



IDA 17

IDA's Support to Fragile and Conflict-Affected States

**IDA Resource Mobilization Department
Concessional Finance and Global Partnerships**

March 2013

Fiscal Year (FY)

July 1 — June 30

Acronyms and Abbreviations

ADB	Asian Development Bank	IL	Investment Lending
AfDB	African Development Bank	ISN	Interim Strategy Note
CAFEF	Conflict Affected and Fragile Economies Facility	JAMs	Joint Assessment Missions
CAS	Country Assistance Strategy	JSEA	Joint Social and Economic Assessment
CCSD	Center for Conflict, Security and Development	MDB	Multilateral Development Bank
CMU	Country Management Unit	MDG	Millennium Development Goal
CPIA	Country Policy and Institutional Assessment	MDRI	Multilateral Debt Relief Initiative
CPR	Country Performance Rating	MDTF	Multi-Donor Trust Fund
CRW	Crisis Response Window	MIGA	Multilateral Investment Guarantee Agency
CSO	Civil Society Organization	MTR	Mid-Term Review
DRC	Democratic Republic of Congo	PBA	Performance Based Allocation
DPKO	Department of Peace Keeping Operations	PC	Post Conflict
ERL	Economic Recovery Loan	PCNA	Post-Conflict Needs Assessments
EVI	Economic Vulnerability Index	PCPI	Post-Conflict Performance Indicators
FPD	Financial and Private Sector Development	PDNA	Post-Disaster Needs Assessment
FCSs	Fragile and Conflict-affected States	PPR	Portfolio Performance Rating
FSF	Fragile States Facility	PRSP	Poverty Reduction Strategy Paper
GNI	Gross National Income	PSG	Peace-building and State-building Goals
HDI	Human Development Index	RE	Re-engaging
HDN	Human Development Network	SDN	Sustainable Development Network
HIPC	Heavily Indebted Poor Country	SDR	Special Drawing Rights
HR	Human Resources	UA	Unit of Account
IBRD	International Bank for Reconstruction and Development	UN	United Nations
IDA	International Development Association	UNDP	United Nations Development Programme
IFC	International Finance Corporation	WBG	World Bank Group
		WDR	World Development Report

TABLE OF CONTENTS

EXECUTIVE SUMMARY	i
I. INTRODUCTION.....	1
II. BUILDING LEGITIMATE INSTITUTIONS AND ACHIEVING DEVELOPMENT	
PROGRESS IN FCSs: THE ROLE OF IDA	1
A. Challenges in Breaking Out of Fragility	1
B. IDA’s Operational Approaches to Support FCSs	3
III. REVISED ALLOCATION FRAMEWORK FOR FCSs	13
A. Principles that Should Underpin the IDA Resource Allocation Framework.....	14
B. Current Allocation Framework for FCSs.....	15
C. Proposed Allocation Framework for IDA17.....	18
IV. IMPLICATIONS AND TRADE-OFFS	32
V. CONCLUSION AND ISSUES FOR DISCUSSION	38

List of Tables

Table 1: Base Allocation as a Share of IDA16 Allocation.....	29
Table 2: Infrastructure Unit Costs Estimates	30
Table 3: IDA17: Impact of the Proposed Package	34
Table 4: IDA17: Impact of the Proposed Package on Allocations at Regional Level.....	37
Table 5: The Proposed Package: Impact on the Overall Performance Orientation of the Allocation System by Performance Quintile	37

List of Charts

Chart 1: IDA’s Resource Allocation Framework.....	15
Chart 2: FY13 IDA Allocations to FCSs	17
Chart 3: Recent Progress in Policy and Institutional Reform in FCSs	17
Chart 4: Comparison of Current Exceptional Regimes and the Proposed Exceptional Regime for “Turn-around” Countries.....	19
Chart 5: Possible Process for the Provision of Exceptional “Turn-around” Support	25
Chart 6: Recent Evolution of GNI Per-capita in IDA-only Countries.....	26
Chart 7: Estimated IDA16 Per-capita Allocations by Income Groups	26
Chart 8: Impact of Modifying the CPR Exponent in the Allocation Formula.....	27
Chart 9: Impact of Implementing the Proposed Package	33

Chart 10: Impact of the Proposed Package on Per-capita Allocations	36
Chart 11: Impact of the Proposed Package on Per-capita Allocations	37
Chart 12: The Proposed Package: Impact on the Overall Performance Orientation of the Allocation System during IDA17	37

List of Boxes

Box 1: Formulating Fragility-Sensitive Country Assistance Strategies	7
Box 2: Building Legitimate Institutions for Justice and Security in FCSs: Recent Learning	11
Box 3: Exceptional Regimes: How Do They Compare to a Set Aside?	16
Box 4: Options for Increasing the Poverty Orientation of the Allocation System	28

List of Annexes

Annex 1: IDA-eligible Countries, FY13	39
Annex 2: WBG Existing Support to Staff Working in FCSs	40
Annex 3: Allocation of Concessional Resources to FCSs	42
Annex 4: Portfolio Performance Rating: Method of Calculation and Incorporation in the Allocation System	45
Annex 5: Exceptional Allocation Regimes: an Illustration	46
Annex 6: Post-Conflict Performance Indicators Framework	50
Annex 7: The New Deal, Peace- and State-Building Goals and Indicators	53
Annex 8: Comparing Current Exceptional Regimes and the Exceptional Regime for “Turn-Around” Countries	56
Annex 9: Definitions and Assumptions	60

EXECUTIVE SUMMARY

- i. **Fragility and conflict are among the greatest development challenges of our time.** Countries affected by fragility and conflict face political, security, economic and environmental stresses that cannot be mitigated by their weak institutions. As a result, these countries experience repeated disruptions in their development progress and stagnating or deteriorating economic and social indicators. As highlighted by the 2011 World Development Report (WDR), lessons from experience show that sustained progress in resilience and security can unlock significant development potential in Fragile and Conflict-affected States (FCSs). However, overcoming fragility and conflict is a long-term process, subject to several risks, that requires sustained efforts by a determined national leadership. Support from international actors is also vital to help contain the stresses that could derail progress.
- ii. **IDA plays a central role in enhancing the effectiveness of development assistance in FCSs. IDA's country-based model is particularly important in addressing the heterogeneity of FCSs.** IDA provides a vital coordination platform that helps minimize risks and transactions costs linked to the complex aid architecture in FCSs, including through the implementation of Multi-Donor Trust funds (MDTFs). IDA plays a leading role in knowledge generation and sharing as well as in helping build systems and institutions for an effective aid delivery. Improving development effectiveness in FCSs is one of the five themes of the Bank's Post-Crisis Directions Strategy and a priority in recent IDA replenishments, including IDA16. In this context, the Bank has taken deliberate action to more effectively respond to the special circumstances of FCSs, by adopting more tailored operational and funding approaches. Notably, there has been a significant decentralization of staff to the front lines; increased funding of operational work through Bank budget; and more flexible operational procedures. In addition, IDA is providing exceptional financial support to post-conflict (PC) and re-engaging countries (RE). These efforts are showing a positive impact on IDA's portfolio performance in FCSs.
- iii. **Nevertheless, as highlighted by the 2011 WDR, the slow development progress of most FCSs calls for a paradigm shift in the way assistance is delivered to these countries.** In line with the recommendations of the 2011 WDR, the Bank has embarked on an ambitious agenda to improve its effectiveness in FCSs. This agenda aims at modernizing the Bank's business model to better respond to the FCSs changing needs and demands. It also aims at better managing risks in fragile environments and to be more responsive, quicker and flexible in our engagement in these countries. This agenda includes: (i) designing integrated WBG strategies that better address the drivers of conflict and fragility and build on the synergies between IDA, IFC and MIGA; (ii) creating more agile operational policies and practices that promote responsiveness and adaptation in low capacity and high risk environments; (iii) building a stronger community of practice on FCS issues across regions; (iv) shifting more resources to the front lines to enhance the extent and depth of client engagement; and (v) increasing funding to respond to the development needs of FCSs.
- iv. **As part of this broad agenda and the IDA 16 commitments, Management has developed a revised allocation framework for FCSs for implementation in IDA 17.** Drawing on feedback from Participants at the IDA16 MTR, Management has developed a comprehensive allocation framework for FCSs which links considerations of enhanced support with operational effectiveness and performance incentives. In designing the framework, Management has strived to: (i) build on IDA's implementation experience, including addressing the need to strike a balance between rules and judgment; (ii) better reflect the recent understanding on fragility and

conflict, including integrating the work of the G7+ under the New Deal; and (iii) simplify the allocation system while ensuring a meaningful engagement in all countries.

v. **The proposed framework rests on two main components which received broad support by the Participants at the IDA16 MTR**, namely: providing exceptional support to countries facing "turn-around" situations; and increasing the poverty-orientation of the regular Performance-Based Allocation (PBA) system. In addition, the proposed framework includes measures to ensure that IDA funding allows for meaningful country engagement.

- *Introduction of an exceptional allocation regime for countries facing "turn-around" situations.* Starting in IDA17, this regime would cover future PC and RE countries as well as other countries experiencing significant new opportunities for change. Allocations to eligible countries will be based on performance, as per the Post Conflict Performance Indicators (PCPI) and portfolio performance ratings, and needs, reflected in notional maximum per-capita allocation levels as under the existing PC and RE regimes. Given that these notional maximum per-capita allocation levels have not been adjusted for inflation in several years, it is proposed that they be adjusted. To smooth the transition of countries currently under the existing exceptional PC and RE regimes, either to the regular PBA system or to the new exceptional "turn-around" regime (at the latest by the end of IDA17), these countries would be subject to a case-by-case extension of their phasing out period for the duration of IDA17 while receiving the adjusted notional per capita allocations.
- *Increasing the poverty-orientation of the regular PBA system*, by reducing the Country Performance Rating exponent. This would allow an increased IDA engagement in the broader group of FCSs, most of which have low per-capita Gross National Income (GNI) levels, while preserving the principle of performance orientation in the allocation system.
- *Ensuring adequate funding for meaningful country level engagement.* This addresses the fact that IDA financing remains insufficient to support an effective engagement in several small states. In this context, Management proposes to increase the minimum base allocation from its current level of SDR 3 million. This measure will benefit primarily small states whose entire IDA allocation is determined by the minimum base allocation and many of which are highly vulnerable and fragile.

In addition, if the MDRI netting out were to be eliminated, it would further strengthen the support for FCSs receiving small allocations and simplify the allocation framework.

vi. **The implementation of the proposed framework could significantly increase IDA's financial support to FCSs.** Under illustrative scenarios presented in the document, the implementation of the framework with indicative parameters (e.g., 50 or 100 percent increase in the notional per-capita allocation for exceptional support; a reduction in the CPR exponent from 5 to 4) could increase IDA's financial support to FCSs during IDA17 by 52 to 76 percent. As a result, IDA's allocations to FCSs during IDA17 would increase from 12 percent of the allocable envelope to between 18 and 21 percent.

vii. **There would be significant trade-offs that need to be considered.** Assuming, for illustrative purposes, an IDA17 replenishment of the same amount as IDA16 and that transitional support is provided to India in an amount equal to two-thirds of its IDA16 capped allocation, increasing IDA's support to FCSs would lead to a reduction in IDA's support to non-FCSs by 7 to

10 percent. Within the non-FSCs group, there would be a redistribution of resources from stronger to weaker performers, with potentially significant reductions for some countries which are still among the poorest and most vulnerable. The allocation system would nevertheless retain the principle of performance orientation with more resources still being channeled to better performers (as measured by the CPR). Under the illustrative scenarios presented in this document, countries in the top performance quintile would benefit from per-capita allocations more than twice those countries in the lowest quintile. These ratios are comparable to those observed for IDA14 and IDA15.

viii. **The extent of the trade-offs will depend, among others, on the size of the replenishment and the criteria and parameters guiding the implementation of the proposed framework.** Given these considerations, Management seeks endorsement of the proposed framework, while the magnitude of the key parameters (e.g., notional maximum per-capita allocations, reduction of the CPR exponent) could be decided in the June meeting in the context of the broader discussion of the “ask” and financing scenarios.

I. INTRODUCTION

1. **Supporting Fragile and Conflict-affected States (FCSs) is one of the special themes of IDA16.** At the IDA16 Mid-Term Review (MTR), Participants reviewed the status of implementation of agreed actions to enhance IDA's operational effectiveness in FCSs and provided initial feedback on options to adjust and simplify the framework for allocating resources to these countries. At the time, Participants welcomed the progress made by IDA in implementing the agreed actions and encouraged the Bank to continue working on this topic with the international community, in particular with the G7+ and the dialogue on State and Peace Building under the "New Deal." Regarding the allocation of resources to FCSs, Participants broadly supported the possibility of providing exceptional support for countries undergoing "turn-around" situations and increasing the poverty-orientation of the allocation system while maintaining the principle of performance orientation. In addition, Participants requested Management for further elaboration of these options and more details on the trade-offs that could result from their implementation. Finally, Participants requested Management for a comprehensive conceptual framework for support to FCSs, linking the consideration for enhanced support with improving operational effectiveness and maintaining performance incentives.

2. **This document addresses the requests from Participants at the IDA16 MTR.** Section II elaborates on the challenges that countries are confronted with when breaking cycles of fragility and violence and the conceptual framework underpinning IDA's role in helping these countries overcome such challenges. Section III presents a revised allocation framework proposed by Management for implementation in IDA17. The implementation of the proposed framework would, among others, realign IDA's support to the FCSs with the current understanding of fragility and conflict and would support IDA's agenda for action in this group of countries while ensuring a meaningful engagement in all countries. Section IV illustrates the implications of the proposed framework under two indicative scenarios, including the trade-offs it would give rise to. Section V concludes and presents issues for discussion.

II. BUILDING LEGITIMATE INSTITUTIONS AND ACHIEVING DEVELOPMENT PROGRESS IN FCSs: THE ROLE OF IDA

A. Challenges in Breaking Out of Fragility

3. **Fragility, conflict and violence pose significant development challenges in many countries around the world.** One in four people on the planet, more than 1.5 billion, live in areas affected by repeated cycles of political and criminal violence.¹ Countries affected by fragility, conflict and violence face political, security, economic and environmental stresses that cannot be mitigated by their weak institutions.² As a result, they experience repeated cycles of

¹ See 2011 World Development Report on Conflict, Security and Development.

² The report "Turn Down the Heat" points out that even with current mitigation commitments and pledges fully implemented, there is a 20 percent likelihood for the world to warm by 4°C above preindustrial levels by 2100. The impact of climate change will be felt worldwide, but its distribution is likely to be tilted against many of the world's poorest regions, with the least economic, institutional and technical capacity to cope and adapt, including FCSs. The report also points out the likelihood of increased conflict and violence.

violence and interruptions of development progress. Notably, low-income FCSs lag significantly behind on progress towards the Millennium Development Goals (MDGs).³ By 2015, it is expected that 52 percent of the world's poor will live in FCSs.⁴

4. **While some countries are stuck in a "fragility trap," other countries have shown that there is a viable path out of fragility.**⁵ Following periods of conflict and/or severe political instability, countries like Cambodia, Lao PDR, Mozambique, Rwanda, Uzbekistan and Vietnam have attained growth rates averaging 4 to 7 percent per annum in transition years. Economic growth has been accompanied by significant reductions in poverty such as in Vietnam where the poverty headcount ratio decreased from 64 percent in 1993 to 17 percent in 2008. Other countries facing similar challenges of fragility provide evidence of development progress. Ethiopia increased access to improved water from 13 percent of the population in 1990 to 66 percent in 2009-10. Mozambique more than tripled its primary completion rate in just eight years, from 14 percent in 1999 to 46 percent in 2007. Rwanda cut the prevalence of under-nutrition from 56 percent of the population in 1997 to 40 percent in 2005. Nepal received the MDG Millennium Award in 2010 for significant progress in reducing maternal mortality, which fell from 770 in 1990 to 170 per 100,000 live births in 2010.⁶ Bosnia and Herzegovina, between 1995 and 2007, increased measles immunizations from 53 percent to 96 percent for children aged 12-23 months. This experience, however, is not universal as evidenced by countries that recently moved out of the FCSs group but have experienced lower economic growth and relatively slower progress in reforms (e.g., Djibouti, The Gambia and Tajikistan).

5. **How can FCSs break out of fragility and embark on a path to sustainable development?** The central message of the 2011 World Development Report on Conflict, Security and Development is that it requires strengthening legitimate institutions and governance to provide citizen security, justice and jobs. The report also points out that the process of restoring confidence and building institutions requires strong national leadership with support from international actors to help contain stresses that could derail progress. The literature on fragility traps provides further evidence on the role that external aid can play in helping countries moving out from fragility highlighting that the risk of inaction may be greater than the risk of providing support.

6. **In FCSs, exceptional efforts are needed to restore confidence in collective action before embarking on wider institutional transformation.** Persuading stakeholders to work collaboratively requires signals of a real break with the past – for example, ending the political or

³ Unless otherwise specified, the term FCSs in this document refers to countries that: (i) have a harmonized average Country Policy and Institutional Assessment (CPIA) rating of 3.2 or less (or no CPIA); or (ii) have or have had a UN and/or regional peace-keeping or peace-building mission during the past three years. By this definition, 31 IDA-eligible countries are considered FCSs in FY13 (see Annex 1), constituting 39 percent of the number of IDA-eligible countries and 15 percent of their population.

⁴ Chandy and Gertz (2011) "Poverty in Numbers: The Changing State of Global Poverty 2005 to 2015." Note that the authors use a wider definition of fragility than the World Bank's list.

⁵ A "fragility trap" is defined as a low-level equilibrium with the self-reinforcing features of weak institutions, low investment, slow growth and the possibility of repeated cycles of violence (see Noro Aina Andrimihaja, Matthias Cinyabuguma and Shanta Devarajan (Nov 2011), "Avoiding the Fragility Trap in Africa," World Bank Africa Region Policy Research Working Paper 5884). This strand of research provides evidence that FCSs not only grow more slowly than non-FCSs, but that fragility is persistent (the probability that a FCS in 2001 was still fragile in 2009 was estimated at 0.95). This is consistent with findings from the 2011 WDR which confirm that essential reforms to "good enough" governance can take 17 to 27 years.

⁶ World Bank Staff estimates and "Maternal Health: Where is the Effort (MDGs and Beyond, Issue 2).

economic exclusion of marginalized groups, corruption, or human rights abuses – as well as mechanisms to “lock-in” these changes and show that they will not be reversed. In moments of opportunity or crisis, fast and visible results (such as rapid restoration of essential basic services) also help restore confidence in the government’s ability to deal with violent threats and implement institutional and social change.

7. **Exiting fragility is possible but it takes time and sustained efforts to build functioning institutions.** Successful institutional transformation requires a determined national leadership and sustained efforts. Countries that moved away from fragility and conflict often do so not through one decisive “make or break” moment – but through many transition moments. National leaders had to build confidence in the state and to transform institutions over time, as with the Republic of Korea’s transitions in the security, political, and economic spheres after the Korean War, or transitions from military rule in Ghana, Chile and Argentina, which included repeated internal contests over the norms and governance of society. Likewise, periods of sustained economic and political reform in Vietnam, Lao PDR and Cambodia have led to more than a decade of peace, prosperity and resilience. A repeated process of building success upon success enables space for trust, collaborative norms and capacities to develop. For each phase of progress, national leaders need to build confidence that positive change is possible and deepen the institutional transformation. A lack of trust and capacity in fragile societies necessitates sequenced and paced institutional transformation over decades.

8. **The international community has an important role in supporting the long-term transformation process in FCSs.** The 2011 WDR called for the following changes in international assistance: (i) refocusing assistance on strengthening citizen security, justice and jobs; (ii) reforming the procedures of international agencies to more effectively respond to the unique challenges of engaging in FCSs; (iii) recognizing the regional dimensions that generate stresses causing conflict; and (iv) renewing cooperative efforts among lower-, middle-, and higher-income countries to share experience and promote "best fit" solutions to the unique challenges of conflict and fragility. This call for paradigm change was echoed by an expanding group of self-identified FCSs (the g7+) and donor agencies in their recent endorsement of “The New Deal for Engagement in Fragile States.” The New Deal challenges the development community to support peace- and state-building goals that are essential prerequisites for achieving sustainable poverty reduction and growth and calls for a new approach to delivering assistance with a strong emphasis on country ownership, strengthening country systems, and coordinating donor support around a country-led fragility assessment to define a pathway out of fragility.

B. IDA’s Operational Approaches to Support FCSs

9. **IDA plays a central role in enhancing the effectiveness of development assistance in FCSs.** IDA’s country based business model emphasizes: (i) support for nationally-owned development strategies; (ii) donor alignment and harmonization; and (iii) mutual accountability mechanisms for both donors and governments. This model is particularly important in the FCS contexts, where each country needs to assess its own circumstances and find its own path out of fragility in light of the different types and combinations of violence, stresses and institutional challenges they face. In addition, IDA provides a vital platform for coordination among governments, donors, private sector, academia and civil society organizations (CSOs). By drawing upon its multi-sectoral perspective and integrative capacity, IDA helps minimize the

risks and transactions costs associated with the increased complexity of the aid architecture in FCSs. IDA also generates and shares knowledge on best practices and results across the globe and supports capacity building and the development of essential systems and institutions for a more effective delivery of aid and sustainable development. A recent independent survey of progress towards meeting the commitments of the Paris Declaration on working differently in FCSs rates the Bank highly in such areas as alignment of aid flows, technical assistance and capacity building, use of country Public Financial Management (PFM) systems and joint country analytic work.⁷

10. **In this context, IDA is committed to continue its efforts to enhance strategic partnerships with bilateral, multilateral and civil society stakeholders.**⁸ Coordinated action constitutes a vital aspect of IDA's engagement in FCSs. In particular, the Bank and the UN are strongly committed to streamline and enhance their partnership through closer collaboration at the country level, expanding thematic collaboration, coordinating their support to national leadership through the New Deal process and addressing implementation challenges. Since 2010 the UN-World Bank Partnership Trust Fund has supported nine joint initiatives in FCSs as well as exchange of staff to facilitate headquarters support to partnership activities. A joint review of the partnership is being finalized and will assess progress, identify good practices/lessons learned and provide recommendations to further deepen the partnership. IDA also continues to build on partnerships for information exchange, joint analytical work and joint engagement (e.g., country strategies, operational approaches and implementation arrangements) with Multilateral Development Banks, the OECD-DAC International Network on Conflict and Fragility (INCAF), the European Commission and other partners at the regional and country levels. At the country level, IDA continues its efforts to address – with all relevant stakeholders – issues that may arise while implementing Multi-Donor Trust Funds (MDTFs).⁹ Going forward, the partnerships agenda will remain high in IDA's priorities for enhancing its operational effectiveness in FCSs.

