fraud and corruption at all stages of engagement. Indeed, an upstream analysis of integrity risks could greatly enhance the design of an assurance model for FCS, which will permit greater risk-taking in an effort to achieve better results. The Bank's experience in FCS also shows the effectiveness of more frequent and timely oversight of expenditures, combined with the use of post-audit work and third-party verification, in addressing the risks of funds leakage in the shorter term, until capacity is built and standards are raised. Managing risk and designing flexible instruments will require a robust engagement to assist governments with governance and anticorruption actions.

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<sup>13</sup> The OECD's Development Assistance Committee (2006) finds that budget support has played an important role in strengthening the economic and financial architecture of the state in post-conflict settings (e.g., in Rwanda). See also World Bank, *Common Approach Paper on Budget Support Operations in FCS*, 2011: collaborative work between the World Bank and the African Development Bank has produced a joint paper with input from the European Commission and the IMF.

<sup>14</sup> The principal change was the introduction of Operational Policy 8.00, *Response to Crises and Emergencies*.

<sup>15</sup> See *Rapid Response to Crisis and Emergencies: Progress Report*, April 6, 2009.

### *Actions*

42. ***Undertake interim policy and procedure updates to widen the definition of Bank engagement in FCS and ensure that Bank reforms reflect the needs of countries facing fragility, conflict, and violence.*** Bank Management will propose updates to the policies governing FCS work—particularly OP 2.30, *Development Cooperation and Conflict*, and OP 8.00, *Rapid Response to Crises and Emergencies*—to reflect the lessons and recommendations of the WDR, provide greater clarity, and ease the burden on project teams that are designing and supervising operations in FCS. These revisions, which will be harmonized with other ongoing Bank reforms, will involve a more flexible and up-to-date approach to fragility beyond current definitions: for example, they will cover subnational fragility or conflict, prolonged or localized low-intensity conflict, and urban violence situations. Just as emergencies are declared and specialized procedures invoked by Bank Management, countries facing fragility, conflict, and violence can benefit from an effort to identify when and for how long a departure from the Bank’s “business as usual” may be required.

43. ***Ensure continued Senior Management oversight through the MDs’ quarterly meetings on FCS and the newly established Rapid Response Mechanism coordinated by OPCS.*** The Bank will build on its current structures to share practices and develop solutions that allow teams to enhance the implementation of projects in FCS. The current MDs’ quarterly meetings on FCS (last held on January 5, 2011) and the Implementation Support-Operations Committee (last held on February 25, 2011) will remain key forums for identifying successes and challenges. Some agenda items for future meetings include devolution of more decision-making authority to the field, options for dual-key accountability (under which expenditures are authorized by two independent agents), and greater involvement of civil society in implementation. To accelerate the resolution of implementation problems that regularly come up in FCS, Management has established a cross-Networks Rapid Response Mechanism chaired by the Vice President of OPCS, with the mandate to convene the relevant units within the Bank to issue real-time guidance and decisions on implementation issues. These mechanisms will also be used to monitor implementation of the proposed priorities.

44. ***Continue simplifying and clarifying procurement and financial management for FCS.*** As part of its IDA16 commitment, the Bank will develop simplified procurement and financial management guidance for FCSs. For procurement, this will include the use of simplified technical proposals for low-risk and low-value contracts, simplified shortlisting processes, and higher thresholds for prior review.<sup>16</sup> The Bank will move swiftly to (a) establish integrated task teams that include seasoned procurement staff; (b) address high staff turnover through better succession planning; (c) seek early assessments of market conditions; (d) use UN agencies, where appropriate, for quick implementation; and (e) establish and maintain a database of best practices and templates. For financial management, the Bank will ensure that the guidance benefits from experience in FCS and that Bank requirements strike a balance between the fiduciary needs of the Bank and realities on the ground. As Board discussions of the implementation note suggested, as part of this exercise Management will review the extent to

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<sup>16</sup> World Bank Group, *IDA16 Deputies’ Report. Additions to IDA Resources: Sixteenth Replenishment. IDA16: Delivering Development Results*, December 2010, pp. 36, 62.

which better guidance within current fiduciary policies would enable appropriate speed of response and corruption controls. Any suggested changes to fiduciary policies and instruments will be discussed with Board through regular procedures.