11. **Over the past few years, the Bank has significantly stepped up efforts to enhance its development effectiveness in FCSs.** Improving results in FCSs is one of the five themes of the Bank's Post-Crisis Directions Strategy and a priority of IDA16. Following the launch of the 2011 WDR, which broke new ground in the understanding of fragility and conflict, a strategy for operationalizing the 2011 WDR findings and lessons was presented to the Executive Directors in April 2011.¹⁰ A broad agenda for change to enhance the Bank's effectiveness in FCSs was integrated into the World Bank Group (WBG) modernization agenda and is an important component of the ongoing change management process within the Bank.¹¹

⁷ See World Bank, 2011, "The World Bank and Aid Effectiveness: Performance to Date and Agenda Ahead", and Ishihara, 2012, "Identifying Aid Effectiveness Challenges in Fragile and Conflict-Affected States" Policy Research Working Paper 6037, for specific discussion on aid effectiveness issues in FCSs.

⁸ Details on recent progress on partnerships can be found in the IDA16 MTR papers "Managing Crisis and Building Resilience: A Retrospective Review of IDA's Fifteenth Replenishment," and "IDA's support to Fragile and Conflict-affected Countries."

⁹ MDTFs are a key component of IDA's engagement in FCSs that have allowed for enhanced flexibility and timeliness in the provision of financial support to these countries and a broader Bank participation in politically sensitive contexts and in crises and emergencies.

¹⁰ "Operationalizing the 2011 World Development Report: Conflict, Security and Development," DC2011-0003, April 4, 2011.

¹¹ "Update on the Bank's Business Modernization: Results, Openness, and Accountability Spring 2012," DC2012-0005, April 11, 2012.

12. **This agenda builds upon a decade of efforts to enhance IDA’s operational effectiveness in FCSs.** Notably, there has been a significant decentralization of Bank staff to the front lines; increased funding of operational work through the Bank budget; and more flexible operational procedures.

1. *Decentralization.* Between FY09-FY11, higher level staff (including both locally and internationally recruited staff) in FCSs increased by 38 percent. Lending preparation and supervision is more decentralized in FCSs; the share of headquarter staff time devoted to the preparation of projects in FCSs decreased from 62 percent to 48 percent between FY07 and FY11. In addition, regional offices closer to FCSs have played an increasingly important role in contributing senior staff time to preparing and supervising projects in FCSs. For example, in the Africa region the staff time contributed by regional offices (Abidjan, Accra, Addis-Ababa, Dakar and Nairobi) to prepare FCS projects in the region has increased from 10 percent in FY07 to 17 percent in FY11. In the East Asia and Pacific region, the staff time contributed by the Sidney office in preparing FCS projects in the region has increased from 12 percent in FY07 to 32 percent in FY11.
2. *Bank Budget.* The investment of Bank resources to enhance effectiveness in FCSs has increased dramatically. The budget per dollar of IDA lending in FCSs has increased by approximately 20 percent since FY07. In FY11, the Bank spent nearly three times as much in Bank budget per dollar of IDA lending in FCSs in comparison with non-FCSs. A significant portion of that difference is explained by higher supervision budgets for FCS projects (in addition to security costs which are higher in FCSs) to help address implementation challenges in low capacity environments.¹²
3. *Operational Expediency and Flexibility.* The expediency in preparing and disbursing Bank projects in response to the significant needs in FCSs has increased. The introduction of Emergency Recovery Loans (ERLs) in line with OP 8.0, which are widely used across FCSs, has nearly halved the time between project approval and first disbursement in FCSs. In addition, simpler requirements for project design have also substantially helped increase the FCSs portfolio disbursement ratio which by FY11 rose to 25 percent, on par with the rest of the IDA portfolio.

13. **These efforts are showing a positive impact on IDA’s portfolio performance in FCSs.** Ten years ago, FCS projects were twice as likely to fail as those in the rest of the IDA portfolio. By IDA15, the quality at exit ratings for projects in FCSs improved considerably and is now on par with the rest of the IDA portfolio.¹³ While it is difficult to establish a direct link between these efforts and portfolio performance and whether this trend will be sustained over the medium term, this outcome suggests that targeted efforts at the project level can have a concrete impact on results even in these challenging environments. Beyond project ratings, IDA projects in FCSs have had concrete results on the ground as evidenced in the cases of:

- *Afghanistan*, where – over the period 2003-2010 – about 22 million people in rural areas have benefitted from improved infrastructure such as access to water, electricity and roads through the National Solidarity Program.

¹² This is consistent with recommendations from the Independent Evaluation Group (IEG) on increasing supervision in fragile states – IEG (2006), “Engaging with Fragile States: An IEG report on World Bank support to low income countries under stress”.

¹³ This outcome reflects the improvement in performance of the FCS investment lending portfolio as well as a decline in the performance of the non-FCS investment lending portfolio.

- *Côte d'Ivoire*, where a post-conflict assistance project financed labor intensive public works, community rehabilitation activities, vocational training and support for self-employment to reconstruct communities and help reintegrate 18,000 ex-combatants, individuals associated with an armed group and youth at risk.
- *The greater lakes region*, where as part of a multi-agency effort IDA helped demobilize and re-integrate over 300,000 ex-combatants in seven countries.¹⁴
- *Liberia*, where the IDA-funded Governance and Economic Management Assistance Program has helped build the basic systems and institutions in the areas of public financial management, budget preparation and execution, accountability, civil service and capacity building.
- *Sierra Leone*, where an IDA-financed safety nets program helped 0.7 million people to gain access to health facilities, 0.4 million children to educational facilities, and over 0.1 million people to markets and other economic infrastructure.

14. **Nevertheless, as highlighted by the 2011 WDR, the slow development progress of most FCSs calls for a paradigm shift in the way assistance is delivered to these countries.** Country programs need to do more to address the drivers of fragility and conflict together with client governments and key stakeholders. Stronger partnerships are required to draw on the comparative advantages of a wider range of international and local actors in addressing the complex issues of citizen security, justice and jobs – in particular, in light of the regional and global dimensions of fragility and conflict.¹⁵ Furthermore, more operational flexibility and greater local capacity are needed to respond to the volatility and risk inherent in FCSs contexts. In this respect, bringing the right staff skills in a sustainable and cost effective model to operate in these challenging environments remains an important issue for the Bank as well as all international actors.

15. **In line with the New Deal and the recommendations of the 2011 WDR, the Bank has embarked on an ambitious agenda to improve its effectiveness in FCSs.** An objective pursued by this agenda is to modernize the Bank's business model to better respond to the changing development needs and demands from our client countries. It also aims at better managing risks in fragile environments and to be more responsive, quicker and flexible in our engagement in this segment of the client base. This agenda includes: (i) designing integrated WBG country strategies to better address the drivers of conflict and fragility and build on the synergies between IDA, IFC and MIGA; (ii) creating more agile operational policies and associated risk management practices that promote responsiveness and adaptation in low capacity and high risk environments; (iii) building a stronger community of practice around FCS issues across regions to encourage learning and the development of "best fit" solutions; (iv) shifting more resources to the front lines to enhance the extent and depth of client engagement with appropriately experienced Bank staff in FCSs; and (v) increasing funding to respond to the peace- and state-building goals of FCSs in addition to their overwhelming development needs. In July 2011, the Bank established the Global Center for Conflict, Security and Development (CCSD) in Nairobi to lead the implementation of this agenda and provide additional support to country teams to address the drivers of fragility and conflict in FCS programs. The CCSD is

¹⁴ Angola, Burundi, Central African Republic, the DRC, Republic of Congo, Rwanda and Uganda.

¹⁵ As highlighted in the 2011 WDR, the problems in a FCSs are not limited to its borders. Instead, the deaths, destruction and delayed development due to fragility and conflict have regional and global implications. In that regard, addressing these problems should involve a coordinated approach by all relevant international players, including through cross border action .

working with the g7+ and a wide range of development partners to build a global community of practice on fragility and conflict.

16. The five-point FCS reform under the modernization process, summarized below, reflects the WBG commitment to put the New Deal into practice in its activities.

(i) Designing integrated WBG country strategies to better address the drivers of conflict and fragility and build on the synergies between IDA, IFC and MIGA

17. The Bank is increasingly incorporating fragility analysis in the design of Country Assistance Strategies (CASs) or Interim Strategy Notes (ISNs) for FCSs. Such analysis helps the country build institutional foundations for peace and sustainable development. In Guinea-Bissau, Yemen, the Democratic Republic of Congo (DRC), South Sudan, Niger, Burundi, Timor-Leste, Papua New Guinea, Somalia and Liberia, the country teams are working with the support of the CCSD and the Social Development Anchor in preparing fragility-sensitive assistance strategies. Instead of addressing only the investment and capacity deficits, this new generation of CAS/ISNs explicitly discusses the underlying drivers of fragility and proposes a combination of financial and technical assistance instruments to help build resilience (see the examples of Yemen and DRC in Box 1).

Box 1: Formulating Fragility-Sensitive Country Assistance Strategies

Yemen. The Yemen ISN for FY13/14, discussed by the Board in 2012, was prepared following the 2011 crisis and articulates a new strategy for WBG engagement focused on addressing key drivers of conflict and urgent transition priorities. As part of the process, in 2012, IDA conducted a Joint Social and Economic Assessment (JSEA) in coordination with the UN, the European Union (EU) and the Islamic Development Bank (IsDB). The JSEA analyzed the key social and economic drivers of the 2011 crisis, and identified critical priorities for the transition period. Its findings directly informed the analysis and key guiding principles of the ISN. Building on these findings, and drawing on experiences in other FCSs, the IDA team also identified how individual operations could be adjusted to address specific transition priorities and underlying causes of conflict. In the areas of public sector governance, in particular, the focus was on supporting institutional transformation and reform linked to the broader national dialogue process. During the ISN implementation, there will be a specific focus on enhancing the operational effectiveness of the Bank's program.

Democratic Republic of Congo (DRC). In recognition of the destabilizing impact of the continuing low intensity conflicts in the eastern provinces for the country as a whole, the WBG CAS for FY13/16 (currently being finalized) includes a specific focus on conflict and fragility. In response to the latest crisis in eastern DRC caused by the M23 rebellion, an assessment was conducted in November 2012 to evaluate the root causes and drivers of conflict, and identify possible areas of WBG support. This joint diagnostic exercise informed the development of a multi-sectoral strategy of assistance, articulated as a fourth strategic objective in the CAS, which integrates a focus on addressing key impediments to peace consolidation and durable economic development through a selective and strategically targeted program in eastern DRC. Building on the existing WBG portfolio, the program aims to support government and international partners in strengthening institutional and societal resilience and addressing the structural determinants of fragility and conflict. In operationalizing this strategy, IDA will work to maximize the effectiveness and responsiveness of WBG assistance through a combination of instruments, including the leveraging of existing projects in the current IDA portfolio, the identification of flexible instruments to drive innovative approaches, and the development of a new economic community empowerment project.

18. As illustrated in Box 1, maximizing the impact of the Bank's support to FCSs involves deep changes on how country programs are designed. This includes changes on:

- *Engagement*, with explicit efforts to strengthen multi-stakeholder dialogues in the design and implementation of IDA projects, creating strong buy-in and ownership from a wider group of players and potential beneficiaries. This requires more up-front, transparent public consultation as well as downstream information-sharing about the way resources are used and the results that are achieved.
- *Capacity development*, with approaches that recognize that supply-driven training and technical assistance are rarely effective without broader efforts to improve the enabling conditions that prevent capacity from taking hold and from becoming sustainable. This means more attention to and adaptability in the implementation process and an approach to tracking results that recognizes the need to at times focus less on traditional “hard” outcomes (like number of vaccines) and more on intermediate – and sometimes incremental – changes in behaviors, coalitions and consensus about the way forward.
- *Learning and knowledge sharing*, with explicit approaches to capture what is working and under what conditions, sharing knowledge internally and through South-South mechanisms with other countries facing similar problems. It is important, in this context, to collect this growing knowledge base (e.g., on institutions, citizen security, gender-based violence, climate change, the regional dimensions of fragility, service delivery, impact evaluation) and make it available for other countries undertaking similar transitions, through knowledge hubs and other exchanges. The g7+ represents an important first step as it represents a group of countries that share their experiences and strengthen support for promising new ways to tackle problems.
- *Innovation*, with approaches for project design that target the specific circumstances of FCSs. This is particularly relevant for work on service delivery, where innovative results-based approaches have been piloted in countries such as Afghanistan and the Central African Republic.
- *Monitoring and evaluation*, through the adoption of a more integrated approach to the Bank’s engagement going beyond monitoring the quality and performance of the Bank’s portfolio in these countries.

19. **Furthermore, the Management teams of IDA, IFC and MIGA are working closely to fully explore synergies across the three branches of the WBG.** Development of the private sector in FCSs is essential for sustainable employment creation, growth and stability. WBG management is committed to maximize WBG synergies in FCSs through joint business plans (JBPs) with a strong private sector focus, aiming to bring together the whole range of WBG instruments to foster a better investment climate, support private sector development and employment creation and facilitate catalytic investments and guarantees.¹⁶ The joint WBG teams would focus on primary constraints to private sector growth, in particular access to infrastructure (including power), access to finance and access to markets. JBPs would be prepared in countries and sectors where there is adequate government support to private sector solutions. For these arrangements to succeed, teams would need speed of delivery, a stronger results focus with shared monitoring and evaluation frameworks, and a focus on transformational projects. In Burundi, for example, IDA and IFC are already working on a JBP in the agribusiness sector, building on recent joint work in the investment climate reform area. In Myanmar, IDA, IFC and MIGA have recently had high level consultations with the government, civil society and the private sector to identify opportunities to leverage all the WBG tools and

¹⁶ As part of its efforts to leverage the private sector, MIGA is proposing to set up the Conflict Affected and Fragile Economies Facility (CAFEF) to encourage investors through export credit and investment insurance.

expertise to help rebuild the country, and have agreed to develop JBPs on the power and financial sectors. JBPs will be prepared in an increasing number of countries where a joint approach by IBRD/IDA, IFC and MIGA can enhance the delivery of services to our clients, focusing on specific sectors and actionable targets. Management intends to bring more detailed proposals on strengthening the WBG's private sector focus in FCSs to the second IDA replenishment meeting in June.

20. The Bank in partnership with other development partners will continue its support to the g7+ countries. This includes support to help these countries articulate their own fragility assessments which define strategies for exiting the fragility trap and tracking progress in peace and state building and in turn influences the priorities of development assistance. Where country-owned fragility assessments have already advanced, as in Timor-Leste, the Bank has integrated their assessments into the country strategy document. Such efforts will be expanded in all New Deal pilot countries.

(ii) Creating a more agile set of operational policies and associated risk management practices that promote responsiveness and adaptation in low capacity and high risk environments

21. As part of the recent reform of Investment Lending (IL), procedures have been streamlined for the preparation and implementation of investment operations in FCSs.¹⁷ While the current OP 8.0 sets out simplified and expedited procedures for preparing and implementing investment operations in response to emergencies and crises (referred to as ERLs), the IL reform extends these exceptional procedures to investment lending in all FCSs in recognition of the systematic weaknesses in institutional capacity and the need to respond more quickly and flexibly in FCSs. Specifically, these exceptional procedures aim to:

- Expand the applicability of alternative implementation mechanisms (e.g., through UN agencies, CSOs and Bank execution) to deliver faster assistance to FCSs and take advantage of partnerships with agencies that might have a stronger presence in the field, especially in the immediate aftermath of conflict.
- Allow for greater use of direct contracting for procurement of goods and services when required by the context and for higher thresholds for streamlined procurement procedures.
- Shift some of the risk management tools from the project preparation to the project implementation phase to enable faster processing and recognize the different nature of risks in FCS contexts. In addition, the IL reform explicitly incorporates an analysis of the “risks of inaction” into the existing risk framework to recognize the potential long term costs for countries facing fragility traps.

22. These reforms set out a differentiated approach to investment lending in FCSs. The approach recognizes that a “one size fits all” operational framework does not capture the complexities of working in these environments. In addition, it builds on past experience in responding to emergencies and crises where the Bank faced similar challenges associated with urgent needs, weak institutional capacity and high risks. Such an approach will also inform the

¹⁷ See “Investment Lending Reform: Modernizing and Consolidating Operational Policies and Procedures,” November 2012.

ongoing review of procurement and safeguards policies, which should have a significant impact on operational flexibility and adaptation in FCSs.

23. In addition, the Bank is promoting and disseminating solution-oriented operational practices among staff and management. The Bank is developing a series of pilot cases to enhance flexibility in the implementation of existing procurement, safeguards application and financial management guidelines in response to the specific challenges in FCSs. The first pilot is being implemented in the small states in the Pacific. Their small and isolated economies often do not allow for complex international competitive processes for the procurement of goods, works and services. Thus, the region is applying more flexibility to respond to the specific context, including by: (i) approving direct contracting (when justified), and (ii) approving higher thresholds for less competitive procurement methods such as shopping and selection based on consultants qualification. These measures are expected to support speedier contracting and delivery. Such pilots are being disseminated across FCSs and can serve as the basis for tailoring the implementation of our fiduciary policies to recognize the specific challenges of other FCSs. To help drive changes in operational policy and practice to the field level, where problems of excessive risk aversion can arise, the CCSD has established a senior FCS Implementation Support Team based in Nairobi with FCS-focused experience and expertise on operations, monitoring and evaluation, procurement, financial management and safeguards to support and mentor field-based staff directly in using the full extent of the flexibility offered in existing and new policies. The FCS Implementation Support Team is also rolling out a specialized course for operations in FCSs to disseminate a new way of working and to promote exchange of experience and practice among frontline staff.

(iii) Building a community of practice to encourage cross learning

24. To ensure that the Bank remains a key contributor to global knowledge on fragility and conflict, it is carrying out a focused program of research and learning. To create a worldwide community of practice on the prevention of fragility, conflict and violence, connect knowledge across contexts and disciplines, and share emerging ideas and innovations to advance best practices in the field, the Bank has set up *the Hive*—a knowledge-sharing platform—connecting practitioners, researchers, policymakers and organizations working on these issues around the world. It is expected that the platform will strengthen relationships and knowledge-sharing between “hard-to-reach” groups like grassroots leaders and local government officials, and experts working within CSOs, think tanks, and the private sector. Thirty external partners have signed *the Hive* Partnership Memorandum of Understanding, and there are ongoing discussions with 40 other institutions, including UN agencies and departments. Furthermore, 2,479 resources have been added to the ideaMap, the innovative resource center of *the Hive*. The current priority is to promote global communities of practices around high-priority topics such as jobs, security, justice, and natural resource revenue management. For example, the Bank is expanding its collaboration with the UN on key research, knowledge, learning and policy initiatives: (i) in the area of economic recovery, the Bank is launching a new platform for supporting job creation policy development and country level operations; (ii) through its Program on Forced Displacement, the Bank is strengthening partnerships with key UN entities to improve predictability of responses for the reintegration of Internally Displaced Persons (IDPs) and refugees; (iii) in the area of security and justice, the Bank is developing, together with the UN Department of Peacekeeping Operations (DPKO) and the UN Development Programme (UNDP), a security sector expenditure review toolkit for the analysis of financial management, financial oversight and expenditure policy issues in the security sector. In many cases, the

cultivation of knowledge draws from experience and ongoing operations, as in the 49 ongoing impact evaluations being undertaken on FCS related issues. An operational research project is also generating insights on how to build legitimate institutions to provide justice and security (see Box 2).

25. Recognizing the need to disseminate analytical tools and operational practices among Bank staff, the CCSD has launched a Community of Practice for staff and has joint appointments with the PREM, HDN, SDN and FPD networks to promote staff learning within these networks. The CCSD is using its central Nairobi location to significantly increase the number of staff learning events –both, physical and virtual– targeted at field staff in FCSs. Specially tailored workshops for FCSs are being rolled out in response to conflict and crisis. A recent week-long training in Dakar brought together task team leaders from Mali, Mauritania, Niger and Chad to help staff integrate approaches to conflict and fragility in their operations and across the portfolio. Similar workshops are planned in other regional hotspots. A Bank-wide core course in fragility and conflict is offered twice a year in headquarters and the field with an increasing number of external partners participating in it. A new course on FCS operations to train staff in the revised procedures for developing and implementing FCS operations has been finalized. Also, the World Bank and IFC are jointly sponsoring an operational learning project to assess the WBG’s Private Sector Development practices in FCSs in light of the 2011 WDR and explore what we need to do differently in future operations, analytics and research. Five topics are being covered: (i) financial institutions and resilience; (ii) firms coping with crime and violence; (iii) foreign direct investment in FCSs; (iv) entrepreneurship in FCSs; and (v) investment climate reform in fragile environments.

Box 2: Building Legitimate Institutions for Justice and Security in FCSs: Recent Learning

The 2011 WDR brought justice and security to front and center of the development agenda in FCSs. Arguing that fragility and violence are fueled by the absence of effective and legitimate institutions to provide basic security, justice and economic opportunities, the 2011 WDR called for context-specific, “best-fit” approaches to supporting the development of these institutions.

Through an operational research project on the justice-security-development nexus, the Bank is developing new analytic and program approaches to strengthen security and justice in FCSs. These involve identifying and addressing justice and security issues across development sectors, including by improving the provision of security and justice services; resolving grievances and disputes around the delivery of public services; and enhancing the fair allocation of rights and entitlements to natural resources and revenue. The program is designing new methodologies for understanding the social and political context that shape the evolution of justice and security in FCSs, by analyzing sources of grievance and dispute, the local capacities available to manage them, and the political economy in which they function. New program modalities are designed not only to offer financing or technical expertise, but to foster lasting engagements by national leaders, networks and coalitions that are essential to the development of sustainable and equitable justice and security institutions.

The project is building an evidence base through a small number of pilot projects, including the design of grievance redress mechanisms for a local governance and service delivery project in South Sudan, participatory mechanisms for managing natural resource revenue in Liberia, municipal-based crime prevention in Honduras, and strengthening local courts in Solomon Islands. Yet greater investment is needed to understand and enable the types of donor engagements that are effective in different contexts. Moreover, the project has highlighted that attention to justice and security cannot be limited to a project or sector, but should be incorporated across development programming to enable successful transitions out of conflict and violence.

(iv) Reforming Human Resources (HR) policies and practices to direct more experienced Bank staff to serve FCS clients

26. **The Bank recognizes the unique challenges that are faced when working in FCSs and the need for a differentiated approach in these countries.** Thus far, efforts on the HR front have been focused on attracting internationally recruited staff (IRS) by providing them with competitive compensation and benefits, career development-related support, and a flexible transitional toolkit (see Annex 2). Financial benefits exclusive to staff working in FCSs were approved in FY08, including an Assignment Premium Bonus, a Fragile States Premium, and Rest and Recuperation benefits. Non-financial incentives, including with respect to professional development and family support, have also been improved in recognition of the challenges and risks of working in these environments.¹⁸ Finally, there have also been significant efforts towards mentoring locally recruited staff (LRS) and providing them with opportunities and tools to develop their skills.

27. **Despite these measures, there remain significant gaps in attracting the right mix of staff skills in FCSs and in the speed of staff deployment in these countries.** To better address these gaps, management has adopted additional measures as follows:

- *Monitor "face time" with FCS clients.* Face time is defined as the time of staff based in FCS country offices, staff based in nearby regional centers, and staff working on FCSs but travelling from HQ.¹⁹ Analysis suggests that face time is an important driver of portfolio quality. This indicator will be used as a management tool to increase support to FCSs in a cost effective way.
- *Enhancing the targeting of HR responses to the challenges of working in FCSs.* A better differentiation of the situations across FCSs - from post-conflict to turnaround and to continuously fragile countries - will lead to a better use of existing financial incentives and support mechanisms (e.g., by ensuring that family arrangements such as rest and recuperation are better aligned with family constraints such as "non-family postings"). Also, a new package of incentives has been designed to attract locally recruited talents to undertake cross-country assignments in FCSs. Finally, planning is under way to ensure that the relevant skills are available to work in different FCS situations. In that context, the CCSD is leading staff training efforts to broaden the FCS-related skills among staff and identifying specialized individuals as core resource for surge deployment in cases of immediate need, while each Region is evaluating its staff working in FCSs and related skill gaps.
- *Strengthen incentives to work in FCSs.* For internationally-recruited operational staff, experience working on an FCS country will be a strongly desired skill for promotion to senior jobs (GH). In addition, each sector will aim at giving staff predictability on the assignment following an assignment in an FCS (this change will require deeper reforms in the way careers are managed). Also, further flexibility will be given to managers to reflect the local labor market conditions to attract scarce skills in FCSs and guidelines

¹⁸ At the time of approval of the financial benefits package for staff working in FCSs the WBG had 653 staff working in these countries. That number has now reached 868. About half of these staff is deployed in the sub-Saharan Africa region, 28 percent in the South Asia region and the remaining 23 percent in the Middle East and North Africa, East Asia and Pacific and Latin America and Caribbean regions.

¹⁹ A face time indicator has been created to monitor the professional support each FCS country receives from the Bank. This indicator helps Management monitor the variation of face time across countries and ensure that the Bank's human resources are deployed effectively.

will be established to ensure the application of Scarce Skills Premium in a more systematic manner for LRS in FCSs. In addition, management will work with national authorities to enable spouses and families of staff serving in non-family duty stations to be located in a country other than the duty station.

(v) *Enhancing FCSs financing to support sustained institutional reform and reduce poverty*

28. **IDA’s reliance on the Performance Based Allocation system is grounded on evidence that good policies and institutions matter for aid effectiveness.**²⁰ Recent analysis has reaffirmed the relevance of this foundation of the PBA system while adding new dimensions to the understanding of aid effectiveness in the FCSs context. Research by Andrimihaja et al (2011) suggests that external assistance targeted to the very sources of fragility and conflict can play a decisive role in helping countries exit from fragility traps. Research by Denizer et al. (2011) found that factors beyond the quality of policies and institutions (e.g., in particular project-level factors such as project design and investment in project implementation and monitoring) have also a significant positive impact on project performance.²¹ IDA’s portfolio performance in recent years provides additional evidence that well designed and proactively managed projects in FCSs can indeed achieve their expected development results. At the same time, the 2011 WDR provides useful insights on the nature of fragility and conflict which are relevant when providing financial support to these countries. First, creating legitimate institutions that can prevent repeated violence is a protracted process that takes at least a generation. Second, progress in FCSs should not be measured against a uniform set of international standards but rather a tailored set of confidence building and institutional transformation goals specific to the countries. Third, financing should be responsive to the transition moments that constitute critical opportunities for building coalitions to strengthen stability and resilience. Section III of this document discusses how these new elements could be incorporated in IDA’s framework to allocate resources to FCSs.

III. REVISED ALLOCATION FRAMEWORK FOR FCSs

29. **IDA’s allocation framework for FCSs has evolved over time to support its operational engagement in these countries.** The current allocation framework involves the application of exceptional regimes for post-conflict (PC) and re-engaging (RE) countries. Mostly as a result of introducing these regimes, IDA’s financial support to FCSs increased significantly from US\$1.5 billion in IDA11 to US\$6.6 billion in IDA15, which has resulted in a total of US\$22.0 billion in IDA commitments over that period. In addition, in recent replenishments, IDA has provided about US\$4.0 billion of additional support to the FCSs in the form of debt relief, exceptional support for arrears clearance and support in response to natural disasters and crises.²² At the same time, Multi-Donor Trust Funds (MDTFs) have become an

²⁰ Burnside, Craig, and David Dollar (2000), "Aid, Policies, and Growth." *American Economic Review*, 90(4): 847-868. "Selectivity and Performance: IDA’s Country Assessment and Development Effectiveness," February 2007. "IDA’s Performance Based Allocation and Development Results: An Update," October 2009. More recently, an analysis of the Bank’s FPD portfolio found that weak institutions and policies, regardless of income level, lead to poorer development outcomes (and weaker portfolio results).

²¹ Cevdet Denizer, Daniel Kaufmann and Aart Kraay (May 2011), "Good Countries or Good Projects: Macro and micro correlates of World Bank project performance", World Bank Policy Research Working Paper 5646.

²² Annex 4 of the IDA16 MTR document "Progress Report on IDA Support to Fragile and Conflict-affected Countries" provides details on the support provided by IDA to the FCSs under these modalities.

important instrument to finance FCSs that has enhanced IDA's flexibility to provide financial support, including for countries in arrears.

30. **This section presents a revised allocation framework for FCSs that Management proposes for implementation in IDA17.** Drawing on the initial feedback from Participants at the IDA16 MTR and consultations with relevant stakeholders, Management has developed a package of adjustments which will lead to a significant overhaul of the allocation framework for FCSs.²³ The revised allocation framework integrates the evolving thinking on fragility, as reflected in the 2011 WDR and the New Deal process, and links considerations of enhanced support with operational effectiveness and maintaining performance incentives. The section is structured in three sub-sections. Sub-section A discusses the general principles that should underpin the framework for allocating IDA resources as well as the principles that are specific to FCSs. Sub-section B presents an analysis of the current allocation framework focusing on the exceptional allocation regimes for PC and RE countries which, to date, constitute the main vehicles for IDA's enhanced support to FCSs. Finally, in light of the discussions in the two previous sections, sub-section C presents the revised allocation that Management proposes for implementation in IDA17.

A. Principles that Should Underpin the IDA Resource Allocation Framework

31. **In assessing the merits of the proposed allocation framework, a number of guiding principles have been identified.** Engagement with FCSs, as a constituency within IDA, requires that the principles underlying the resource allocation framework adequately support the achievement of IDA's over-arching poverty reducing objective while, at the same time, addressing the specific challenges faced by FCSs.

32. **General principles.** The following general principles are being considered:

- *Effectiveness.* Resources should be allocated where they are likely to achieve the largest impact relative to IDA's poverty reducing objective.
- *Transparency.* Resources should be allocated based on clear rules that are understandable by the relevant stakeholders. Clear rules are important to avoid arbitrariness (actual or perceived) in the allocation process and/or the inclusion of considerations other than those agreed with stakeholders.
- *Responsiveness.* The resource allocation framework should be able to respond swiftly if warranted by changes in a country's circumstances.
- *Adequacy.* The resource allocation framework should allow for a meaningful level of engagement at the country level.

33. **Principles specific to FCSs.** Given the unique challenges specific to FCSs, the resource allocation framework should also rely on the following principles:

- *Timeliness.* As highlighted in the 2011 WDR, transition moments in fragile situations provide unique opportunities for engagement. The allocation framework should be able to provide timely support to help countries make the most of these opportunities.

²³ The development of the proposed framework benefited from extensive consultations with academia, other MDBs and think tanks. These included valuable exchanges in the context of the IDA working group on FCSs and discussions with other MDBs – bilaterally and in the context of the MDB working group on PBA systems.

- *Contextual.* The FCSs constitute a widely heterogeneous group with each country confronting unique challenges determined by history, natural resources and many other factors. This suggests that the allocation framework should incorporate flexibility to address contextual needs and avoid “one size fits all” solutions.

B. Current Allocation Framework for FCSs

34. **Current allocation framework.**²⁴ FCSs allocations are determined either through the regular PBA system or an exceptional allocation regime.^{25, 26} Under the regular PBA system, the key factor determining a country’s allocation is its performance as measured by its Country Policy and Institutional Assessment (CPIA) and its Portfolio Performance Rating (PPR).²⁷ The allocations to PC and RE countries are determined under exceptional regimes. Such regimes have been introduced in recognition that these countries face exceptional needs and challenges to fully rebuild their institutional and policy environment.

Chart 1: IDA’s Resource Allocation Framework¹

Country allocation = Base allocation + f(Needs, Performance)		
	Regular PBA system	Exceptional Regimes for PC and RE Countries
Allocated envelope ²	<i>IDA allocable envelope excluding notional envelope for exceptional regimes</i>	<i>Notional envelope for exceptional regimes</i>
Country Needs	<i>GNIpc and population</i>	<i>GNIpc and population</i>
Country Performance	$CPR = 0.24CPIA_{A-C} + 0.68CPIA_D + 0.08PPR$	$CPR = 0.8PCPI + 0.2PPR$
Functional Form	$f(CPR^5, GNIpc^{-0.125}, Pop)$	$f(CPR^2, GNIpc^{-0.125}, Pop)$
Grant discount	<i>20% grant discount</i>	<i>7% grant discount (PC countries) 20% grant discount (RE countries)</i>

Notes:

1/ IDA allocations are based on data for the calendar year immediately preceding the beginning of the fiscal year for which country allocations are calculated.

2/ The notional envelope allocated under the exceptional regimes is determined each fiscal year. It varies from year to year depending on the number of eligible countries and their notional country allocations (determined at the time of a country’s access to exceptional support based on the PCPI-per-capita allocation mapping agreed in IDA14).

3/ $CPIA_{A-C}$ is the average rating of CPIA clusters A to C, which assess macroeconomic and structural policies, and $CPIA_D$ is the rating of CPIA cluster D which assesses governance and public sector management and institutions.

35. **Exceptional allocation regimes for PC and RE countries.** The exceptional regimes for PC and RE countries aim at keeping the performance orientation principle while addressing the special circumstances faced by these countries. To achieve these objectives, modifications have been introduced to the allocation formula and the indicators used in the formula relative to the

²⁴ A description of IDA's current resource allocation framework is in Annexes 2 and 3 of the IDA16 MTR document “Progress Report on IDA Support to Fragile and Conflict-affected Countries.” These annexes provide details on the regular PBA system and the exceptional allocation regimes for PC and RE countries, respectively.

²⁵ Out of the 31 IDA-eligible countries currently considered as FCSs, 3 are inactive, 18 have their allocations determined under the regular PBA system, 6 are under the exceptional PC regime, 3 are under the exceptional RE regime and Haiti is receiving exceptional support from the CRW (see Annex 1).

²⁶ Annex 3 presents the modalities used by other Development Banks to allocate their financial support to FCSs.

²⁷ For details on the method of calculation of the PPR and its use for allocation purposes see Annex 4.

regular PBA system (see Chart 1).²⁸ Most notably, under the exceptional allocation regimes: (i) the quality of a country's policies and institutions is measured using the Post-Conflict Performance Indicators (PCPI), a set of indicators specifically tailored to the context of PC and RE countries;²⁹ (ii) the PPR carries a higher weight in the calculation of the country performance rating (20 percent as opposed to 8 percent under the regular PBA system); and (iii) the allocation formula has a greater poverty orientation than the one for the regular PBA system (the country performance rating has an exponent of 2 as opposed to 5 under the regular PBA system).

36. The exceptional allocation regimes have proven to be a useful tool for engagement in PC and RE countries. They have allowed the provision of timely financial support to eligible countries beyond what would have been provided under the regular PBA system (see Chart 2).³⁰ Such exceptional support has been granted based on clear criteria governing country eligibility, level of support, duration and the phasing out to the regular PBA system. At the same time, the framework for exceptional support under these regimes recognizes the need for flexibility in addressing the complexities and heterogeneity of FCSs (e.g., determining a country's allocation for the first year of eligibility under the exceptional windows).³¹ Additionally, the exceptional regimes – as currently designed – present some features that make them attractive relative to alternative structures (see Box 3).

Box 3: Exceptional Regimes: How Do They Compare to a Set Aside?

The framework for allocating resources under the existing exceptional regimes PC and RE countries presents several advantages when compared to the alternative of setting aside resources for FCSs during a replenishment period. In the context of this paper, the most relevant ones are that the exceptional allocation regimes:

- provide for a dynamic framework that has more flexibility than a set aside for responding swiftly to changing country circumstances (e.g., inclusion of newly eligible countries –as the envelope allocated under the exceptional regimes is determined on a yearly basis– or changes in country performance –as the yearly envelope is distributed across countries using indicators lagged by one year at most), in particular in the context of establishing a link between allocations and country performance;
- minimize the country-level impact of enhanced support to newly eligible countries (the “cost” of increased support for newly eligible countries is distributed across the entire IDA clientele instead of being exclusively assumed by the limited number of fragile countries eligible for exceptional support in a set aside); and
- make the overall support under these regimes more resilient to changes in donors' support due to the link between the size of the notional envelope and the size of the replenishment.

At the same time, set asides could play an important role in addressing situations where significant needs need to be addressed in a one-off basis (e.g., crisis response or arrears clearance) or when promoting special considerations (e.g., regional integration).

37. Evidence also suggests that the principles, criteria and signals underpinning the exceptional regimes for PC and RE countries have been a successful tool to identify stronger performers. Countries that benefited from PC exceptional allocations during the period FY06 to FY13 had an average yearly increase in their CPIA scores of 0.013 (see Chart 3). Countries receiving RE allocations experienced average CPIA score increases of 0.07 per year.

²⁸ Annex 5 presents a numerical illustration of how the current exceptional allocation regimes work.

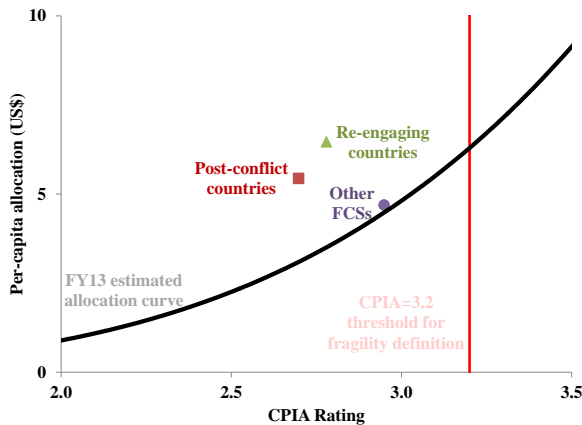
²⁹ For a detailed description of the PCPI framework see Annex 6.

³⁰ As seen in Chart 2, the exceptional regimes are estimated to have channeled about 80 percent more resources than what the eligible countries would have received under the regular PBA system (represented by the curve).

³¹ Most recently, this flexibility has been used in the cases of South Sudan and Myanmar (the latest countries to have been granted access to the exceptional allocation regimes – for PC and RE countries, respectively).

While these improvements are largely associated with low starting points, the rates of improvement are much higher than those FCSs that did not receive exceptional allocations (for which CPIA scores decreased on average by 0.01 per year over the same period of analysis). Furthermore, countries like Haiti, Liberia, Timor-Leste and Togo – which are/were eligible for support under these exceptional regimes – experienced improvements larger than most of the countries that moved out of the FCS group during the same period. While this does not imply causation, it suggests that – in most of the cases – the exceptional allocations were directed at strong reformers.

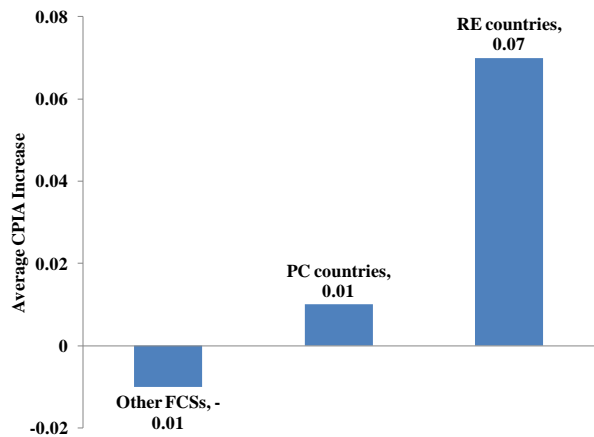
Chart 2: FY13 IDA Allocations to FCSs



Notes:

- 1/ Excludes countries with allocations determined solely by the minimum base allocation.
- 2/ The FY13 allocation curve is estimated based on allocations under the regular PBA system.

Chart 3: Recent Progress in Policy and Institutional Reform in FCSs (FY06 to FY13)



Notes:

- 1/ Figures reflect the average annual change in CPIA scores over 2004-12.

38. **Nevertheless, the exceptional allocation regimes for PC and RE countries have some shortcomings vis-à-vis the current understanding of fragility and conflict.** These regimes were structured around the conflict/post conflict paradigm under which countries were assumed to follow a linear transition from violence to peace (i.e., end of conflict followed by a short post-conflict phase leading to peace). Accordingly, the duration of the exceptional support for PC and RE countries was set in IDA15 at 10 and 5 years, respectively. As shown in the 2011 WDR, the path out of fragility is often very long and non-linear, with countries experiencing periods of progress interrupted by cycles of repeated violence and instability. While this was partially captured in IDA16 by the case-by-case extension of the phasing out periods, the exceptional PC and RE regimes do not fully address the long term, slow pace, and high risk process of peace and institution building in a fragile environment. Furthermore, the provision of enhanced support is limited to countries that have experienced extensive violence (i.e., PC countries) or accumulated significant arrears (i.e., RE countries). This constrains IDA’s capacity to provide decisive support to countries that do not fall into these categories but are experiencing openings for policy and institutional reforms that could help them avoid/exit fragility traps. Yet, the 2011 WDR shows that cycles of low level violence and/or partial state collapse can have an impact just as devastating as an all-out war and urges international community to provide quick and decisive support to help governments and stakeholders make the most of opportunities for reform.

39. **Finally, as pointed out at the IDA16 MTR discussions, barring any adjustment to the current allocation framework, the allocations to FCSs would decrease in future replenishments.** Assuming the same replenishment volumes as in IDA16, the total allocations to FCSs would decline from 14 percent in IDA16 to 12 percent in IDA17.³² This decline, which reflects mainly the phasing out from the exceptional allocation regimes to the regular PBA system, is expected to continue in later replenishments.

C. Proposed Allocation Framework for IDA17

40. **This section presents the revised allocation framework that Management proposes for implementation in IDA 17.**³³ Building on the options presented at the IDA16 MTR and the feedback received from Participants, the proposed framework would provide enhanced financial support to FCSs by: (i) providing exceptional support to countries facing “turn-around” situations; and (ii) increasing the overall poverty-orientation of the regular PBA system. In addition, the proposed framework includes additional measures which would ensure a meaningful level of engagement in client countries.

41. **Implementing the proposed framework would lead to a comprehensive overhaul of the allocation system.** Building on IDA's implementation experience and feedback from Participants at the IDA16 MTR, the revised framework would consolidate the strengths of the current allocation system while addressing its shortcomings in responding to opportunities emerging in “turn-around” situations, including but not limited to PC and RE situations. The new allocation framework would result in increased efficiency, transparency and timeliness in the provision of IDA support. The specific criteria and parameters guiding the implementation of the proposed framework will be discussed in the context of second meeting for the IDA17 replenishment. A final decision on such parameters will need to take into consideration several factors, including trade-offs (which are illustrated in a separate section in this paper on the basis of two indicative scenarios) and the size of the replenishment.

C.1. Provision of exceptional support to countries facing “turn-around” situations

42. **At the IDA16 MTR, many participants expressed interest in further exploring the possibility of providing exceptional support to countries undergoing “turn-around” situations and requested further elaboration of this option.** To address this request, this section elaborates on the analytical underpinnings for the provision of such exceptional support, which is based on the current thinking on fragility. It also presents the objectives that are pursued through its provision. In addition, it elaborates on the definition of “turn-around” situations and the criteria and parameters that could guide the identification of and provision of exceptional support to countries confronted by “turn around” situations. Finally, it spells out a decision process that could guide the provision of such exceptional support.

43. **Recent research has added new dimensions to the understanding of aid effectiveness in the FCSs context.** The 2011 WDR presents a framework for moving out of fragility centered on restoring confidence and transforming institutions. This process, which can take a generation,

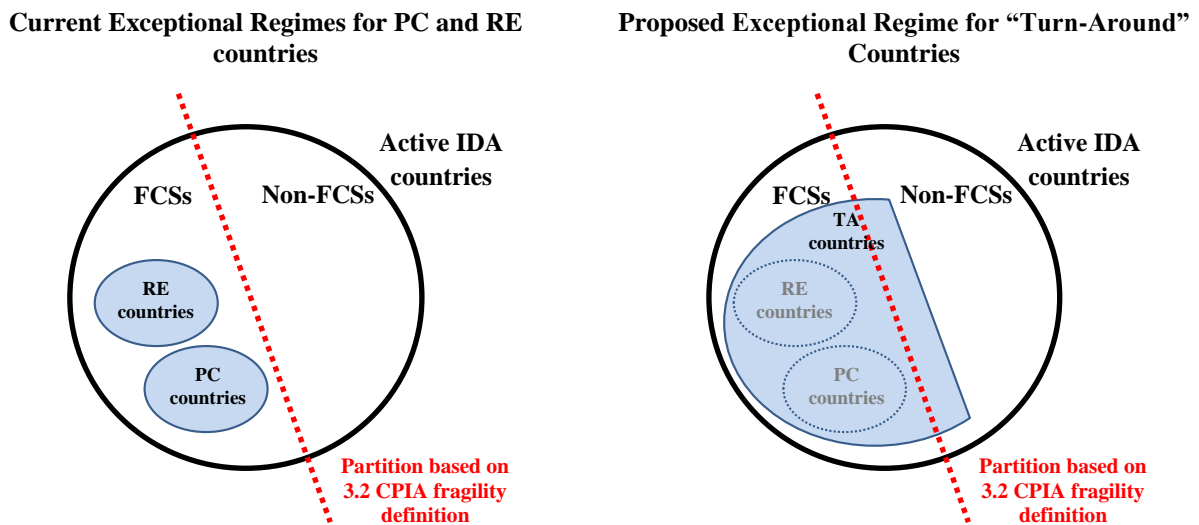
³² For IDA16, the figure refers to resources allocated through the regular PBA system and exceptional allocations for PC and RE countries plus the IDA16 Crisis Response Window (CRW) support for Haiti.