45. ***Develop results metrics that are sensitive to conflict and fragility.*** In addition to adapting country strategies to long-term perspectives, the Bank will adopt new approaches to monitoring progress in FCS, using a combination of objective data (e.g., violent deaths, labor-day equivalents), governance progress indicators (e.g., measures of vertical and horizontal inequity), and stakeholder perception surveys. For example, engagement with independent national surveys of citizen opinion, and supporting their extension to fragile states, would be a credible way to integrate public feedback to state actors. Working with OECD/INCAF and other partners, the Bank will design results metrics and research to understand better the links between sector investments and state-building.<sup>17</sup> This work needs to be reflected not only in ex ante processes but also in ex post reviews (such as by IEG), which will require appropriate metrics for assessing the performance of operations in FCS. Without such metrics, most task teams will remain risk-averse.

## **E. Seeking Less Volatility in Financing**

46. The need for endurance and flexibility may have further implications for the modes of financing of development. The WDR argues that a major challenge to supporting institution building in FCS is volatility in financing, especially as donors withhold or reduce disbursements during subsequent crises. For example, for countries in situations of deepening fragility, a substantial fall in official development assistance—either as disbursements are suspended or as they fall in the medium term as a straightforward outcome of the Performance-based Allocation—may endanger human and institutional capital in periods when they are most needed. The same applies to the use of MDTFs, for which donor contributions tend to diminish in times of governance setbacks. Consistent with the WDR message that the path out of fragility typically entails multiple transitions and setbacks, it is important to maintain financial and technical support to sustain institutions through moments of vulnerability.

47. ***Role of MDTFs.*** In almost all FCS, Bank-led programmatic MDTFs have evolved into a critically important platform for engagement.<sup>18</sup> Therefore, the implications of the Bank's performance regarding MDTFs in terms of reputational risk, operational effectiveness, and institutional relevance are clear. Although much progress has been achieved (e.g., in the Afghanistan program), integrating the management of trust funds into regular Bank reporting, administrative, and results monitoring arrangements remains a challenge.

### ***Actions***

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<sup>17</sup> For example, the World Bank's engagement with INCAF on state- and peace-building indicators, and its ongoing work to revise the PCPIs, offers a promising start to building appropriate metrics for measuring results in FCS.

<sup>18</sup> In FY09, commitments from MDTFs reached nearly US\$1.4 billion, virtually equivalent to total IDA commitments to FCS; see World Bank. *Special Themes for IDA16*, IDA Resource Mobilization Department, May 2010, page 23.

48. ***Develop proposals for adjusting the framework for financial allocations to FCS, including assistance to turnaround and deteriorating situations.*** The Bank’s approach to FCS has evolved over the last decade, and successive IDA replenishments have sought to respond to the needs of FCS. Under IDA16, the Bank has committed to explore whether volatility in IDA allocations due to small changes in governance ratings misses opportunities to maintain human and institutional capital and pursue long-term strengthening of institutions.<sup>19</sup> This work is consistent with the WDR, which recommends that allocation decisions need to (a) maintain incentives through increased allocations for cases of better performance, while maintaining minimum levels to ensure consistent support for core institutions and basic services; and (b) alter the modalities for aid delivery to mitigate the risks of deteriorating governance. These mechanisms will require guidelines to staff on the types of eligible activities, ways to monitor outcomes, and country eligibility criteria. Proposals will take into account the overall financing context at the country level, including MDTFs and other sources besides IDA.

49. ***Establish an MDTF service center to streamline design and oversight of MDTFs.*** Because Bank operations in FCS rely so significantly on MDTFs, Management will establish a guidance and advisory service for the design and implementation of MDTFs in FCS. This service center will (a) advise on the critical political economy aspects of trust fund execution, with a specific focus on the impacts different design features have on efficiency and effectiveness; and (b) develop accreditation for staff who can set up and manage MDTFs (as distinct from managing projects funded under MDTFs, for which the regular trust fund accreditation suffices). Equally important, this central advisory service will ensure that future MDTF design reflects the WBG’s global partnership agreements with other entities, including the UN. OPCS’s Fragile and Conflict-Affected Countries Group (OPCFC) and Concessional Finance and Global Partnerships have already launched these reforms.