³³ The adjustments in this section refer to the modalities for allocating the IDA country allocable envelope. They do not apply to the allocation of resources under the Regional Operations Window, the Crisis Response Window or the Systematic Approach to Arrears Clearance, which are dealt with separately.

involves the seizing of opportunities for change at critical moments. The 2011 WDR emphasizes that the actions to be taken at such junctures should be nationally led, but also points out the important role that adequate support from international actors could play in mitigating external stresses that could derail the process. Recent research also highlights the phenomenon of fragility traps. This strand of research argues that well-targeted and well-delivered aid can play an important role in helping countries switch out of fragility traps to a more positive equilibrium of strengthening of institutions and higher growth.

44. **The main objective of the proposed exceptional regime for “turn around” countries is to set up a simplified mechanism for the provision of enhanced support in line with the current understanding of fragility and conflict.** Going forward, this new regime would be the main mechanism to provide enhanced support to countries facing fragility, including new PC and RE countries. A criticism of the current allocation framework is that it follows a piece-meal approach for addressing conflict and fragility. This has contributed to the perception of the current framework as being complex, opaque and prone to arbitrariness. The adjustment proposed in this section moves away from a discrete treatment of fragility (see Chart 4).³⁴ Instead, it acknowledges that conflict and fragility take many forms along a continuum and that all of their forms can have a severe human and developmental impact. The proposed exceptional regime creates a single mechanism that focuses on identifying circumstances that suggest that a “turn-around” is possible and on modulating the level of assistance along the fragility continuum. In doing so, the adjustment would enhance IDA’s capacity to provide timely and adequate support to help countries seize the opportunities presented at critical junctures on their path out of fragility. Finally, it would give IDA increased flexibility to respond to the longer timeframes required for restoring confidence and building institutions.

Chart 4: Comparison of Current Exceptional Regimes and the Proposed Exceptional Regime for “Turn-around” Countries



Notes:

1/ The shaded regions represent the countries under the current exceptional regimes for PC and RE countries and those that could benefit from enhanced support under the exceptional regime for “turn-around” countries.

³⁴ Annex 8 compares the framework for exceptional support to “turn-around” countries with the exceptional regimes for PC and RE countries.

45. **Relative to the current exceptional regimes for PC and RE countries, the proposed exceptional regime for “turn-around” countries would:** (i) provide IDA with a vehicle for enhanced support to countries confronted with a “turn-around” situation and are committed to reform, even if they have not experienced major conflict or accumulated arrears; and (ii) allow the possibility for IDA to provide enhanced support to countries not formally classified as FCSs under the current definition of having a CPIA score below 3.2, thus mitigating threshold effects associated with this definition.

46. **The exceptional regime for “turn-around” situations aims at strengthening the allocation system on several other fronts:**

- *Effectiveness:* by allocating resources to those countries where there is the greatest potential for impact, as evidenced by improved policies and institutional reform as well as by progress in portfolio implementation.
- *Responsiveness:* to opportunities for significant policy and institutional reforms.
- *Transparency:* by using streamlined processes.
- *Build on past experience:* in particular, the implementation experience of the exceptional regimes for PC and RE countries highlights that clearly defined criteria (for eligibility, duration, graduation and level of support) combined with flexibility are crucial for channeling enhanced support in a timely manner. It also highlights that the paths out of fragility can vary significantly from country to country.
- *Alignment with the New Deal:*³⁵ elements currently under development as part of the New Deal process (e.g., fragility assessments, state- and peace-building indicators) could be incorporated in the framework laid out in this section.

47. **Definition.** Given the complexity of fragility and conflict, a single definition cannot fully capture all possible aspects of a “turn-around” situation nor would it be desirable. For the purpose of designing an exceptional regime for countries facing “turn-around” situations, a “turn-around” situation could be defined as a critical juncture in a country’s development trajectory marked by: i) the cessation of an ongoing conflict (e.g., interstate warfare, civil war or other cycles of violence and/or partial state collapse that significantly disrupt a country’s development prospects); or ii) the commitment to a major change in the policy environment either following a prolonged period of disengagement from Bank lending (i.e., re-engaging countries) or a major shift in a country’s policy priorities.³⁶

48. **Eligibility.** The methodology for identifying countries eligible for exceptional “turn-around” support could use principles, criteria and signals similar to those that have made the exceptional allocation regimes for PC and RE countries successful tools for selective engagement. Countries requesting exceptional “turn-around” support could be deemed eligible through a two filter approach:

- **Filter 1.** This filter aims at limiting access to exceptional support to countries where there is evidence that conflict and/or collapse of the state has had a significant impact on

³⁵ See Annex 7 for details on the New Deal and the status of the Peace and State Building Indicators.

³⁶ The 2011 WDR defines “transition moments” as events that make new efforts to prevent or recover from violence possible. These can involve space for deep and wide-ranging change (e.g., the end of a war, a deep national crisis) or more limited change (e.g., a new governmental reform plan, negotiations or coalition-building between different actors in society). The proposal for providing exceptional support to “turn-around” countries would aim, albeit not exclusively, at events falling in the former category rather than in the latter one.

the country's institutional and policy framework as assessed under the PCPI framework and, where relevant, evidence of conflict intensity. Countries with a PCPI score greater than a pre-established level (e.g., 5.5 of a range from 1 to 6) could be, in principle, ineligible for exceptional "turn-around" support.³⁷ Use of the PCPI, which is currently used to assess only PC and RE countries, would provide a common metrics for measuring the quality of policies and institutions for all "turn-around" countries.

- **Filter 2.** This filter aims at establishing evidence that potential candidates are: (i) facing a "turn-around" event (defined in paragraph 47); and (ii) committed to take the steps necessary to make the most out of that situation (e.g., avoid conflict, identify and address the drivers of fragility and conflict). This filter could be modeled based on Operational Policy 2.30 and other criteria currently used under the exceptional regimes for PC and RE countries. Specifically, under filter 2, evidence would need to be provided of:
 - a. a reasonable expectation of continued stability;
 - b. an effective counterpart for the Bank;
 - c. strong international support for a strong and inclusive national plan for turnaround/transition and the potential for a well-defined role for the Bank;^{38,39} and
 - d. satisfactory early performance as demonstrated, for example, by strong country portfolio performance or by the country having taken convincing steps towards social and economic recovery.⁴⁰

For countries emerging from conflict, it would be expected that active conflict has diminished sufficiently to allow implementation of IDA-supported activities, including by a reasonable expectation of a formal cease-fire.⁴¹

Credible signals for these conditions could be identified, among others, through assessments performed by Bank country teams, the CPIA and PCPI exercises, the tracking of peace-building and state-building indicators being developed under the New Deal, country-led fragility assessments, and in transitions results frameworks and compacts signed onto by government and development partners.

³⁷ As pointed out in Annex 6, the latest round of revision of the PCPI framework established a more explicit link between CPIA and PCPI whereby there is a broad correspondence between PCPI scores of 5.0-6.0 and CPIA scores of 3.0-3.5. This relationship, however, should be understood as indicative only, given that the contents of the two sets of criteria do not fully overlap.

³⁸ Support from the international community could be demonstrated through donor conferences, alignment of a Post-Conflict Needs Assessment (PCNA) to the national plan and/or New Deal compacts.

³⁹ An inclusive national transition plan would reflect a nationally owned process of widespread consultation, through national dialogues, stakeholder consultation and an inclusive political process – "a country led assessment involving key national stakeholders and non-state actors on the causes and features of fragility and sources of resilience..." (New Deal document).

⁴⁰ This criterion, however, would need to be applied flexibly as it may preclude/limit the provision of enhanced financial support to post-conflict countries (where portfolio implementation has been disrupted by the conflict), inactive countries (where there is no active portfolio) or other countries with poor portfolio implementation where reforms undertaken in "turn-around" situations could lead to a qualitative change in project implementation.

⁴¹ Examples of conflict reduction could include a reduction in the actual incidence of violence (measured in violent deaths, including battle deaths, civilian deaths and/or violence by non-state actors, or destruction), demonstrable and voluntary returns of displaced persons or other efforts to avoid violence, including truth and/or reconciliation campaigns, signing of ceasefire or other peace agreements, security sector reforms and commitment to demobilization, disarmament and reintegration programs.

49. **Duration/Exit.** Paths out of conflict and fragility vary significantly by country, suggesting that not all countries will follow a similar transition period. Thus, the exceptional allocations for “turn around” countries would not involve a pre-established “phase-out” period. Rather, because the exceptional “turn-around” allocations would be intended to provide support for a national plan associated with a particular transition moment, their length could be set years from the outset for the duration of the national plan (2 to 3 years). At the end of the period covered by the national plan, and if the transition process is successful (as demonstrated through tracking of the PCPI, indicators associated with peace-building and state-building goals and other indicators) the country could potentially re-apply for further exceptional financing. Decisions on renewed enhanced support would be case-by-case based on the two filter eligibility framework and the decision making process described below. Countries that have not demonstrated progress in their transition (as evidenced, for example, by stagnant or decreasing PCPI scores or other indicators) would not be eligible to re-apply for exceptional support until conditions change and a new fragility assessment is undertaken.

50. **The possibility of re-application, rather than pre-established “phase-out” periods, would increase IDA’s flexibility to respond to changing conditions in FCSs, including through the adequate calibration of allocation levels.** Furthermore, flexible timing would allow alignment of the exceptional “turn-around” support to national strategic planning, including Transition Results Frameworks associated with Post-Conflict/Post-Disaster Needs Assessments (PCNAs/PDNAs) or Joint Assessment Missions (JAMs), Poverty Reduction Strategies (PRSs) or CASs/ISNs. Finally, relative to the current exceptional regimes for PC and RE countries, a re-application process would allow for a quicker return to the regular PBA system if countries cannot demonstrate progress in their transition process.

51. **Resource allocation process.** Building on IDA’s implementation experience, the proposed allocation process could be streamlined while preserving positive features of the exceptional regimes for PC and RE countries (discussed in Box 3) and enhancing the role of the PPR in allocation decisions. In that regard, the exceptional allocations under the “turn-around” regime could be determined for new entrants as part of the yearly allocation exercise.⁴² Country allocations under the new exceptional regime would be equal to the eligible country’s per-capita allocation times its population. Several aspects are noteworthy:

- A country’s per capita allocation levels would be determined by Management (see paragraph below on the possible decision process) based on a matrix of notional maximum per capita allocations linked to PCPI and PPR levels that would be agreed with the Deputies in the course of the replenishment discussions.⁴³ Section III of this paper

⁴² Following the practice under the PC and RE regimes, there could be flexibility to include newly eligible countries between two annual allocation exercises. Allowing for this flexibility would lead to increased volatility in IDA allocations for all IDA-eligible countries. The increased volatility, however, would be limited as the “cost” for enhanced financing to newly eligible countries would be distributed among all IDA clients the fiscal year following the determination of eligibility.

⁴³ The heterogeneity of FCSs situations and the various types of turn-around situations they could be confronted to suggest that the determination of per-capita country allocations cannot rely solely on the use of such a matrix and that there should be room for qualitative judgment to consider country-specific circumstances, including the level and duration of the exceptional support already provided by IDA. In general, however, it would be expected that – subject to absorption capacity considerations – only countries with the greatest needs (e.g., post-conflict countries) will have per-capita allocations close to the notional maximum levels set up in the matrix. Per-capita allocations for all other countries should normally be lower (a rule of thumb could be for per-capita

illustrates the impact and trade-offs associated with this proposal under two indicative scenarios for the notional maximum per-capita allocations, namely: i) levels twice the current ones for the exceptional regime for post-conflict countries (as per the scenario presented in the IDA16 MTR paper), and ii) levels 50 percent higher than the ones under the current ones for the exceptional regime for post-conflict countries.

- Including the PPR in the matrix of notional maximum per-capita allocations would be a new feature relative to the current exceptional regimes. It reflects recent experience showing that, with adequate government commitment and IDA support, portfolio performance in FCSs can improve. It will capitalize on recent improvement in portfolio performance (as well as improvements that could result from implementing the Bank's modernization agenda for FCSs) and enhance the incentives for portfolio performance.
- As illustrated in Annex 8, this process would greatly simplify the calculation of exceptional allocations relative to the current exceptional regimes for PC and RE countries and enhance the transparency of the allocation system.
- Finally, under the exceptional regime for “turn-around” support, country allocations could be revised as part of the re-application process (see paragraphs 49 and 50). This feature would allow for modulating the level of exceptional support to ensure a timely and smooth transition to the regular PBA system (by factoring in, among others, the level and duration of the exceptional support already provided to a country).

52. **Given the acute need for resources that some countries could experience during the initial response to a “turn-around” situation, higher allocations could be considered during the first year of eligibility for exceptional support.** Such decision, however, would be warranted by special circumstances (e.g., in cases where the conflict has been extremely destructive, but where the government’s capacity to implement a comprehensive recovery program has remained strong).

53. **Decision process.** The framework for exceptional support to “turn-around” countries should involve a transparent and robust decision making process. The decision process could follow a two-stage approach, similar to that for the allocation of exceptional support under the CRW. Specifically:

- **Step 1.** Bank Management would inform IDA’s Executive Directors of its intention to grant eligibility to a country shortly after a “turn-around” situation. Bank Management would assess the adequacy of providing “turn-around” support to a country based on:
 - An analysis by Bank staff.
The analysis would need to demonstrate that providing exceptional “turn-around” support to a country is in line with the regime’s stated objectives and eligibility criteria. In particular, it would need to demonstrate that the country is confronted to a “turn-around” situation, provide evidence of the country’s commitment to reform and outline the consultations undertaken with other international partners, as appropriate. It would also need to demonstrate the compatibility of providing the exceptional support with other Bank policies, procedures and other requirements applicable to the beneficiary country (e.g., those applicable to countries emerging from conflict, to re-engagement in inactive countries). Finally, the analysis would need to propose, and substantiate, the parameters for

allocations to countries in this category to be around half the maximum notional levels, as per current practice under the exceptional regime for RE countries).

the provision of exceptional support (as per the framework agreed with the Deputies) and the indicators –as well as guideposts– that would be used to monitor the country’s progress in its transition.

- The beneficiary country agreeing to and commencing implementation of a reform program endorsed by the Bank.
- **Step 2.** The Executive Directors would be informed of a country eligibility decision as part of CAS/ISN discussions or at the next operation for the country.

54. Chart 5 provides an indicative illustration of how the process for the provision of exceptional support for “turn-around” countries would work.

55. The exceptional “turn-around” regime would address all future cases of enhanced IDA support; there are, however, 9 countries with allocations currently determined under the exceptional PC and RE regimes.⁴⁴ It will be important to ensure that these countries have a smooth transition from these regimes to the regular PBA system or, if warranted, to the proposed exceptional regime for “turn-around” support. Several considerations are relevant when addressing this issue. These include: (i) preserving the integrity of the new exceptional “turn-around” regime; (ii) alignment of treatment vis-à-vis the upcoming cases for enhanced support (the treatment of which would be addressed under the exceptional “turn-around” regime); and (iii) aligning incentives to support these countries’ progress out of fragility and conflict.^{45, 46} In light of the above, it would be important to create space for these countries to align themselves with the eligibility criteria of the exceptional “turn-around” regime with due process and at an appropriate pace. This would be achieved by implementing two interim measures: (i) a case-by-case extension of the phasing out period for the duration of IDA17;⁴⁷ and (ii) align the level of support to these countries with the support that would be provided to countries under the exceptional “turn-around” regime. The exceptional PC and RE regimes would be discontinued by the end of IDA17 with exceptional regime for "turn-around" countries remaining as the only vehicle for enhanced IDA support thereafter.

⁴⁴ Afghanistan, Burundi, Central African Republic, Côte d’Ivoire, DRC, Liberia, Myanmar, Togo and South Sudan. With the exception of Côte d’Ivoire, Liberia, Myanmar and South Sudan, all of the above countries are scheduled to return to the regular PBA system at the end of IDA16 as they reach the end of the agreed phase out periods. Côte d’Ivoire and Liberia would be in a similar situation at the end of IDA17.

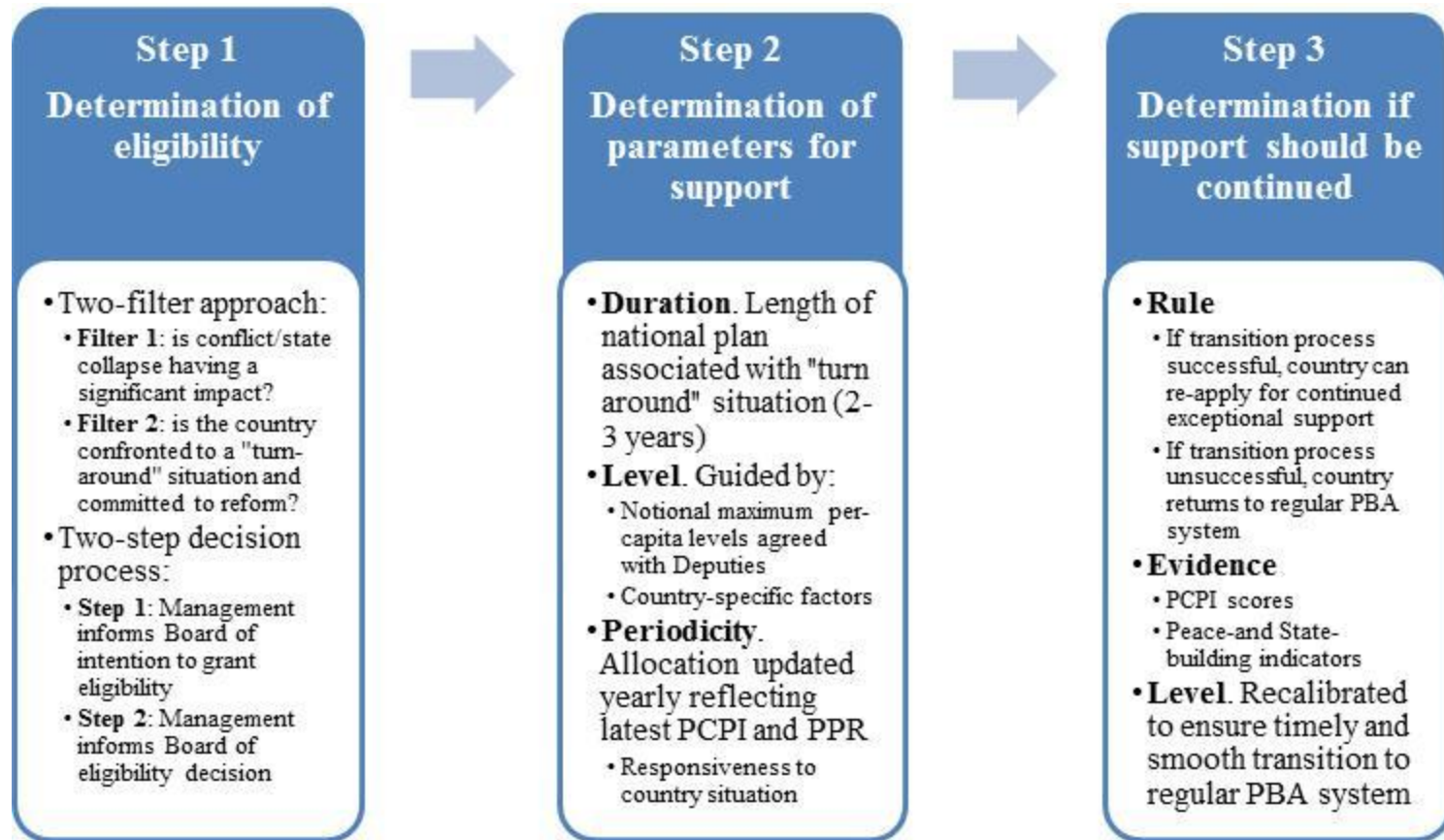
⁴⁵ In particular, it will be important to avoid creating undue pressure on countries to align themselves with the elements underpinning the exceptional regime for “turn-around” support (e.g., countries could privilege speed at the expense of due process and quality in the preparation of fragility assessments).

⁴⁶ At the same time, the allocation framework should have incentives for these countries to move to the new - more comprehensive - framework for "turn-around" countries (if warranted by these countries' meeting the eligibility requirements). In this regard, the fact that - for most of these countries - the IDA17 years would be the last ones in their phasing out period would lead to allocation levels lower than what they could receive should they qualify for exceptional "turn-around" support, thus aligning the financial incentives with supporting an eventual shift towards a more comprehensive treatment of fragility.

⁴⁷ This case by case extension of the phasing out period could be based on the criteria agreed in IDA16, namely: (i) limited economic status and financing options, measured by GNI per-capita lower than the IDA operational cutoff or lack of access to IBRD financing; (ii) presence of clear factors slowing down the transition, most notably a resurgence or continuation of conflict in parts of the country, measured by the presence of UN Security Council mandates for peace-keeping forces (with the exclusion of border monitoring missions); and (iii) PPR, averaged over the last three years, of at least 3.0. Decision rule was: the phase out period is extended if the country meets (i) and at least one among (ii) or (iii).

Chart 5: Possible Process for the Provision of Exceptional “Turn-around” Support

Process



Comments

- Management assesses adequacy of providing “turn-around” support based on:
- An analysis performed by staff demonstrating that providing exceptional “turn-around” support is in line with the window’s objectives and eligibility criteria.
 - The country agreement to and commencing implementation of a reform program endorsed by the Bank.

The terms of exceptional “turn-around” support will follow the rules agreed with donors in the context of the replenishment discussions.

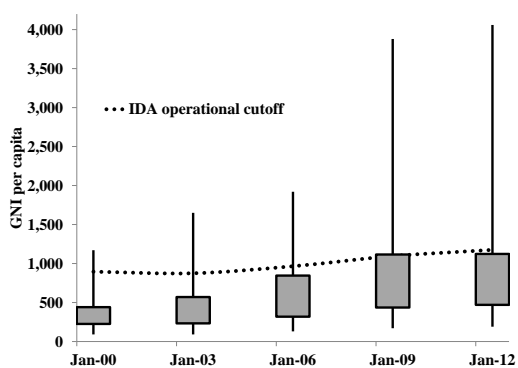
- The country's progress in its transition will be monitored based on indicators and guideposts detailed in the staff analysis prepared at the eligibility stage.
- A country's re-application will be based on a new fragility assessment.

C.2. Increasing the poverty-orientation of the regular PBA system

56. **At the IDA16 MTR several participants expressed interest in increasing the poverty orientation of the regular PBA system and requested further elaboration of this option.** This section elaborates on the objectives of this element of the Management proposal, its analytical underpinnings and the different modalities that could be followed to increase the poverty orientation of the allocation system with their pros and cons.

57. **Increasing the poverty orientation of the regular PBA system, while not based exclusively on considerations of fragility, will allow for an increased IDA engagement in the broader group of FCSs.** This is a response to the increase in the number of IDA countries with Gross National Income (GNI) per-capita levels above the IDA operational cutoff and the increased revenue dispersion among IDA countries (see Chart 6). In general, countries with high GNI per-capita are receiving more support –on a per capita basis– than the other IDA countries as they tend to have stronger performance (see Chart 7) and have access to other financing options (included as blend IBRD-IDA countries), reflecting their improved economic circumstances. In that context, a stronger poverty orientation of the IDA allocation system - while retaining the underlying performance-driven framework- may be warranted. The high concentration of FCSs at the lower end of the income scale means that any increase in the poverty orientation of the IDA allocation framework would direct more resources to most FCSs. It should be noted, however, that this measure would also result in a redistribution of resources within non-FCSs as illustrated in the section on implications and trade-offs.

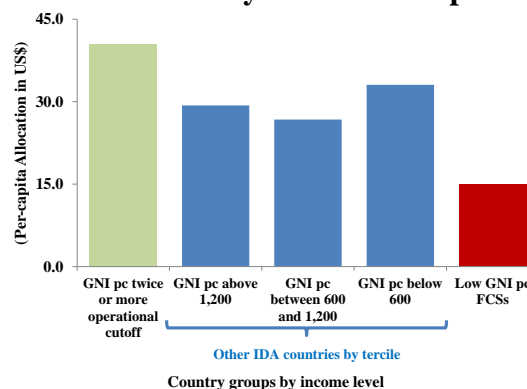
Chart 6: Recent Evolution of GNI Per-capita in IDA-only Countries



Notes:

1/ Figures reflect the income distribution for IDA-eligible countries at the mid-point of a replenishment period. The shaded box represents the inter-quartile interval. Solid lines connect the minimum and maximum values to the boxes.

Chart 7: Estimated IDA16 Per-capita Allocations by Income Groups



Notes:

1/ Exclude India and Pakistan (for which IDA allocations are capped), inactive countries and countries under the small islands exception.
2/ Countries in the categories of low GNI pc FCSs and GNI per-capita levels twice or more the operational cutoff exclude FCSs.

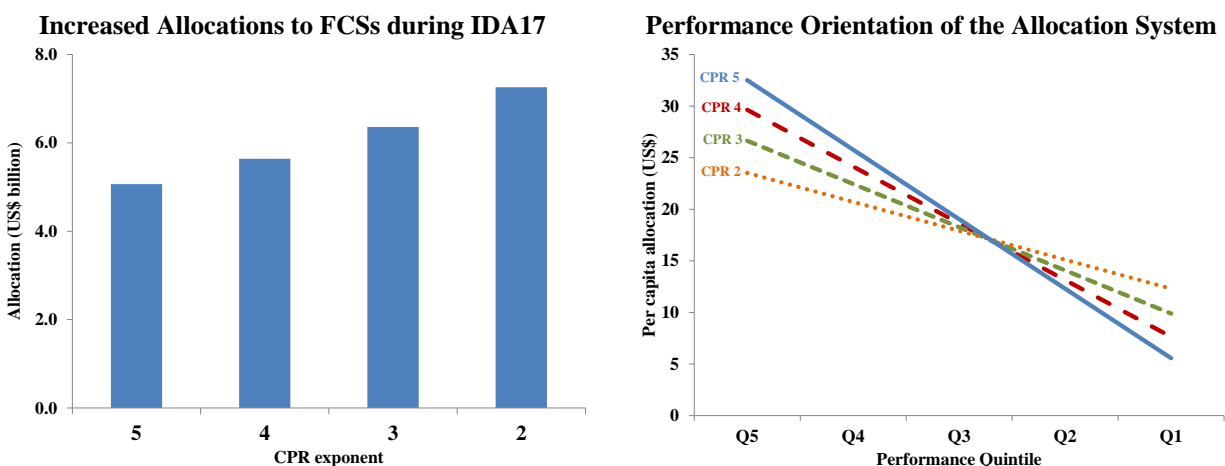
58. **In order to increase the poverty-orientation of the allocation system, Management proposes to reduce the CPR.** Chart 8 below shows the simulated impact on IDA allocations in overall allocation terms of changing the CPR exponent to different levels. The impact is presented in terms of the shifting of resources to FCSs (which would translate in a reduction of resources for non-FCSs) and the overall performance orientation of the allocation system (as measured by the CPR).⁴⁸ As expected, the lower the CPR exponent (i.e., the higher the poverty orientation of the system), the higher the shift in resources at the expense of a lower performance

⁴⁸ The distributional impact within the non-FCS group is discussed in the section on implications and trade-offs.

orientation. All other things equal, reducing the CPR exponent from its current level of 5 to 4 would provide close to US\$0.6 billion to FCSs while maintaining a fairly strong performance orientation in the allocation system. Lower levels for the CPR exponent would lead to higher shifts in resources to FCSs associated with a larger impact on the performance orientation in the allocation system.

59. **Increasing the poverty-orientation of the regular PBA system could create concerns regarding the effectiveness in the use of IDA resources.** These concerns would be related to the shifting of limited IDA resources from countries with stronger performance (as measured by the CPR) to those with lower performance, in particular to FCSs. As pointed out earlier in this document, however, recent empirical evidence, supported by the improvement in project performance in FCSs, suggests that there is room for reassessing the weight of the different elements in the allocation formula without necessarily having a negative impact on the overall performance of the IDA portfolio.⁴⁹ Much would depend on the Bank’s continued progress in strengthening operational effectiveness and the envisaged further shift in the substance and modes of delivery of Bank assistance to FCSs.⁵⁰ Furthermore, the reduction of the CPR exponent would provide larger relative incentives for performance improvement over time for countries at the lower end of the performance spectrum — most of which are FCSs with low per capita support from IDA. Details on alternative approaches to enhance the poverty orientation of the allocation system are provided in Box 4.

Chart 8: Impact of Modifying the CPR Exponent in the Allocation Formula



Notes:

1/ The performance orientation of the allocation system is illustrated in terms of per-capita allocation by performance quintile (as per CPR scores). Q5 is the top quintile and Q1 is the lowest quintile.

⁴⁹ Recent empirical analysis showed the importance of project-level factors (e.g., project design and investment in project implementation and monitoring) on project outcomes (“Good Countries or Good Projects? Macro and Micro Correlates of World Bank Project Performance” by C. Deniz, D. Kaufmann and A. Kraay, 2011). The recent evolution in IDA’s portfolio in FCSs supports these findings (as detailed in Section II above). Also, the research on “fragility traps” provides evidence that the productivity of aid in African FCSs is higher than that in non-FCS if that aid is used to help these countries escape the fragility trap.

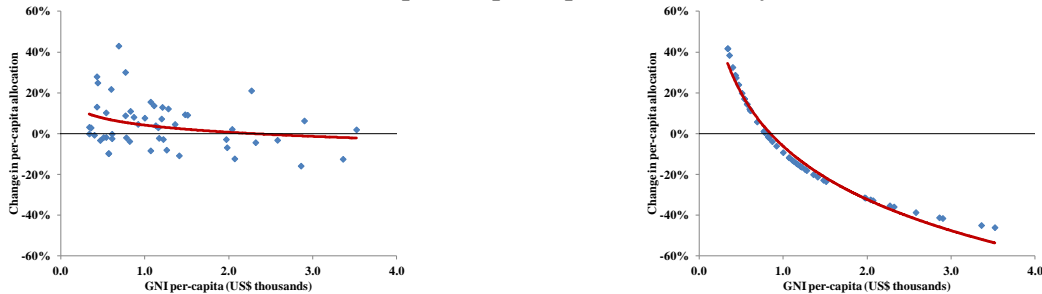
⁵⁰ This agenda for action has been reflected in the Bank strategy, Operationalizing the 2011 World Development Report, and further enhanced in the Bank’s recent Modernization Paper. As pointed out in Section II, this agenda includes more flexible staffing for FCSs programs to support clients on the ground, more flexible operational processes to better adapt to FCS contexts, and a more integrated World Bank Group approach to enhance employment and private sector development in FCSs.

Box 4: Options for Increasing the Poverty Orientation of the Allocation System

The current allocation formula provides two options for increasing the poverty orientation of the allocation system: (i) reducing the CPR exponent (Option 1);¹ or (ii) reducing the GNI per-capita exponent (Option 2). Staff simulations indicate that, on balance, Option 1 is superior to Option 2 as it provides a better balance between increasing financial support to FCSs, maintaining the performance orientation in the system, reducing volatility and limiting the impact at the country level. Below are the details of the assessment.

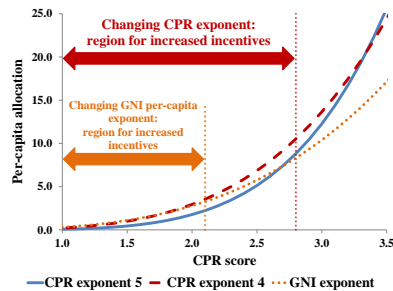
- **Redirecting resources to poorer countries.** Both options redirect resources to poorer countries (see Chart 1). This redirecting is unambiguous under Option 2, less so under Option 1. In particular, Option 1 could lead to reduced allocation for some poor countries with strong performance.

Chart 1. Impact on per-capita allocations by income level



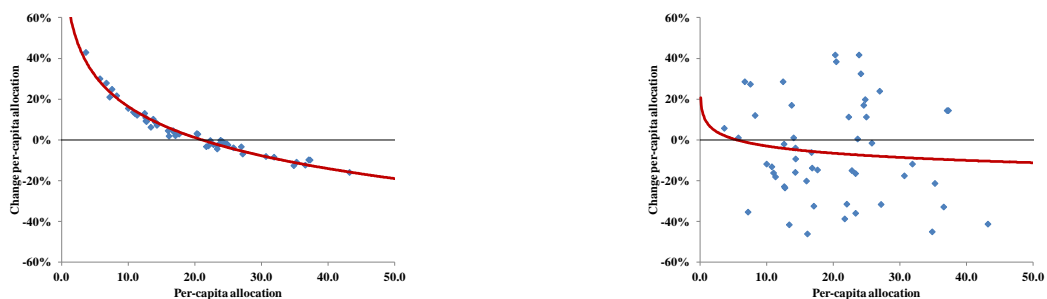
- **Volatility of allocations.** Option 1 reduces allocation volatility as it reduces the impact of CPR fluctuations. On the other hand, Option 2 increases allocation volatility as it amplifies the impact of GNI per-capita fluctuations.
- **Incentives.** Both options lead to an overall reduction in the performance orientation but increase performance incentives for low CPR countries. Under Option 2, however, the reduction in performance orientation is larger and the increased performance incentives reach fewer countries than under Option 1 (see Chart 2 below).

Chart 2: Performance orientation of the allocation system



- **Impact at country level.** Under Option 1, more countries benefit from allocation increases at the expense of fewer countries. In addition, under Option 1, countries benefiting (affected) from an allocation increase (reduction) tend to have low (high) allocations (see Chart 3). Also, changes in country allocations have a smaller dispersion under Option 1 (changes in per-capita allocations range from -16 percent to +43 percent under Option 1 and from -46 percent to +42 percent under Option 2). Thus, relative to Option 2, Option 1 benefits more countries at the expense of fewer countries and at a lower relative cost for affected countries.

Chart 3. Impact on country allocations



¹ Reducing the CPR exponent would also lead to a greater role of a country's population in determining its allocation. See paragraph 63 for further details.

C.3. Ensuring a Meaningful Engagement in all Countries

60. **A key principle underpinning the allocation system is that it should allow for a meaningful level of engagement at the country level.** This section discusses additional measures aimed at achieving that objective that would also simplify the allocation system and lead to increased allocations for several FCSs

Increase of Minimum Base Allocation

61. **As part of the current allocation system, IDA allocates a minimum of SDR3 million per year to each country irrespective of its performance** –the so called minimum base allocation.⁵¹ The minimum base allocation constitutes the bulk of IDA’s support for several small states, a number of which are FCSs.⁵² As shown in Table 1, the minimum base allocation represents on average 2.4 percent of IDA’s allocable envelope during IDA16. However, the minimum base allocation represents more than half the IDA allocations to the small states during the same period. The dependence on the base allocation is even greater for the small states in the FCSs group. For these countries, the base allocation represents an average of more than 70 percent of their indicative IDA16 allocation. This is because about half of the small states in the FCSs group have their IDA16 allocations comprised entirely of the minimum base allocation.

Table 1: Base Allocation as a Share of IDA16 Allocation

	Base allocation (share of total IDA allocation)
All countries	2.4%
Non- Small States	1.7%
Small States	51.9%
FCS	71.7%
Non-FCS	46.4%
Memorandum item	
FCS	7.0%
Non - FCS	1.8%

Notes:

Figures based on the indicative allocation for the IDA16 period reflecting the FY2013 list of fragile situations.

62. **The current minimum base allocation remains insufficient to support an effective country program in small states.**⁵³ Despite the doubling of the minimum base allocation

⁵¹ Countries with allocations fully determined by the minimum base allocation can effectively receive less than this amount if they are grant beneficiaries as the grant portion of the their allocation is subject to the volume reduction agreed with donors in the context of the grant allocation framework.

⁵² Twenty-three IDA-eligible countries are considered small states (<http://go.worldbank.org/QLCDU7B8T0>). This is equivalent to slightly less than 30 percent of the total number of IDA-eligible countries. Most of these countries are in the Pacific (9 countries), Africa (6 countries) and the Caribbean (5 countries). This group of countries differs greatly in terms of size, per-capita incomes and vulnerabilities. Eight of them are considered FCSs (Comoros, Guinea-Bissau, Kiribati, the Republic of Marshall Islands, the Federated States of Micronesia, Solomon Islands, Timor-Leste and Tuvalu).

⁵³ Small states are confronted by an array of challenges that limit their development prospects even when domestic policies are reasonable. This can be illustrated by the IDA-eligible Pacific Island countries, which are among the smallest, most remote and geographically fragmented in the world. While a number of these countries have relatively high GNI per-capita levels, they share most of the challenges of lower income countries. They typically have limited economic diversification, high infrastructure costs, a limited skill base, and weak institutions. Furthermore, they are: highly vulnerable to natural disasters (it is estimated that, on average,

agreed with donors in the context of IDA16 (and the already high levels of per-capita support to these countries), it is the view of Management that the current minimum base allocation remains insufficient to support an effective country program, in particular in those small states whose IDA allocations are entirely determined by the minimum base allocation. Based on available unit cost estimates for IDA countries (see Table 2), the current base allocation can only fund 11 kilometers of two-lane paved road, 5 km of rail road or 2,250 kilowatt of electricity generation. It is important to note that the unit cost figures in the table likely underestimate the costs confronted by small states which typically face higher infrastructure and service delivery costs, reflecting – among others – the higher costs of climate resilient development.

Table 2: Infrastructure Unit Costs Estimates

Sector	Unit	Unit Cost 1/ (US\$)	What the base allocation can buy
Electricity	Per kilowatt of generation capacity	2,000	2,250 kilowatt
Roads	Per kilometer of two lane paved road	410,000	11 kilometers
Railway	Per kilometer of rail	900,000	5 kilometers
Mainlines	Per line 2/ 3/	127-580	7,760 mainlines
Mobile	Per subscriber 2/ 3/	127-451	9,980 mobile lines

Notes:

1/ Source Yepes “Investment Needs for Infrastructure in Developing Countries 2008–15,” (2008).

2/ Estimated unit cost varies by region.

3/ Figures for mainlines and mobile lines estimated based on upper bound for unit cost.

63. **It should be noted that** –in addition to increasing the performance orientation of the allocation system– **lowering the CPR exponent would also lead to an increased role of population in determining a country’s regular PBA allocation.** This could result in reductions in the per-capita IDA allocation to countries with a smaller population to the benefit of those with a larger one. An increase in the minimum base allocation would protect an expanded segment of IDA’s clientele against this negative effect.

64. **In light of the above, Management proposes to increase the minimum base allocation from its current level of SDR3 million per year.** Increasing the minimum base allocation would have a significant impact for small states by ensuring a minimum "lifeline" without significantly impacting the overall performance orientation of the system or significantly changing the allocations for other countries.⁵⁴ With 81 IDA-eligible countries, an increase of the minimum base allocation by SDR1 million per year would only result in additional SDR243 million (equivalent to less than 1 percent of the IDA16 replenishment) being allocated outside of the regular allocation formula.

natural disasters cost these countries 1 percent of GDP per year - and much more in some countries), isolated from major markets and severely challenged by environmental stresses. These countries also tend to rely heavily on external assistance for the provision of even the most basic services and on external trade and foreign investment to overcome their scale and resource limitations, all of which increases their vulnerability to external economic and environmental shocks.

⁵⁴ Staff estimates indicate that a SDR1 million increase in the minimum base allocation would lead to an average increase in IDA’s allocation to small states by 20 percent, with some countries experiencing increases higher than 30 percent. This would be achieved at a relatively small cost for other IDA clients (less than 1 percent reduction in the allocation to the most affected countries).

Elimination of MDRI Netting Out

65. **As pointed out at the IDA16 MTR, implementation experience has shown that the MDRI netting out with 30 percent capping still negatively affects IDA's operational engagement in many countries.** The adverse impact is most pronounced in the FCSs and Sub-Saharan African countries that receive relatively low IDA allocations through the PBA regular system. This negative impact is projected to worsen overtime, while the net benefit continues to be concentrated in a few IDA countries that already receive relatively large allocations. In addition, the MDRI netting out has the unintended consequence of reducing the performance incentives in the PBA for some MDRI recipients. Finally, the current mechanism has introduced additional complexity in the PBA system in contrast to Deputies' objectives with regard to simplifying the PBA system and enhancing its transparency.

66. **During the IDA16 MTR, several Participants requested that the issue of eliminating the remaining MDRI netting out be considered further during the IDA17 replenishment discussions.** Many Participants acknowledged that the new mechanism still had negative consequences and that concerns of moral hazard for debt management were mitigated by the current PBA system and conditionality associated with the HIPC Initiative process. Some also noted that eliminating the netting out can be regarded as an element to improve the financing support to FCSs, while others questioned whether eliminating the MDRI netting out completely would undermine the equity of treatment principle and raise moral hazard concerns.

67. **The elimination of the MDRI netting out would benefit many FCSs and simplify the transparency of the allocation system.** In light of the spirit of the proposed package (which also aims at simplifying the resource allocation framework), consideration could be given to eliminate MDRI netting out. Therefore, if included in the package of measures to adjust and simplify the allocation framework for IDA17, the elimination of the MDRI netting out would further strengthen the support for FCSs and enhance the transparency of the allocation system.

C.4. Management Proposed Allocation Framework for IDA17

68. **In summary, Management proposes to adopt a revised allocation framework for IDA17.** The proposed framework builds on earlier analysis presented at the IDA16 MTR, feedback from stakeholders and further analysis presented in this paper. Collectively, implementing the proposed elements of this framework would result in an allocation system that responds to the principle of effectiveness in a way that: (i) preserves the principle of performance orientation; (ii) builds on IDA's implementation experience, including the need for striking a balance between rules and judgment; (iii) reflects the new understanding on fragility and conflict; and (iv) responds to the challenges and opportunities presented by the new landscape in IDA's client base. This would allow for swift IDA response to windows of opportunity in FCSs if warranted by country context. Finally, implementing the proposed framework would ensure that IDA is able to maintain meaningful country engagement.

69. **Specifically, the proposed framework consists of the following components:**

- i. setting up a comprehensive regime for exceptional support to countries facing "turn-around" situations. Starting from IDA17, this new framework will be used for all new cases calling for exceptional financial support from IDA;

- ii. increasing the poverty-orientation of the regular PBA system by reducing the CPR exponent; and
- iii. increasing the minimum base allocation.

70. If the MDRI netting out were to be eliminated as part of this set of measures, it would help further strengthen the support for FCSs and simplify the allocation framework.

71. **The decision on how much (i.e., the specific criteria and parameters) to increase the financial support to FCSs would need to take into account several factors.** Key among these are the size of the replenishment and the different trade-offs that would arise through the implementation of the new framework. The latter are illustrated in the section below under two indicative scenarios. Given the above, Management will seek a decision on the specific criteria and parameters guiding the implementation of the proposed framework in the context of second meeting of the IDA17 replenishment as part of the discussion of the “ask” and financing scenarios.

IV. IMPLICATIONS AND TRADE-OFFS

72. **This section illustrates the potential impact of implementing the proposed framework.** The illustrative figures in this section reflect a number of assumptions (see Annex 9); most notably, it is assumed that the IDA17 replenishment volume is the same as in IDA16 and that transitional support is provided to India in an amount equal to two-thirds of its IDA16 capped allocation. These figures will need to be updated as the key parameters of the replenishment –including those guiding the implementation of the proposed framework– are agreed upon. The potential impact of the package is illustrated in terms of increased financial support to FCSs and associated trade-offs under two indicative scenarios. These indicative scenarios differ, among others, in terms of the assumed level of exceptional support to “turn-around” countries.⁵⁵ Specifically:

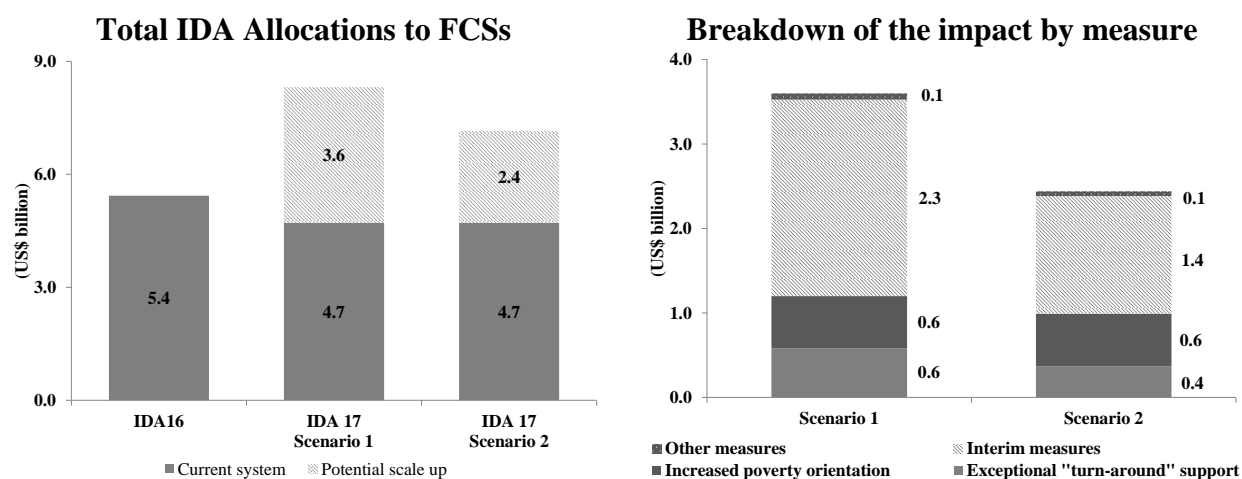
- **Scenario 1** assumes a level of support to “turn-around” countries double the notional per-capita levels agreed for PC countries in the context of IDA14 (i.e., a maximum per-capita allocation of US\$34.0). It also assumes that: (i) the CPR exponent is reduced from 5 to 4; (ii) the minimum base allocation is increased from SDR3 million per year to SDR4 million per year; and (iii) interim measures for the current PC and RE countries are implemented during IDA17 as per the framework described in paragraph 55.⁵⁶
- **Scenario 2** differs from Scenario 1 in that it assumes a level of support to “turn-around” countries 50 percent higher than the notional per-capita levels agreed for PC countries in the context of IDA14 (i.e., a maximum per-capita allocation of US\$25.5). All other assumptions remain the same as for Scenario 1.