50. ***Adapt and expand the scope of key FCS instruments in the Bank, including the State- and Peace-Building Fund.*** To accommodate the scope of engagement described above, the Bank will expand instruments such as the State- and Peace-Building Fund (SPF), which allow for early and flexible financing to FCS. The SPF is a trust fund established in FY09 with Bank and donor funds to finance early efforts in situations where other financing may not be readily accessible, including countries in arrears and newly autonomous territories. It can fund initial engagements to operationalize integration of security and justice, and to invest in preventive objectives. Adaptation of other WBG instruments that are similarly flexible will be an immediate priority; for example, new guidance on the use of DPOs in countries facing fragility, conflict, and violence will allow context-specific flexibility in support of institution building. In partnership with the African Development Bank, the European Commission, and the IMF, the

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<sup>19</sup> For the IDA16 Mid-Term Review, the Bank committed to assessing (a) whether targeted development assistance to non-post-conflict fragile countries could help mitigate the risks of conflict escalation; (b) the needs and absorptive capacity of FCS; (c) IDA’s effectiveness and results in FCS, evaluating whether more differentiated approaches to fragility and risk-taking in the design of interventions and choice of partners would improve effectiveness; (d) the multifaceted impact of development assistance on FCS; (e) whether volatility in IDA allocations due to small changes in governance ratings misses opportunities to maintain human and institutional capital and pursue long-term strengthening; and (f) the potential to simplify and adjust the framework for allocating IDA resources to FCS to enhance IDA’s ability to respond to the different needs and circumstances of FCS.

Bank has already developed a common approach paper on budget support in FCS,<sup>20</sup> on which updated guidance to Bank staff will be based.

## **F. Striving for Global Excellence in FCS Work**

51. To play a genuine leadership role in FCS, ensuring excellence in its support to FCS and the global aid architecture, the Bank will enhance staff skills mix, partnerships, and research and learning. The Bank will focus on matching staff skills with the realities of FCS, and expanding the knowledge base for development policy and effectiveness in FCS.

52. **Skills Mix.** The Bank will need to build on, and go beyond, the significant recent HR and compensation reforms, to develop the proper skills mix to respond to countries facing fragility, conflict, and violence, regardless of their income levels. The WDR's emphasis on the value of local knowledge in FCS has several staffing implications for the Bank, including the need to adapt its staff rotation policies to the long-term needs of FCS to ensure that valuable country knowledge is not lost. The Bank will address long-term career management (not simply "next-position" management) for staff working in FCS, along with other incentives. More generally, however, the main challenge appears to be the current practice, which relies on providing incentives for generalists or sector specialists, especially senior staff, to transfer to an FCS stream. Recent reforms have succeeded in expanding the numbers of staff located in FCS; however, the challenge of staffing FCS requires recruiting and retaining staff who already possess the necessary skills and experience (in particular, project management experience in FCS). Because much of this expertise resides outside the Bank, Management will seek to bring such skills into the Bank, or to partner effectively with other institutions. This will require a review of budgets in FCS and of secondment practices.

53. **Knowledge and Learning.** The Bank's knowledge and learning will be tailored to emerging needs not only in the Bank, but in the development community. This requires continued efforts at strengthening partnerships and early engagement among all actors involved in countries facing fragility, conflict, and violence. The research, knowledge, and learning agenda is integral to activities in FCS, where technical knowledge, innovation, and fit with shifting context are necessary for durable results. The Bank will focus on important issues to enhance its operations in FCS, and to contribute to the global body of knowledge on the topic. The World Bank's research arm, Development Economics, has an important role to play in this agenda and in collaborating with other institutions.<sup>21</sup>

### ***Actions***

54. ***Establish and operationalize the Nairobi FCS Hub and Center of Excellence, to strengthen operational capacity in African FCS and increase the transfer of knowledge and***

<sup>20</sup> World Bank, *Common Approach Paper on Budget Support Operations in FCS*, 2011—collaborative work between the World Bank and the African Development Bank has produced a joint paper with input from the European Commission and the IMF.

<sup>21</sup> For example, statistical capacity on crime on persons and property, small arms, and homicides is severely underdeveloped in partner countries; as are statistical measures on equality and inclusion, intermediate results, and institutional performance.