⁵⁵ The estimates for exceptional “turn-around” support in this section are based on the working assumption that about a quarter of the IDA-only FCSs with GNI per-capita below the IDA operational cutoff (not currently under the PC or RE regimes) would qualify for such exceptional support. These estimates should be considered as highly preliminary, in particular given that (subject to meeting requirements and following the decision process detailed in the previous section) some countries currently under the exceptional PC and RE regimes and some non-FCSs could become eligible for exceptional “turn-around” support.

⁵⁶ As a working assumption it is assumed that all of the current PC and RE countries which are scheduled to exit these regimes by the end of IDA16 have their phase out period extended for the duration of IDA17. It should be noted, however, that – if implemented – such a decision will be case-by-case.

73. **The implementation of the proposed framework could lead to a significant increase in IDA’s financial support to FCSs.**⁵⁷ Implementing the proposed framework under Scenario 1 would lead to a 76 percent increase in IDA’s financial support to FCSs during IDA17 relative to what these countries would receive under the current allocation framework (see Chart 10). As a result, when compared to the current system, IDA’s allocation to FCSs during IDA17 would increase: from US\$4.7 billion to US\$8.3 billion; from 12 percent of the IDA allocable envelope to 21 percent; and from US\$12 per capita to US\$21 (see Table 3). Under Scenario 2, IDA’s allocations to FCSs in IDA17 would reach US\$7.2 billion, equivalent to 18 percent of the allocable envelope or US\$18 in per capita terms.

Chart 9: Impact of Implementing the Proposed Package



74. **Most of the estimated allocation increase for FCSs during IDA17 would accrue to countries currently under the exceptional PC regime.** These countries are estimated to account for about 66 percent of the total allocation increase to FCCs under Scenarios 1 and 2.⁵⁸ This reflects the combined impact of the assumed implementation of the interim measures targeting this group of countries and the increase (actual and assumed) in the number of countries eligible under this regime during IDA16. It is important to point out, however, that these figures should be considered as very tentative since several of the countries currently under the exceptional PC regime could exit it and be among the first beneficiaries of exceptional support under the “turn-around” regime.⁵⁹ It should also be noted that, given the temporary nature of these interim measures, the share of IDA support provided through both of the current exceptional regimes, for PC and RE countries, will decline over time while that under the exceptional regime for “turn-around” countries will become the sole instrument for channeling IDA’s exceptional support to FCSs starting in IDA18.

⁵⁷ The figures in this section reflect only the implications of implementing the proposed package in terms of IDA allocations. Implementing the proposed package will also have implications in terms of Bank budget. In particular, there could be a further shift of budget resources for project supervision and/or non-lending support from non-FCSs to FCSs with a related increase in security costs.

⁵⁸ As pointed out in paragraph 37, these countries – as a group – are among the FCSs that have experienced the fastest progress in recent years on policy and institutional reform.

⁵⁹ Four out of the seven New Deal pilot countries are countries that are benefiting from allocations under the exceptional PC regime. These countries could, depending on progress and meeting the eligibility requirements, have access to exceptional “turn-around” support.

Table 3: IDA17: Impact of the Proposed Package

	Allocation 1/ (US\$ billion)	Share of IDA envelope (percent)	Per-capita allocation (US\$)	Allocation 1/ (US\$ billion)	Share of IDA envelope (percent)	Per-capita allocation (US\$)	
Current System							
Non-FCSs	35.2	88.2	15.4				
FCSs	4.7	11.8	11.7				
Post-conflict	2.2	5.6	11.4				
Re-engaging	0.7	1.8	8.7				
Other FCSs	1.7	4.4	14.6				
Total	39.9	100.0					
	Scenario 1^{2/}			Change relative to Current System^{2/}			Relative change (percent)
Non-FCSs	31.6	79.2	13.8	-3.6	-9.0	-1.6	-10.2
FCSs	8.3	20.8	20.6	3.6	9.0	8.9	76.3
Post-conflict	4.6	11.6	23.5	2.4	6.0	12.1	105.8
Re-engaging	1.3	3.3	15.7	0.6	1.5	7.0	80.6
Other FCSs	2.4	6.0	15.8	0.6	1.6	1.2	36.7
Total	39.9	100.0					
	Scenario 2^{2/}			Change relative to Current System^{2/}			Relative change (percent)
Non-FCSs	32.8	82.1	14.3	-2.4	-6.1	-1.1	-6.9
FCSs	7.2	17.9	17.7	2.4	6.1	6.0	51.8
Post-conflict	3.9	9.6	19.6	1.6	4.0	8.2	71.3
Re-engaging	1.1	2.7	13.1	0.4	0.9	4.4	50.5
Other FCSs	2.2	5.6	15.7	0.5	1.2	1.1	27.2
Total	39.9	100.0					
<i>Memorandum item:</i>							
Percent increase in allocations^{3/}	Scenario 1^{2/}			Scenario 2^{2/}			
Post-conflict	66.1			65.7			
Re-engaging	16.1			14.9			
Other FCSs	17.8			19.4			
Small States	<i>Allocation</i> (US\$ billion)	<i>Share of IDA envelope</i> (percent)	<i>Per-capita allocation</i> (US\$)				
<i>Current System</i>	0.6	1.6	49.9				
<i>Scenario 1</i>	0.7	1.7	54.9				
Increase	0.1	0.2	5.0				
<i>Scenario 2</i>	0.7	1.7	55.9				
Increase	0.1	0.2	6.0				

Notes:

1/ Figures exclude transitional support for India.

2/ As a working assumption, exceptional support for “turn-around” countries is assumed to be delivered to countries that are not currently under the exceptional PC and RE regimes.

3/ Reflects the share of the increase in allocations (and in the proportion of the IDA envelope) to FCSs that would accrue to each FCSs category.

75. Implementing the proposed framework would also involve significant trade-offs that need to be considered when deciding the criteria and parameters of implementation. All other things equal, increasing IDA’s support to FCSs would lead to a dollar for dollar reduction in IDA’s support to non-FCSs. This shift in resources (US\$3.6 billion under Scenario 1 and US\$2.4 billion under Scenario 2) would mean a reduction of IDA’s program (in some cases significant ones) in countries with strong policies and institutions, some of which are among the poorest and most vulnerable in IDA’s client base. Nevertheless, it should be noted that the shift

in resources represents a much larger percent increase for FCSs, as a group, than it does as a percentage decrease for non-FCSs.⁶⁰

76. Implementing the proposed framework would also involve redistributions within the non-FCS group. These redistributions reflect the fact that some of the components in the framework are not based exclusively on fragility considerations. In particular, increasing the poverty-orientation of the allocation system would direct resources from non-FCSs with stronger performance (as measured by the CPR) to those with weaker performance, which would slightly reduce the overall performance orientation in the allocation system. Nevertheless, as pointed out in paragraph 80, the allocation system would still preserve the principle of performance orientation.

77. It is important to note, however, that – depending on criteria and parameters – the flow of resources under the proposed framework would go in the “right” direction (see Chart 1). The results under the indicative scenarios show that, on average, resources would go:

- from non-FCSs with relatively higher per-capita allocations to FCSs (most of which have low per-capita allocations) and non-FCSs with relatively lower per-capita allocations.
- from countries with relatively higher levels of human development (as per the Human Development Index – HDI) to those with lower levels of human development.
- from countries with a relatively lower risk to have their economic development progress disrupted by natural disasters or external shocks (as measured by the Economic Vulnerability Index – EVI) to countries where this risk is relatively higher.
- in a way that enhances IDA’s capacity to support a meaningful program in all countries, with only a small reduction in the level of resources allocated on the basis of performance considerations.

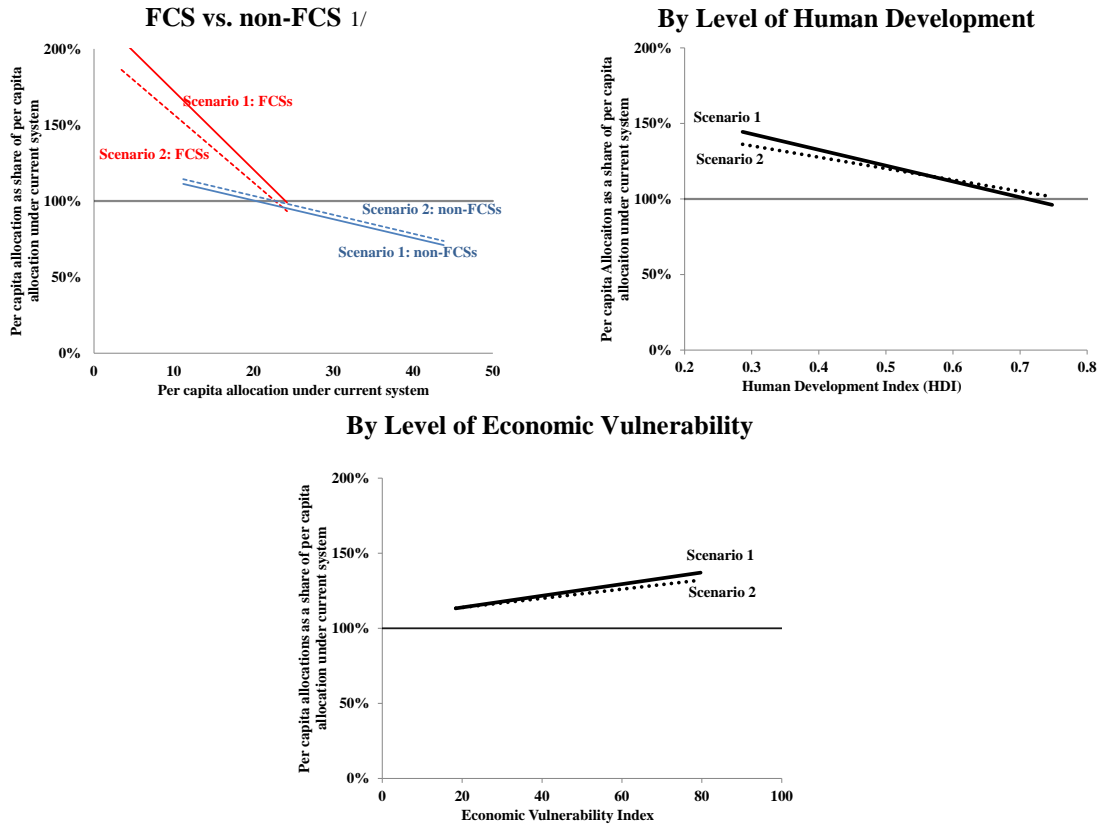
78. Potential trade-offs at the regional level will also arise but are expected to be manageable. Implementing the framework under the indicative scenarios would lead to an increase in the share of IDA resources to the Africa and Latin America and the Caribbean Regions (see Table 4 and Chart 12). For the Africa Region, the increase would range between 0.7 percentage points under Scenario 2 and 1.0 percentage points under Scenario 1. For the Latin America and the Caribbean region, the increase would be of about 0.6 percentage points. The larger range of the increase for the Africa region reflects that most of the countries currently under the exceptional regimes for PC and RE countries are in this region. With the exception of the Middle East and North Africa region, estimates for the other regions show reductions in their share of IDA resources ranging from slightly above 1 percentage point for the East Asia and Pacific region to less than 0.1 percentage points for the Europe and Central Asia region.

79. The application of the proposed framework would retain the principle of performance orientation in the allocation system. As illustrated in Chart 13, the application of the proposed framework would continue to channel more resources to better performers (as measured by the CPR), albeit with smaller differences among all performance quintiles (see Table 5). In particular, application of the current framework during IDA17 would result in allocating 5.2 times more resources, in per-capita terms, to countries in the top performance quintile than to those in the lowest quintile. Under Scenario 1, countries in the top performance

⁶⁰ Under Scenario 1, the estimated 76 percent increase in allocations to FCSs would entail a 10 percent decrease in allocations to non-FCSs. Under Scenario 2, the estimated 52 percent increase for FCSs would lead to a 7 percent decrease in allocation to non-FCSs.

quintile would benefit from per-capita allocations 2.1 times more than countries in the lowest quintile. Under Scenario 2, the ratio would be 2.6. It should be noted that the ratios under Scenarios 1 and 2 would be broadly in line with those observed for IDA14 and IDA15 (2.3 and 2.7, respectively).⁶¹ It is also important to point out that, under any of the indicative scenarios, countries in the top 3 performance quintiles would – on average – continue to receive about 90 percent of the per-capita allocations they would receive under the current system.

**Chart 10: Impact of the Proposed Package on Per-capita Allocations
(across different dimensions)**



Notes:

1/ Figures for Scenarios 1 and 2 assume, as a working assumption, that exceptional “turn-around” support is provided to countries in the two lowest CPR quintiles proportionally to their population.

2/ Excludes small states to minimize distortions on per-capita allocation figures.

⁶¹ See “IDA’s Performance Based Allocation System: Review fo the Current System and Key Issues for IDA16,” May 2010. This ratio is estimated to have reached about 5 in IDA16 as a number of countries exited the exceptional PC and RE regimes while the countries remaining under these regimes progressed in their phasing out towards the regular PBA system.

Table 4: IDA17: Impact of the Proposed Package on Allocations at Regional Level

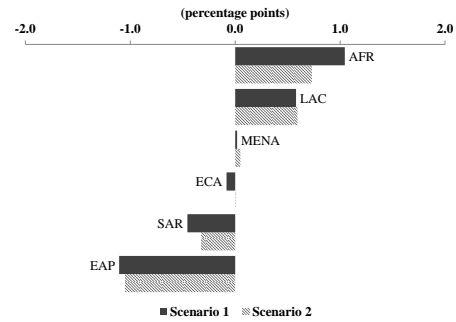
	Baseline	Scenario 1	Scenario 2
Africa	57.6	58.7	58.4
East Asia Pacific	14.6	13.5	13.5
Europe and Central Asia	3.0	2.9	3.0
Latin America and the Caribbean	2.0	2.6	2.6
Middle East and North Africa	1.0	1.1	1.1
South Asia	21.8	21.3	21.4

Notes:

1/ Figures assume, as a working assumption, that exceptional “turn-around” support is provided to countries in the two lowest CPR quintiles proportionally to their population.

2/ Excludes transitional support for India.

Chart 11: Impact of the Proposed Package on Per-capita Allocations (regional level)

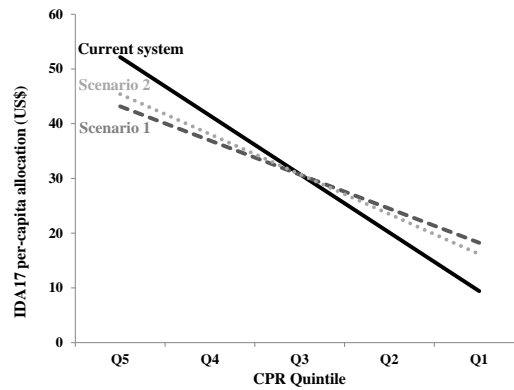


Notes:

1/ Figures for Scenarios 1 and 2 assume, as a working assumption, that exceptional “turn-around” support is provided to countries in the two lowest CPR quintiles proportionally to their population.

2/ Excludes transitional support for India.

Chart 12: The Proposed Package: Impact on the Overall Performance Orientation of the Allocation System during IDA17



Notes:

1/ Figures for Scenarios 1 and 2 assume, as a working assumption, that exceptional “turn-around” support is provided to countries in the two lowest CPR quintiles proportionally to their population.

2/ Does not include Pakistan due to the capping of its allocation.

3/ Excludes transitional support for India

Table 5: The Proposed Package: Impact on the Overall Performance Orientation of the Allocation System by Performance Quintile

	Baseline per-capita allocation		Scenario 1 per-capita allocation			Scenario 2 per-capita allocation		
	(US\$)	(times the lowest quintile)	(US\$)	(times the lowest quintile)	(share of baseline)	(US\$)	(times the lowest quintile)	(share of baseline)
Quintile 5 (Top)	53	5.2	46	2.1	86.7	48	2.6	90.1
Quintile 4	42	4.1	37	1.7	88.5	39	2.1	92.1
Quintile 3	28	2.7	25	1.1	89.9	26	1.4	93.6
Quintile 2	21	2.1	24	1.1	113.1	24	1.3	113.6
Quintile 1 (Lowest)	10	1.0	22	1.0	213.0	18	1.0	181.2

Notes:

1/ Excludes transitional support for India.

V. CONCLUSION AND ISSUES FOR DISCUSSION

80. **IDA has made significant progress to enhance its operational effectiveness in FCSs.** These efforts are beginning to show a positive impact on FCSs' portfolio performance, evidenced by the improvement in quality ratings for FCSs projects in IDA15. The slow progress of most FCSs on their path out of fragility and conflict, however, calls for a further shift in the way IDA delivers its assistance to these countries. In response, the Bank has committed to an ambitious agenda for change in line with the 2011 WDR and the New Deal process. This agenda includes: (i) designing integrated WBG country strategies to better address the drivers of conflict and fragility and build on the synergies between IDA, IFC and MIGA; (ii) creating more agile operational policies and associated practices that promote responsiveness, adaptation and learning in low capacity and high risk environments; (iii) building a strong community of practice around FCSs' issues across regions; (iv) shifting more resources to the front lines to enhance the extent and depth of client engagement with experienced Bank staff in FCSs, and (v) increasing funding to respond to the peace- and state-building goals of FCSs in addition to their overwhelming development needs. Over the past year, much progress has been achieved as detailed in the document and Management is committed to maintain the momentum of change.

81. **Regarding the allocation of IDA resources, Management has presented a comprehensive framework for allocating resources in IDA17.** Implementing this framework would result in an allocation system that responds to the principle of effectiveness in a way that: (i) preserves the principle of performance orientation of the allocation system, (ii) builds on IDA's implementation experience, (iii) reflects the new understanding on fragility and conflict, and (iv) responds to the challenges and opportunities presented by IDA's diverse client base. This would allow for swift IDA response to windows of opportunity in FCSs if warranted by the country context. In addition, the proposed framework includes measures that would reduce the volatility of IDA allocations and simplify the allocation process while ensuring that IDA is able to maintain meaningful engagement in all IDA-eligible countries. Implementation of this framework would represent a significant re-alignment of IDA's financial support to FCSs with the opportunities presented by the New Deal.

82. **The decision on how much (i.e., the specific criteria and parameters) to increase the financial support to FCSs through the proposed framework would need to take into account several factors.** Key among these are the size of the replenishment and the different trade-offs that would arise through the implementation of the package. Management will seek a decision on the specific criteria and parameters guiding the implementation of the proposed framework in the context of second meeting of the IDA17 replenishment as part of the discussion of the "ask" and financing scenarios.

83. **Staff would welcome the Deputies' views on:**

- a. The Bank's efforts to improve its operational effectiveness in FCSs.
- b. The revised allocation framework proposed by Management for implementation in IDA17.
- c. The illustrative trade-offs related to the implementation of the proposed framework.

Annex 1: IDA-eligible Countries, FY13

Region	Africa	East Asia and Pacific	Europe and Central Asia	Latin America and the Caribbean	Middle East and North Africa	South Asia	All regions
Number of countries	40	15	8	9	2	8	82
o/w:							
FCSs	18	7	2	1	1	2	31
Post-conflict ^{1/}	5	0	0	0	0	1	6
Re-engaging ^{2/}	2	1	0	0	0	0	3
Other FCSs	11	6	2	1	1	1	22
List of countries ^{3/}	Angola Benin Burkina Faso <u>Burundi</u> Cameroon Cape Verde <u>Central African Republic</u> Chad Comoros <u>Congo, DR</u> Congo, Republic of <u>Côte d'Ivoire</u> Eritrea Ethiopia Gambia, The Ghana Guinea Guinea-Bissau Kenya Lesotho <u>Liberia</u> Madagascar Malawi Mali Mauritania Mozambique Niger Nigeria Rwanda São Tomé and Príncipe Senegal Sierra Leone <u>South Sudan</u> Sudan Tanzania <u>Togo</u> Uganda Zambia Zimbabwe	Cambodia Kiribati Lao PDR Marshall Islands Micronesia, FS Mongolia <u>Myanmar</u> Papua New Guinea Samoa Solomon Islands Timor-Leste Tuvalu Tonga Vanuatu Vietnam	Armenia Bosnia and Herzegovina Georgia Kosovo Kyrgyz Republic Moldova Tajikistan Uzbekistan	Bolivia Dominica Grenada Guyana Haiti ^{4/} Honduras Nicaragua St. Lucia St. Vincent and the Grenadines	Djibouti Yemen, Republic of	<u>Afghanistan</u> Bangladesh Bhutan India Maldives Nepal Pakistan Sri Lanka	

Notes:

1/ Countries currently benefitting from allocations under the exceptional regime for post-conflict countries.

2/ Countries currently benefitting from allocations under the exceptional regime for re-engaging countries.

3/ Countries shaded in gray are the IDA-eligible countries considered FCSs as per the definition provided in footnote 1 in the main body of this document. Countries currently under the exceptional allocations regimes for PC and RE countries are in bold and underlined.

4/ IDA's support to Haiti during IDA16 is provided through the Crisis Response Window.