***experience across Regions.*** Before the end of FY11, the Bank will launch the FCS hub in Nairobi as a test of a “pooled services” concept for supporting FCS. This hub will ultimately have a mix of staff to serve the specific sector needs of FCS, and to provide tailored administrative and project management support to country teams in the field. As the demand for the hub’s services grows, it may be scaled up further to ensure coverage across Regions with appropriate tailoring to the different contexts (e.g., violence from criminal networks).

55. ***To address the WDR findings that violence is broader than political conflict, develop a community of practice that draws in all related departments and Networks to ensure a coherent strategic Bank Group approach to operations and research.*** The Bank is working to establish a WBG-wide community of practice that integrates the various strands of work across the WBG and establishes a core set of competencies and specializations for supporting countries facing fragility, conflict, and violence. Options for this alignment and a stronger global practice will be developed by management and staff from the units involved (including OPCS and the Sustainable Development Network; Regional and country management representatives; senior staff and managers from all Bank Networks; representatives from IFC, MIGA, and the World Bank Institute; and senior corporate fiduciary staff). Already the Bank’s Global Expert Team is expanding its membership across Bank Networks to better provide strategic advice to country directors and coordinated peer review across the Bank to influence operations at scale.

56. ***Diversify skills and begin incremental re-profiling of the Bank’s FCS practice.*** Re-skilling through training, while important, is not sufficient to reorient the approaches of staff and Management. Management has launched a process to restructure technical FCS competencies for staff, covering new areas such as political economy, diplomacy, security, and behavioral approaches that improve the integration of principles of working in FCSs and in partnership (for example, the principles detailed in Annex A). These competencies will be used for future recruitment, evaluation, and advancement of related staff. The Bank will also diversify the skills set by recruiting staff with new skills, including on-the-ground experience. At present, recruitment is under way for a Chief Technical Specialist on FCS, who will have a considerable role in determining the core competencies that are needed in the institution. In addition, secondments from other institutions will help enhance partnerships and integrate security and justice concerns in Bank practice.

57. ***Undertake further revisions to HR policies, as part of a broader Management response to staffing, to optimize the Bank response in FCS.*** The Bank has already implemented several financial and nonfinancial incentives for staff in FCS. HR and OPCS have created an HR Reform Task Force to develop further options for reforms to enhance Bank presence in the field—for example, reviewing noncompensation incentives to attract the proper skills mix in the field (e.g., spouse career support, review of retirement policies for senior staff already in the field). The Bank will also propose revising the current process of retaining secondees from other development agencies to complement and supplement Bank presence in the field, and to strengthen partnerships. Support to families continues to be a challenge for which the Bank will continue seeking innovative solutions (e.g., hiring relocation specialists to support staff).

58. ***Invest in research in new areas identified in the WDR.*** In partnership with other institutions, the Bank will prioritize new research on (a) understanding the dynamics of fragility, conflict, and violence, especially how and why violence repeats and mutates, and the exit

pathways; (b) understanding employment generation, and especially the policies and institutions that induce expansion of economic activity in FCS; (c) understanding the nature of institutional change; (d) understanding the gender dimensions of fragility, conflict, and violence; and (e) understanding how to support legitimate and effective justice institutions (including criminal justice institutions).

59. ***Improve learning and training for operations in FCS.*** Already the Bank is redesigning its Core Course on Fragility to reflect the findings from the WDR, and to improve the course's performance as a partnership platform in the WBG and externally (including for the UN and others) to promote the integration of security, development, and diplomacy angles. The Bank will establish both virtual and real platforms to tap into the knowledge from expert southern institutions and practitioners whose innovations are underrepresented in Bank programs. Given the risk of isolation from emerging global knowledge, core staff in the front lines, especially country managers, will receive training before and during deployment. Learning programs and events will be tailored to draw lessons that can feed into Bank operations, including a focus on key aspects such as procurement and innovations for fiduciary management in FCS.

## **Annex A**

### **FIVE PRINCIPLES OF ENGAGEMENT IN COUNTRIES FACING FRAGILITY, CONFLICT, AND VIOLENCE**

The World Bank Group's enhanced engagement with countries facing fragility, conflict, and violence will be based on five guiding principles that reflect an emerging international consensus, analysis and findings from the WDR 2011, and lessons from operational experience.

1. The World Bank Group's engagement with fragile and conflict-affected situations flows from its mandate of poverty reduction and growth and especially from its comparative advantage in supporting long-term institution building supportive of shared growth and equity.
2. The WBG recognizes that fragility and violence are a long-term challenge rather than an episodic emergency, and that conflict is, at base, a result of the inability of a society's institutions to resolve stress emanating from inside and outside the country. This recognition requires a long-term commitment to support country institution-building efforts with different sets of instruments, measurements, and intermediate results than in mainstream low-income countries.
3. The WBG actions in support of governments dealing with fragility, conflict, and violence that threaten development will be tailored to specific contexts; these contexts vary greatly, from low-income rural to middle-income urban environments, as do the institutional endowments available in different cases. While common causes and similar remedial principles apply across different situations, specific remedies require intensive local understanding of a type that the Bank needs to capture.
4. The WBG's work in fragile and conflict-affected situations will be strongly anchored in a country's own preferences and leadership to ensure that strategies are owned by a country's own leaders and citizens; on all occasions the Bank Group's commitment will be to support countries in building stronger and more legitimate institutions that serve to resolve competing social, economic, and governance claims.
5. The WBG is committed to work in operational cooperation with other agencies, with a more open-minded appreciation of the comparative advantages of other partners (including those specializing in security, diplomacy, and justice interventions) at national, regional, and global levels.





## Annex B. Matrix of Actions

<i>Change</i>	<i>Immediate actions</i> (Launch and initial achievements in FY11-12)	<i>Medium-term actions</i> (Launch and evidence of progress during FY12-14)
<b>Making FCS strategies more fragility-focused</b>	Introduce new Bank Strategy Approaches in countries facing fragility, conflict and violence, including for middle income countries facing violence or transitions	Develop conflict risk-mitigation approaches to assist non-fragile LICs and for subnational violence in MICs Implement global and regional integration initiatives in knowledge work and operations across Regions
<b>Strengthening partnerships on development, security, and justice</b>	Expand current partnerships in Washington and field, and explore early placement of WB staff in UN missions Revise OPs and guidance notes to reflect role of security actors in Bank strategies and approaches Revise Fiduciary Principles Accord with UN	Advance Bank program work on justice, determine partnerships with agencies, and set up new Bank Anchor. Conduct research on organized crime and drugs
<b>Increasing attention to jobs and PSD</b>	Promote common Bank Group approach on employment and PSD with other agencies, and implement new programs Introduce existing and new IFC/MIGA instruments, including MIGA FCS Export Credit/Guarantee facility	Wider engagement with global agencies on employment, including UN, ILO, think-tanks Complete and disseminate Bank Group research and approach on PSD in countries facing fragility, conflict and violence
<b>Realigning results and risk frameworks for FCS</b>	Clear messages to staff from Board and Senior Management on risk-taking and tolerance for mistakes Review OPs, procedures, and guidance (on procurement and FM) Develop results metrics that are sensitive to conflict and fragility (finalize State and Peace-Building Indicators with OECD-INCAF, UNDP) Activate new Rapid Response Mechanism, and continue MDs' quarterly meetings on FCS, to resolve immediate implementation bottlenecks.	Continue simplifying and clarifying procurement and FM for FCSs Ensure consistency of revised policies and guidance with the upcoming Operations Manual reform, IL reform, and other reform efforts
<b>Seeking less volatility in financing</b>	Adapt and expand the scope of FCS instruments, and replenish State- and Peace-Building Fund Initiate review of financial allocations to FCSs Integrate MDTFs into Bank FCS work and establish cross-departmental advisory unit to structure MDTFs	Propose flexible rules for financial allocations to FCSs, including assistance to turnaround/deteriorating situations
<b>Striving for global excellence in FCS</b>	Initiate a cross-Bank FCS community of practice to bring together separate work streams Establish the hub on FCS in Nairobi by end-FY11 Develop an action plan for re-skilling and re-profiling of the FCS practice in the Bank Further revise HR policies, including career progression support, managed assignments, retirement, secondment Place HR relocation specialist capacity in Nairobi	Diversify skills in the institution through new core competencies, new sector approaches Invest in Bank research on dynamics of fragility, conflict and violence; employment generation; institutional change; gender dimensions; and external support to legitimate and effective justice Revamp the Core Course on Fragility and Conflict, and develop joint programs with more partners