Annex 2: WBG Existing Support to Staff Working in FCSs

1. *Financial Incentives* - Overseas Benefits:

- a. FCS Assignment-Premium Bonus: payable only in FCSs; paid in lump sum at end of assignment, calculated at the rate of 15 percent of the market reference point for grade GG at the time of payment, for each year in the host duty station; prorated for partial years of assignment.
- b. Fragile States Premium. Payable only in FCSs; percentage applied to market reference point for grade GG; may be equal to 10 percent of GG Market Reference Points (MRP) given for FCSs considered marginal, and 20 percent of GG MRP for FCS considered core.
- c. Hazard Pay (includes selective non-FCS locations). US\$1,365 per month payable to staff at host duty stations considered hazardous locations as determined by UN.
- d. Rest and Recuperation (“R&R”) (includes selective non-FCS locations). Provided for specified FCSs as determined by management every 42 to 90 days; benefit equals to 10 leave days with pay plus cash value of full economy roundtrip fare from host duty station to HQ.
- e. Hardship differential (all countries). Percentage applied to market reference point for grade GG; based on UN overall hardship rating defined for each host duty station; may be equal to 0, 8, 15, 20, or 25 percent.
- f. Expand utilization of LRS talent through cross country assignments (CCA) and Localization Plus (L+) Recruitment. CCA and L+ enhanced packages costs include relocation benefits and are payable for period between two and five years.

2. *Career Development*: Professional Growth for Staff on Field Assignments in FCSs:

- a. Strengthened re-entry process and career counseling for Country Managers.
- b. Assignment length for FCSs: 2 years (with option to renew).
- c. Increased utilization of multi-year Term Appointments (4-5 years with additional years as needed).
- d. Corporate Reassignments - Talent Forum organized by Operations/Network Directors to ensure assignments for FCS staff one year prior to return to HQ; and match GF-GH staff to vacancies on a semi-annual basis with the support and agreement of Regional Vice-Presidents.
- e. Dedicated engagement to recruit and help fill FCS vacancies.
- f. Priority placement of FCS Staff - Automatic Short-listing for the first three positions at the same level to which current and recently returned FCS assignees apply.
- g. Batch recruitment for all Country Management positions.
- h. Country Management Positions posted at levels GH.
- i. Mandatory Management Training.
- j. FCS experience as one of the indicated criteria for promotion for Grade Levels GH and above.

3. *Additional support*

- a. HR FCS Focal Points/SWAT Team - FCS Focal Points in HR Teams to consistently move forward the FCS agenda.

- b. HR Business Partners follow-up and monitoring in place with dedicated mobility teams in regions.
- c. Increased Administrative leave to 10 days (only for those serving in FCS).
- d. HR FCS Community of Practice - Institutional mechanism to move FCS agenda forward and to ensure support to staff.
- e. Non-Family Duty Station Exceptions for Spouse/Partner (includes selective non-FCS locations)
- f. Support for spouse careers.

Annex 3: Allocation of Concessional Resources to FCSs

African Development Fund

The African Development Fund (AfDF) allocates financial support to eligible FCSs through 2 key mechanisms:

- The *regular PBA system*, which is the AfDF's core resource allocation mechanism. Under this system, resources are allocated to all AfDF-eligible countries on the basis of performance and needs.
- The *Fragile States Facility (FSF)*, a set aside established in 2008 to provide additional resources for sustained and differentiated support to FCSs.

The AfDF PBA system operates broadly along the same lines as the IDA PBA system.⁶² Under this system resources are allocated to countries based on their needs and performance. The system includes a cap on country allocations (set at 10 percent of the PBA allocable envelope), a minimum allocation set at UA5 million per replenishment cycle and a discounts applicable to the grant portion of the allocated resources (up to 20 percent) to the overall allocation to blend AfDB/AfDF countries (50 percent). As part of the 13th AfDF replenishment discussions, options are being explored to modernize and improve the AfDF PBA system.⁶³ The options under consideration include possible modifications aiming at strengthening the system in response to the challenges confronted by FCSs. The options being considered in this area are: i) the use of a partially differentiated CPIA for FCSs that would include elements to assess their performance in dealing with the sources of fragility,⁶⁴ and ii) incorporating measures of state fragility in the PBA formula complementing the current measures of needs.

The FSF, is structured in three financing windows:⁶⁵

- Pillar I. *Supplemental Support*. Resources from this window augment an eligible country's regular PBA allocation.
- Pillar II. *Arrears Clearance*. This window provides resources to help eligible countries clear their arrears in the context of the Heavily Indebted Poor Countries (HIPC) Initiative and the MDRI.
- Pillar III. *Targeted support*. This window provides financing for capacity-building and technical assistance to eligible countries.

Support under Pillar I is provided for two replenishment cycles, subject to funding. The resource allocation under this pillar is linked to the regular PBA system. During the AfDF 12th replenishment, the available resources were allocated to eligible countries based on the average of the country's two highest PBA allocations in the 11th replenishment cycle, multiplied by a top-

⁶² For a detailed description of the AfDF's PBA system and the full set of options for modernization and improvement under consideration see "Options for a More robust ADF Performance-Based Allocation System," February 2013.

⁶³ Several of the options under consideration were also evaluated by IDA as part of the IDA16 MTR discussions. The IDA16 MTR paper on IDA's support to FCS provides IDA's assessment of the options considered.

⁶⁴ Similar to the approach currently used by IDA under the exceptional PC and RE regimes (i.e., use of PCPI instead of CPIA), which would be extended under the proposed exceptional "turn-around" regime.

⁶⁵ For a detailed discussion of the FSF, including eligibility requirements, resource allocation modalities under the different windows and the options under consideration for their modification, see the AfDB paper "Review of the Bank Group Engagement in Fragile States," February 2013.

up factor of 2. The resulting figures were subject to a floor of Unit of Account (UA) 10 million and a ceiling of UA60 million. As part of the AfDF's 12th, a phasing-out framework was introduced based on three criteria, namely: a harmonized CPIA rating of 3.3 or more (which would lead to a 10 percent discount in the allocation); gross national income per capita of US\$500 or more (which would lead to an additional 20 percent discount); and a period of six years or more of enhanced support that FSF beneficiaries have received from the AfDB Group (which would lead to an additional 20 percent discount).

As part of the AfDF's 13th replenishment discussions, options are being considered to modify the rules governing the allocation of resources under Pillar I. The changes under consideration aim at addressing identified shortcomings, including the capacity of the facility to respond to changing country circumstances and emerging needs during a replenishment cycle, and enhance its capacity to address the challenges confronted in dealing with FCSs. The changes include possible revision to the eligibility criteria as well as to the resource allocation framework and phasing out modalities.

Asian Development Fund

The Asian Development Fund (ADF) allocates financial support to FCSs through two key mechanisms:

- The *regular PBA system*, which is the ADF's core resource allocation mechanism. The system links ADF's allocations to country performance, as determined by a country performance assessment.
- *Exceptional support for post-conflict and re-engaging countries*, which has been established in recognition of the need for flexibility in a post-conflict setting.

The ADF's PBA system operates in a way similar to that of IDA. The allocation formula, however, is a multiplicative function of the country performance rating, per capita income and population (as opposed to the additive form used by IDA). It should also be noted that the population exponent in this functional form is 0.6, which results in a small-country bias (i.e., smaller countries will have larger per capita allocations, all else being equal).⁶⁶ The ADF PBA system incorporates, among others, a 14 percent soft cap on allocations to blend ADB/ADF borrowers and a 20 percent volume discount on the resources provided in grant form (the volume discount is not applicable to countries in post-conflict status).

The ADF began providing exceptional allocations to post-conflict and re-engaging countries in 2002. Over time, the provision of such exceptional support has been aligned with that of IDA in terms of country eligibility and phasing out from the exceptional allocation levels. Exceptional post-conflict and re-engaging support has been provided to Afghanistan, Myanmar, Solomon Islands, Sri Lanka, Tajikistan and Timor-Leste. Below are the details for the most recent cases.

- *Afghanistan.* The provision of exceptional support started in 2002 with a disaster relief program. During the ADF X replenishment (2009-2012), ADF donors agreed that the

⁶⁶ This feature, however, does not allow some small Pacific countries to be allocated resources considered sufficient for a meaningful ADF support. To address this, a set aside for Pacific Countries has been established (equivalent to 4.5 of the resources allocable through the PBA formula). The resources from this set aside are distributed among eligible countries using the regular PBA formula.

provision of such exceptional support be harmonized with that of IDA, with the same phasing out period. In May 2010, ADF donors decided to suspend the phasing out during 2011 and 2012. During the ADF XI replenishment discussions, donors agreed on the resumption of the phasing out period over an extended period (2013 to 2018).

- *Timor-Leste*. Under ADF X, exceptional support to Timor-Leste was provided through increased concessionality in ADF's allocation: ADF provides a portion of its assistance to Timor-Leste as grants, without a volume discount, irrespective of the country's risk of debt distress. The phasing out from the exceptional support started in 2009 took the form of a reduced share of grants in the overall allocation. The initial phasing out schedule was as follows: 100 percent during 2009 and 2010, 67 percent during 2011 and 2012, 33 percent during 2013 and 2014. Considering Timor-Leste's progress, however, ADF donors decided (in the context of the ADF XI replenishment discussions) to bring forward the end of the phasing out period to 2012.
- *Myanmar*. ADB provided an initial special allocation of ADF resources to Myanmar in January 2013. ADB will generally follow IDA's framework that defines a methodology to allocation resources for re-engaging countries.

Annex 4: Portfolio Performance Rating: Method of Calculation and Incorporation in the Allocation System

The IDA portfolio rating is aimed to capture the quality of active IDA projects in a recipient country as a gauge of its current effectiveness in using IDA financing. The rating is constructed from project supervision ratings in three steps:

Step 1: obtain the project supervision ratings for all active IDA projects in each country in the four quarters of the last calendar year, and calculate the share of projects that are identified as actual problem project in the total number of projects. The share of actual problem projects (%APP) for the country is calculated as the averaged over four quarters to reduce data volatility.

Step 2: the share of actual problem projects is then adjusted with an age correction, which is needed because countries with a young portfolio tend to have fewer problem projects and therefore higher portfolio performance ratings merely because it is too early for problems to surface. For this adjustment, a deterioration factor (D), which reflects the average increase in the share of actual problem projects per year, is first calculated by dividing the share of actual problem projects of the entire IDA portfolio with its average age. Next, if the country's average age is higher than the IDA average, there will be no adjustment in the share; but if it is lower than the IDA average, the deterioration factor is multiplied by the age difference in years and added to the share of actual problem projects following the formula below, so that for each year that a country's portfolio is younger than the average age, the percentage of projects at risk is increased by D.

$$\%APP_Adjusted = \%APP + (IDA \text{ average age} - \text{country portfolio age}) * D$$

Step 3: Finally, the resulting share of actual problem projects after age correction is converted into portfolio performance ratings using the conversion scale in the table below. The conversion puts the portfolio rating into the same scale as the CPIA rating and facilitates its direct inclusion in the calculation of the Country Performance Rating.

Share of actual problem projects after age correction	Rating
0%	4.5
1-4%	4.0
5-15%	3.5
16-26%	3.0
27-67%	2.5
68-100%	2.0

Illustration

The following is a numeric illustration. Suppose that Country X has a total of 20 projects in its portfolio, out of which 4 are problem projects. The percentage of problem projects is then $4/20 = 20\%$. Suppose also that the average age of this country's portfolio is 2.5 years; it is younger than the average age of IDA's entire portfolio (3.1 years); and the deterioration factor is calculated to be 5% per year. So an age correction is needed, which can be calculated as: $20\% + (3.1 - 2.5) * 5\% = 21.5\%$. This is the age corrected percent of problem projects. Using the conversion table above, the portfolio rating for Country X would therefore be 3.0.

Annex 5: Exceptional Allocation Regimes: an Illustration

The exceptional regime for PC countries aims at providing enhanced financial support to the eligible countries, maintaining the performance incentive, and ensuring a gradual transition toward regular PBA system over time. In particular, the performance measure used in the allocation (PCPI) is tailored to the post-conflict situation and the performance weight is lower than regular PBA. The allocation of resources under this exceptional regime is conducted in four steps as described below. An illustration on how these steps are implemented is provided at the end of the annex.

Description of the mechanics of the exceptional PC regime

Step 1: Determine the country allocation using the regular PBA system as a baseline

$$PBA_i = \frac{CPR_i^5 * Pop_i * (GNI \text{ per capita})_i^{-0.125}}{\sum_{i=1}^N [CPR_i^5 * Pop_i * (GNI \text{ per capita})_i^{-0.125}]} * IDA \text{ Envelope}$$

Where:

- PBA_i is the allocation to country i under the regular PBA system; and
- N is the number of IDA-eligible countries.

Step 2: Calculate the notional post-conflict envelope based on Post-Conflict Performance Index (PCPI) and population of the eligible countries

$$Notional \ PC \ Envelope = \sum_{i=1}^M [PC \ allocation \ per \ capita_i * Pop_i]$$

Where:

- the notional *PC allocation per capita* for an eligible PC country is determined by its PCPI and using a conversion table (Table 1) below; and
- Pop_i is the population of country i .

Table 1. PCPI and Notional Post-Conflict Allocations per Capita

PCPI score	Allocation maximum (US\$ per capita per annum)
2.0 to 2.5	3.4
2.5 to 3.0	6.0
3.0 to 3.5	8.5
3.5 to 4.0	11.9
4.0 to 4.5	14.4
4.5 to 5.0	17.0

Note that the notional post-conflict envelope is then deducted from the total IDA resource envelope for allocation to all other countries that do not fall into the PC or RE categories.

Step 3: Determine the actual PC allocation based on Post-Conflict Performance Rating (PCPR), population, and GNI per capita relative to all post-conflict countries

$$PCPR_i = (0.8 * PCPI_i + 0.2 * Portfolio\ rating_i)$$

$$PCPBA_i = \frac{PCPR_i^2 * Pop_i * (GNI\ per\ capita)_i^{-0.125}}{\sum_{i=1}^M [PCPR_i^2 * Pop_i * (GNI\ per\ capita)_i^{-0.125}]} * Notional\ PC\ Envelope$$

Where:

- PCPBA_i is the post-conflict performance based allocation for country I; and
- M is the total number of post-conflict countries.

Other things equal, a PC country with higher performance obtains a larger share of the notional envelope.

Step 4: Apply a phase-out (proportional reduction) for countries in the phase-out period

$$Final\ PC\ Allocation_i = PBA_i + (PCPBA_i - PBA_i) * (1 - PY_i/7)$$

Where:

- PY_i refers to the number of years in the phasing-out period.

The phasing-out formula ensures that the allocation is reduced gradually during the phasing-out years to support a smooth transition to regular PBA system.

Exceptional allocations under the regime for RE countries are determined following similar steps, but the notional per capita allocation is half of that for post conflict countries with the same PCPI, and the phase-out period is shorter.

An illustration of the post-conflict allocation regime

Below is an example illustrating steps 2 and 3 of the allocation of resources under the exceptional regime for PC countries. The assumed allocation parameters of three countries A, B and C are provided in Table 2; Figure 1 shows that the notional envelope changes when a new country (in this case country C) joins in year T+1; while Figure 2 illustrates how the envelope is redistributed among the countries in year T+2.

Table 2. Post-conflict Allocation Parameters for the Illustration

	Population (constant)	GNI per capita (constant)	Notional envelope (constant)	PCPR Year T	PCPR Year T+1	PCPR Year T+2
A	10	300	60	3	3	5
B	10	600	120	4	4	4
C	10	100	60 _(from T+1)	n.a.	3	5

Figure 1. Illustration of Changes in Notional Envelope

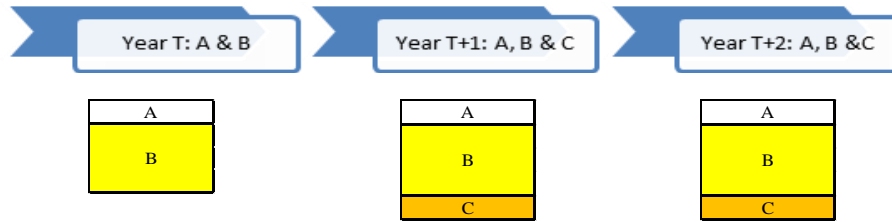
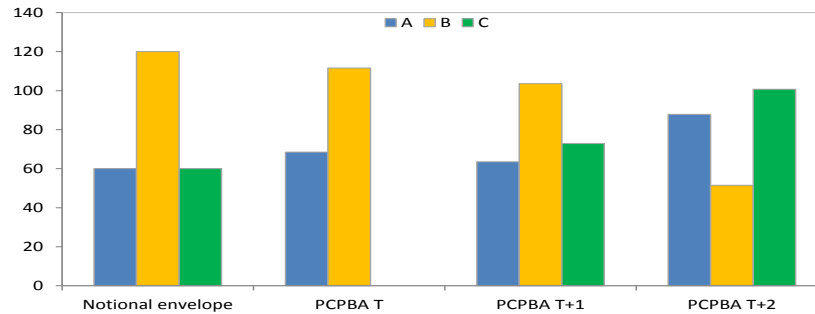


Figure 2. Illustration of the Full Post-Conflict Allocation



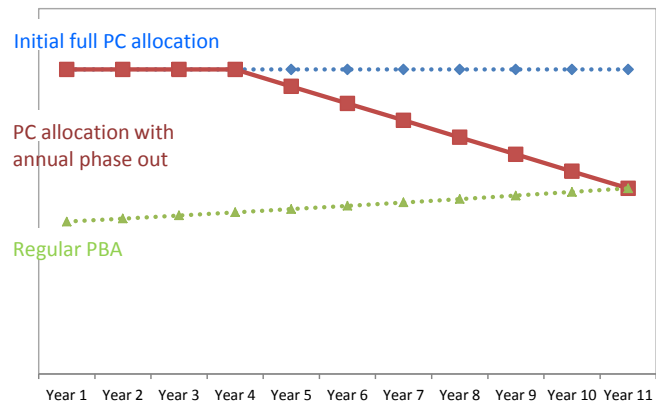
It can be observed that

- The eligible countries’ final PC allocations are affected by their relative income and relative performance within the PC group, as well as the size of the notional envelope that may change when countries join (or leave) the post-conflict window;
- Country B obtains less than its notional envelope because it has higher GNI per capita than countries A and C at T and T+1, and its lower performance at T+2 relative to the others contributed to a further decline;
- Country C obtains an allocation increase between T+1 and T+2 largely due to its performance improvement, and having a lower GNI per capita also allows it to capture a larger share than A at the same performance level at T+2.

An illustration of the phase out in one post-conflict country:

Post-conflict countries are expected to achieve performances improvements over time to similar levels as other IDA countries at the same income level, and therefore the phase out mechanism has been introduced to smooth the transition so that post-conflict allocation is gradually reduced to regular PBA level by the time a country exits the post-conflict window. Figure 3 shows that the phase out schedule is jointly determined by its full PC allocation and its regular PBA allocation from year 4 to year 10 so that in year 11 (the first year after the 10-year regular PC duration), its allocation is the same as regular PBA level.

Figure 3. The Phase out from Post-Conflict Allocation to PBA in one PC country



Annex 6: Post-Conflict Performance Indicators Framework

The Post-Conflict Performance Indicators (PCPI) is a set of criteria used to measure performance in countries eligible for IDA allocations under the exceptional PC and RE regimes. They are a key component of the framework for allocating resources since the inception of these regimes in IDA13.⁶⁷

The PCPI assesses the quality of a country's policy and institutional framework to support a successful transition and recovery and to foster sustainable growth, poverty reduction, and the effective use of development assistance. It has been tailored to the specific circumstances faced by these countries and their content reflects the emerging consensus that addressing the development challenges in fragile situations requires a deep understanding of the links among the security, political, economic, and social spheres.⁶⁸ Given the range and complexity of such relations, some topics that fall outside the Bank's traditional development mandate are considered. In conducting the PCPI assessments, however, the World Bank does not intend to go beyond its mandate but to improve the effectiveness of its development interventions in these countries. In that regard, the assessments are undertaken in an objective and impartial manner that does not entail passing a judgment on a member country or its government.

PCPI assessments for countries eligible for exceptional PC and RE allocations are performed each year reflecting the latest country developments. As part of the PCPI exercise, Bank teams prepare initial assessments that are subject to Bank-wide review. The assessments are based on a variety of indicators, observations, and judgments reflecting country knowledge that is originated in the Bank or elsewhere and relevant publicly available indicators. Each criterion includes a set of indicators or guideposts that can be useful in the preparation of the assessments and in guiding the internal review process.⁶⁹ These indicators contain qualitative or quantitative information prepared by the Bank or other sources.

When preparing the assessments, Bank country teams undertake a series of consultations. These consultations, which include consultations with government counterparts and the Bank's partners, aim at ensuring that the assessments cover the relevant developments in the country and take into consideration the analyses of other international agencies that may have particular expertise in areas that fall outside the Bank's traditional development domain—for example, the UN with respect to security-related issues.⁷⁰ The consultation process helps strengthen the robustness of the Bank's assessment. Accountability for the final scores rests with Bank staff.

The PCPI criteria have been refined periodically to incorporate lessons of experience and new insights from the development literature. The last round of revisions took place in the context of IDA15 and was informed by the recommendations of an external panel and insights

⁶⁷ The original PCPI framework is presented in the document " IDA 13: *Adapting IDA's Performance-Based Allocations to Post-Conflict Countries*," May 2001.

⁶⁸ The PCPI includes elements that are not captured in the CPIA (e.g., security, demobilization and reintegration of ex-combatants, political and reconciliation processes, and reintegration of displaced populations). Moreover, the indicators were formulated to take account of the lack of reliable information and data that often characterize these countries.

⁶⁹ For the PCPI criteria please see: http://www.worldbank.org/ida/ISIA/2010_PCPIcriteriaFinal_July_25.pdf.

⁷⁰ This process should be understood as a consultation, not a negotiation of the scores.

from evolving views on fragility and conflict, including from the 2011 WDR.⁷¹ The revision to the PCPI framework included:

- **Content.** The indicators were reorganized in four clusters to clarify and simplify their content (Economic Management and Structural Policies; Social Inclusion and Human Development; Governance; and Post-Conflict Risk). The first three clusters are used to assess RE countries, while all four are used to assess PC countries;
- **Links to the CPIA.** A more explicit link between CPIA and PCPI was introduced whereby a broad correspondence was established between PCPI scores of 5.0-6.0 and CPIA scores of 3.0-3.5;⁷² and
- **Process.** The PCPI process has been modified to increase its alignment with the CPIA process, in particular regarding the internal review process and consultations with country authorities.

PCPI scores for countries eligible for exceptional PC and RE allocations are publicly disclosed. The revised PCPI framework and criteria have been applied in FY11 and FY12. The resulting overall scores have been publicly disclosed by the end of the IDA15 period. This decision, part of IDA's efforts to increase the transparency of its allocation framework, mirrors the disclosure of the CPIA scores for IDA-eligible countries, which began in 2005.

Structure. The PCPI is organized around four clusters: (A) Economic Management and Structural Policies; (B) Social Inclusion and Human Development; (C) Governance; and (D) Post-conflict Risk (See Table below). Clusters i, ii and iii are common clusters that are used to assess the performance of all countries eligible for exceptional allocations. Cluster iv is designed to assess progress in areas that are particularly pertinent in PC situations. The need to assess the extent of the progress in these crucial areas for post-conflict settings provides the rationale for their inclusion in the PCPI as a separate cluster.

Table 1: PCPI Framework

Cluster A: Economic Management and Structural Policies

- 1) Macroeconomic management
- 2) Debt management
- 3) Functioning of public administration
- 4) Business environment

Cluster B: Social Inclusion and Human Development

- 5) Human resource building
- 6) Vulnerable groups, gender and social cohesion

Cluster C: Governance

- 7) Capacity of public administration
- 8) Rule of law
- 9) Accountability and transparency

⁷¹ The PCPI has built, inter alia, on the OECD-DAC body of research on such topics as peace- and state-building, the provision of transition financing, and the design of risk frameworks for effective engagement in FCS. By the same token, the UN has underscored the importance of security sector reforms. The PCPI revised criteria have taken into account these developments and advances in the dynamics of FCS.

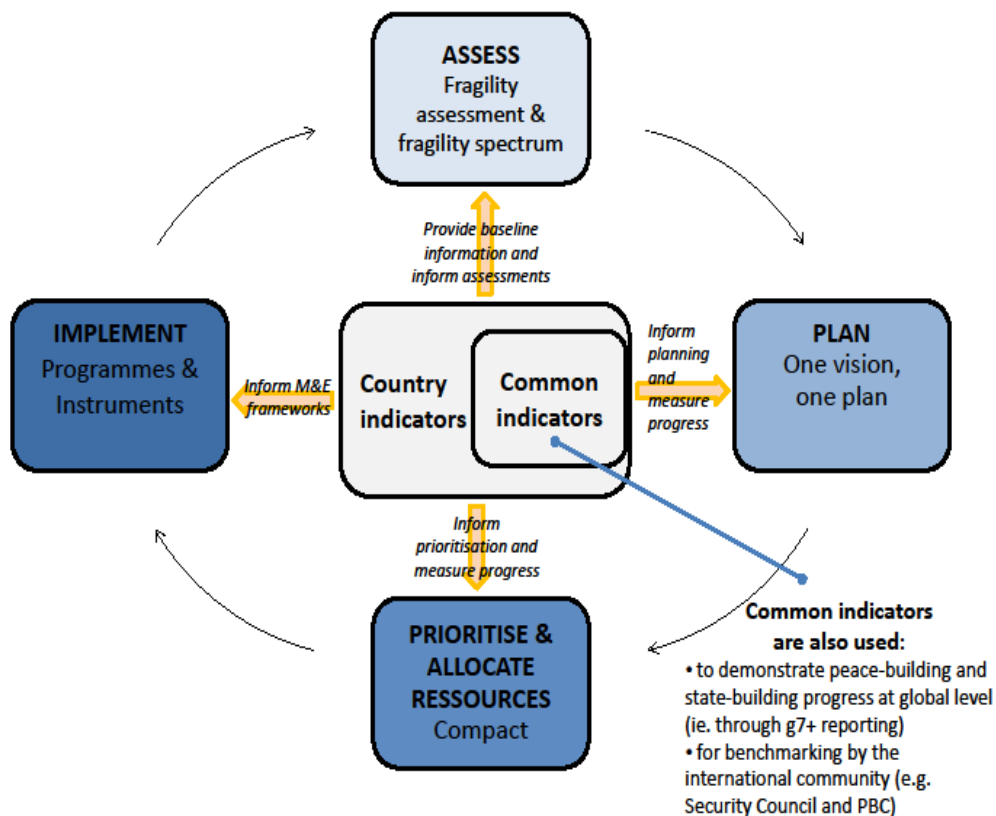
⁷² This relationship, however, should be understood as a reference point, given that the contents of the two sets of criteria do not fully overlap. The new mapping between the CPIA and the PCPI makes the PCPI a more granular instrument to assess performance of the countries that are eligible for IDA's exceptional PC and RE allocations, while focusing its content more sharply on the most important issues faced by these countries.

Cluster D: Post-conflict Risk (only for post-conflict countries)

- 10) Security
- 11) Management of conflict and recovery
- 12) Peace-building

Annex 7: The New Deal, Peace- and State-Building Goals and Indicators

The New Deal for Engagement in Fragile States was adopted at the Fourth High Level Forum on Aid Effectiveness in Busan in December 2011. The New Deal puts the voice of fragile states and their people at the heart of their own country led and owned peace-building and state-building solutions with the support of their international partners. The New Deal has three interconnected and interdependent parts: (i) The Peace-building and State-building Goals (PSGs); (ii) the FOCUS principles for engagement;⁷³ and (iii) the TRUST set of commitments.⁷⁴ The PSGs are the pillars of the New Deal and highlight legitimate politics, security, justice, economic foundations and revenue and services. To strengthen and promote these goals, as a framework for national and international engagement, it was agreed in the New Deal to develop a set of simple and practical indicators to track progress towards the PSGs at the country and at the global level (i.e., across countries). These peace-building and state-building indicators have multiple applications (see chart below). At the country level they can be used to assess conditions in the country, be used for planning and prioritization and for monitoring progress. At the global level, these indicators can also be used for benchmarking and to demonstrate progress collectively among the g7+ and other fragile countries.



⁷³ The FOCUS principles for engagement are: (i) fragility assessments developed by the g7+ with the support of international partners; (ii) a country-led "one vision, one plan"; (iii) a compact between the country and partners to implement the plan; and (iv) support of political dialogue and leadership.

⁷⁴ The TRUST set of commitments refer to the enhancement of transparency, risk-sharing, use of country systems, strengthening capacity and ensuring timely and predictable aid.

In January 2012, the International Dialogue Steering Group decided to establish working groups on indicators and implementation. Each group comprises 15-20 International Dialogue members and is co-chaired by a member of the g7+ and the international community. Since inception, the International Dialogue has supported the g7+ in the piloting of fragility assessments and testing of the fragility spectrum – central commitments of the New Deal – while developing a list of indicators that can be used to monitor peace-building and state-building.

A critical first step for the process was the development of an analytical framework for the fragility assessments and the indicator development. The framework identifies a number of key dimensions for each PSG to allow a better understanding of them. This framework was developed and elaborated by the Indicator Working Group in Copenhagen (March 2012) and Nairobi (June 2012). In addition to these meetings, the group worked virtually or alongside other meetings (e.g., by the g7+) to finalize the framework. Multiple sessions were required due to the complexity of the process, the need to build a common understanding of what peace-building and state-building mean, and the importance to ensure g7+ ownership and leadership throughout the process.

The g7+ countries combined the process of selecting indicators with the piloting of fragility assessments and testing of the fragility spectrum. These processes were intended to also inform and contribute to ongoing development planning processes. Fragility assessments were conducted in DRC, Liberia, Sierra Leone, South Sudan and Timor-Leste. These fragility assessments helped to identify areas for measurement and identified initial indicators to measure progress against country-specific priorities. The working group provided inputs to the development of key analytical tools, including interim guidance for conducting a fragility assessment and technical support throughout the process. The g7+ Secretariat provided a template for completing the fragility spectrum.

Predictably, each piloting country adopted a distinct approach to developing their fragility assessments, field-testing their spectrums, and identifying appropriate indicators. The g7+ representatives from the five pilot countries shared lessons learned from the fragility assessments at the third meeting of the Indicator Working Group in New York in September 2012, demonstrating progress and revealing diverse examples of how the fragility assessment can be implemented. Key lessons from the fragility assessment are captured in a separate lessons learned report and are available online at the g7+ website.⁷⁵

The working group established a set of principles for g7+ countries to guide the selection of common/shared indicators and country indicators. These principles emphasized the need for simple, relevant indicators that can be adapted to the country context, reflecting both short and longer-term progress. Indicators should avoid duplication with more general development indicators (e.g., MDGs). They should also reinforce national statistical capacity, and emphasize reliable and transparent data collection mechanisms.

At its third meeting in New York, members of the working group identified a number of common areas for measurement which were based on the initial g7+ country indicator lists. These common areas were then taken back to the country level and were used by the g7+ pilot countries to identify and further develop their list of indicators. To share experiences, assist g7+ countries in developing their list of country-specific indicators and develop a proposal for

⁷⁵ <http://www.g7plus.org/>

common/shared indicators, a South-South exchange was held from 21-22 October 2012 in Nairobi. The meeting brought together fragility assessment focal points, representatives from national statistics offices and civil society from eight g7+ countries. On the basis of country lists and discussions, the meeting agreed on a set of 64 common/shared indicators as basis for discussion and consultations. This indicator list was further revised in Nairobi after a series of expert consultations in December 2012 and January 2013 and reviewed in Nairobi on January 29-31, 2013. Another round of revisions to the shared/common list will be undertaken until March 2013 and coincides with new fragility assessments being undertaken in other g7+ countries.

Preliminary indicators from the New Deal process would be used for monitoring progress on peace-building and state-building. While consensus has not been reached on the indicators that will be endorsed by the g7+ and the international community through the International Dialogue process, notional indicators suggest that the short list could be useful to measure peace-building and state-building progress. These indicators include outcome variables, such as violent deaths (per 100,000 population), inequality among regions, experiential indicators such as surveys on experience of corruption and process indicators like number of judges per 100,000 population (by region). These indicators would serve as inputs to country assessment processes and, with national ownership in their development and monitoring, provide an additional signal of credibility to a reform process.

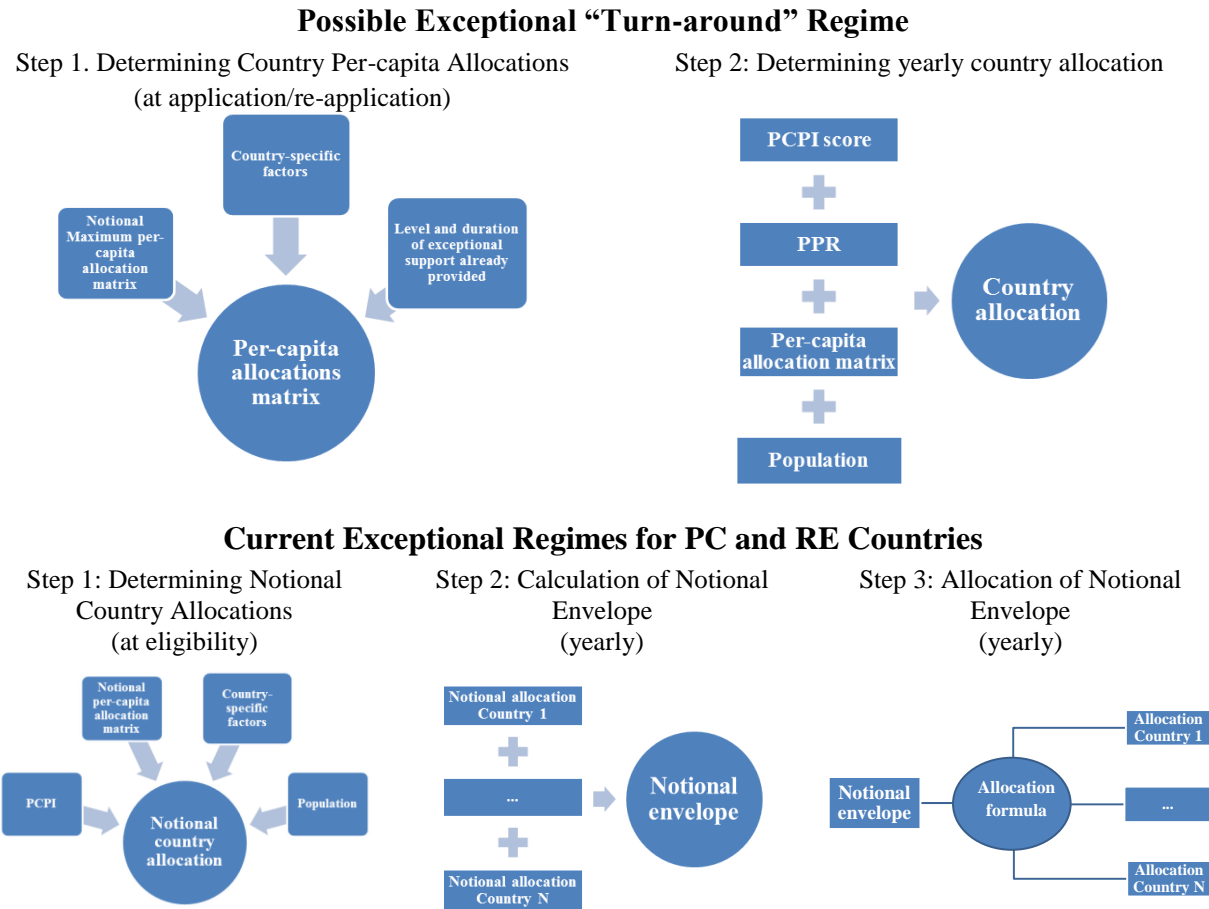
Annex 8: Comparing Current Exceptional Regimes and the Exceptional Regime for “Turn-Around” Countries

	Current Exceptional Regimes	Exceptional Regime for “Turn-Around” Countries	Comments
i. Definition	<ul style="list-style-type: none"> • A post-conflict country is: <ol style="list-style-type: none"> i. a country where IDA engagement has been disrupted by a severe and long-lasting conflict or a short but highly intensive conflict; or ii. a newly sovereign state emerging through a violent breakup. • A re-engaging country is a country that has experience a prolonged period of disengagement from IDA marked by the accumulation of arrears and that has expressed its willingness to re-engage based on a strong program with concerted donor support. 	<ul style="list-style-type: none"> • A “turn-around” country is a country facing a critical juncture in its development path marked by the: <ol style="list-style-type: none"> i. cessation of an ongoing conflict; or ii. commitment to a major change in the policy environment following a prolonged period of disengagement or a major shift in its policy priorities. 	<ul style="list-style-type: none"> • The exceptional “turn-around” regime has more flexibility than the current exceptional regimes. It moves away from a discrete treatment of fragility allowing for enhanced support to a broader set of countries (including FCSs that have not experienced major conflict or have not accumulated arrears and non-FCS confronted to fragility situations). • This new approach: <ol style="list-style-type: none"> i. acknowledges the heterogeneity of fragile situations, where countries are confronted to different types and combinations of violence, stresses and other challenges; ii. acknowledges that fragility and violence, in all forms, can have a devastating human and developmental impact; iii. acknowledges that enhanced support, if timely and adequately targeted, can help countries exit/avoid fragility traps; and iv. focusses on identifying windows of opportunity for reform and on modulating the adequate level of support to help countries seize these opportunities.
ii. Eligibility	<ul style="list-style-type: none"> • Eligibility to exceptional post-conflict support determined by: <ol style="list-style-type: none"> i. extent of human casualties, ii. proportion of population displaced or in exile, and iii. extent of physical destruction. • Eligibility to exceptional re-engaging support determined: <ol style="list-style-type: none"> i. evidence of partial collapse of state; and ii. accumulation of sizeable arrears. • In addition, eligibility under both exceptional regimes is based on the provisions of OP2.30. 	<ul style="list-style-type: none"> • Eligibility to exceptional “turn-around” support determined by evidence that a country: <ol style="list-style-type: none"> i. has been significantly affected by conflict and/or collapse of state (based on PCPI indicators), and ii. is confronted to a “turn-around” situation and is committed to take action to make the most of the opportunities presented by that situation (based on the provisions of OP2.30.). 	<ul style="list-style-type: none"> • The eligibility criteria for the “turn-around” regime build on IDA’s implementation experience. They: <ol style="list-style-type: none"> i. use similar principles, criteria and signals that have made the current exceptional regimes successful tools for selective re-engagement; and ii. promote broader use of the PCPI (common metrics adapted to the FCSs’ special circumstances) • When possible, enhanced role of country portfolio performance in eligibility decisions.

	Current Exceptional Regimes	Exceptional Regime for “Turn-Around” Countries	Comments
<p>iii. Duration</p>	<ul style="list-style-type: none"> • Exceptional post-conflict support provided for 10 years, which include 6 years of phasing-out to the regular PBA allocation level. • Exceptional re-engaging support provided for 5 years, which include 3 years of phasing out to the regular PBA allocation level. • Case-by-case extension of phasing out periods agreed in the context of IDA16. 	<ul style="list-style-type: none"> • Full level of support aligned with the duration of national transition plan associated with “turn-around” situation (2-3 years). • Possibility of re-application if transition is successful and new transition plan is prepared. • Phasing-out to the regular PBA allocation part of re-application discussions. 	<ul style="list-style-type: none"> • The exceptional “turn-around” regime moves away from setting pre-established timeframes. This: <ol style="list-style-type: none"> i. reflects IDA’s implementation experience with the current exceptional regimes; ii. responds to the analytical findings regarding the protracted nature of fragility and conflict; and iii. acknowledges that the path out of fragility and violence can vary significantly from country to country. • Provides flexibility for: <ol style="list-style-type: none"> i. continued enhanced support if a country’s transition is successful or for withdrawing it if there has been no progress; ii. modulating the level of exceptional support to ensure a timely and smooth transitioning to the regular PBA system. • Ensures alignment of exceptional support with national strategic planning.
<p>iv. Allocation Process</p>	<p>Performed each year following a two-step process</p> <p>Step 1: Calculation of notional country allocation</p> <ul style="list-style-type: none"> • For post-conflict countries, notional country allocations based on PCPI score (at the time of eligibility) and notional maximum per-capita allocations agreed in IDA14 (adjusted by changes in replenishment size). • For re-engaging countries, notional country allocations determined in similar way, but notional maximum per-capita allocations half that for post-conflict countries. • Flexibility to address country-specific issues (first year allocation). <p>Step 2: Calculation of yearly envelope</p> <ul style="list-style-type: none"> • The yearly envelope equals the sum of 	<p>Performed each year following a simplified process</p> <ul style="list-style-type: none"> • Country allocation based on latest PCPI scores and PPRs and per-capita allocation matrix approved at the time of eligibility determination. It should be noted that: <ol style="list-style-type: none"> i. the per-capita allocation matrix is based on notional maximum per-capita allocation levels agreed with donors; ii. it will be expected that countries with greatest needs (e.g., post-conflict) will have access to the levels close to the notional maximum per-capita levels; and iii. room for qualitative judgment to consider country-specific circumstances, including for the determination of first year allocation. • Per-capita allocation matrix reconsidered as 	<ul style="list-style-type: none"> • The allocation process for the “turn-around” regime builds on IDA’s implementation experience. In comparison to the current exceptional regimes: <ol style="list-style-type: none"> i. it preserves their positive features (e.g., responsiveness to changing country circumstances, reduction of country-level impact, resilience to fluctuations in donor support, and adequate balance between rules and qualitative judgment); and ii. it addresses their shortcomings (e.g., it enhances transparency by simplifying the allocation process, avoids setting pre-established phasing out trajectories). • The allocation process for the “turn-around” regime also provides for an increased role of a country’s portfolio performance in allocation decisions. This would:

Current Exceptional Regimes	Exceptional Regime for “Turn-Around” Countries	Comments
<p>notional country allocations.</p> <p>Step 3: Allocation of yearly envelope</p> <ul style="list-style-type: none"> • Based on allocation formula in which: <ol style="list-style-type: none"> i. the quality of policies and institutions are measured by PCPI scores; ii. the PPR carries a high weight (20%) in the calculation of the CPR; and iii. poverty-orientation is greater than under the regular PBA system (CPR exponent of 2). • Data in the formula reflects latest available information to enhance responsiveness of IDA allocations and create incentives for performance. 	<p>part of re-application process (to reflect recalibrations of notional maximum per-capita allocations or to ensure timely and smooth transition to regular PBA system).</p>	<ol style="list-style-type: none"> i. better respond to recent empirical findings regarding the role that project-level factors can play in portfolio performance; ii. allow eligible countries to capitalize on improvements on portfolio performance (including those that could result from implementing the modernization agenda); and iii. enhance incentives for portfolio performance.

Chart 1: Resource Allocation Process - Possible Exceptional “Turn-around” Regime Compared to the Current Exceptional Regimes for PC and RE Countries



Annex 9: Definitions and Assumptions

This annex presents the definitions and assumptions used throughout this document.

Definitions

- Fragile and Conflict-affected States (FCSs). Countries that: (i) have a harmonized average CPIA country rating of 3.2 or less (or no CPIA); or (ii) have or have had a UN and/or regional peace-keeping or peace-building mission during the past three years.
- Small States (SS). Countries with a population of 1.5 million or less.
- Post-conflict (PC) country. Country eligible for IDA support under the exceptional allocation regime for post-conflict countries. A post-conflict country is defined as: (i) a country where IDA engagement has been disrupted by a severe and long-lasting conflict or a short but highly intensive conflict; or (ii) a newly sovereign state emerging through a violent breakup.
- Re-engaging (RE) country. Country eligible for IDA support under the exceptional allocation regime for re-engaging countries. A re-engaging country is defined as a country that has experienced a prolonged period of disengagement from IDA marked by the accumulation of arrears.
- Turn-around country. Country confronted to a critical juncture in its development trajectory marked by: i) the cessation of an ongoing conflict; or ii) the commitment to a major change in the policy environment either following a prolonged period of disengagement from Bank lending or a major shift in its policy priorities.

Assumptions

Below are detailed the key working assumptions used to project IDA allocations for the period FY14 to FY17 under the baseline scenario (i.e., the scenario that assumes the continued application of the current allocation framework which is composed of the regular PBA system and the exceptional allocations for PC and RE countries).

IDA17 allocable envelope.

- It is assumed that the IDA17 allocable envelope remains the same as for IDA16 (SDR28.7 billion). This figure includes the potential transitional support to India (a graduating country), which is assumed to reach two-thirds of its IDA16 capped allocation.

Country eligibility

- Eligibility for IDA financial support. It is assumed that, except for graduations, the set of countries eligible for IDA financial support during IDA17 will remain the same as in IDA16. Five countries are assumed to graduate from IDA eligibility at the end of IDA16: Angola, Armenia, Bosnia and Herzegovina, Georgia and India.

- Eligibility for support under the exceptional regimes for PC and RE countries. For countries currently benefiting from exceptional PC and RE support, no further extensions of the phase out period is assumed beyond those approved in the context of IDA16.

Allocation formula

- It is assumed that the allocation formulas used in IDA17 under the regular PBA system and the exceptional regimes for PC and RE countries would remain the same as in IDA16.

Allocation parameters

- CPIA scores, PCPI scores, GNI per capita, and population figures are assumed to remain constant at the levels used to determine the IDA allocations for FY13. A similar assumption is applied regarding the country's grant eligibility.
- In case of missing values for CPIA or PCPI scores, the values used were the last ones available or (if the country does not have previous PCPI/CPIA scores) the lowest CPIA/PCPI scores in the category (e.g., PC or RE).

Other assumptions

- FCSs status reflects the FY13 list of fragile situations.