



IDA13

**Adapting IDA's Performance-Based Allocations
to Post-Conflict Countries**

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Acronyms and Abbreviations

ARPP	Annual Review of Portfolio Performance
CAS	Country Assistance Strategy
CPIA	Country Policy and Institutional Assessment
GDP	Gross Domestic Product
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFI	International Financial Institutions
IMF	International Monetary Fund
PCPA	Per Capita Per Annum
PCPI	Post-Conflict Progress Indicator
PCPR	Post-Conflict Performance Rating
PCU	Post-Conflict Unit
PR	Performance Rating
TSS	Transitional Support Strategy
UN	United Nations

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I. INTRODUCTION

1. Assisting post-conflict countries¹ as they begin the process of recovery poses a special challenge for IDA. The effectiveness of IDA's response in these cases depends on ensuring the right timing, volume and composition of assistance. Over the past year IDA management has developed and tested a new methodology that seeks to provide staff and management with a more systematic basis for calibrating IDA's response to the different phases of the post-conflict period. While this methodology sharpens the focus on performance – in line with the stronger emphasis on performance in lending to all IDA countries – it also emphasizes the need for judgment to take account of the complexities and heterogeneity of post-conflict situations.² This paper sets out the specifics of this new methodology and requests Deputies' guidance on whether it should be adopted as a standard allocation tool for eligible post-conflict countries.

2. IDA resources are allocated on the basis of performance as measured by the IDA Country Performance Rating (PR), and modified as needed during preparation of specific Country Assistance Strategies (CAS). Performance is assessed through a cross-country comparison which comprises two inputs: a country's score on the Country Policy and Institutional Assessment (CPIA) counts for 80 percent, and the Annual Review on Portfolio Performance (ARPP) score counts for 20 percent. The allocation norms increase exponentially with better performance. Countries with poor performance, where IDA assistance is less likely to be effective, receive lower allocation norms. Given the importance of good governance to ensure that donor and country resources are used effectively, countries where governance indicators are especially poor see a further automatic cut in their allocation norms.

3. The CPIA is designed for countries at peace and covers country performance in implementing policies for poverty reduction and development. Such policies and the requisite institutions are often difficult to sustain during a period of conflict and indeed, stable and effective government institutions are often an early casualty of conflict. As a result, post-conflict countries tend to have low performance ratings using the standards established for the CPIA and the Bank-wide ARPP. Low performance ratings in turn lead to low IDA allocation norms, at a time when these countries may have an exceptional need for resources with which to consolidate peace and begin the process of social and economic recovery.

4. Recognizing that these countries have exceptional needs, and have not had an opportunity to rebuild their institutional and policy environment, IDA has in the past made exceptional allocations available on a case-by-case basis. While this approach normally resulted in a level of IDA lending commensurate with country needs and performance, it lacked predictability, imposed difficult problems of assessment and

¹ For the purpose of this proposal, the term "post-conflict country" refers to IDA countries emerging from of violent and protracted conflict.

² This proposal has been prepared by FRM staff, with inputs from the Africa Region and other regional units, the Post-Conflict Unit (PCU), and Operational Policy and Country Services.

judgment on IDA's operational staff, and raised questions about equity of treatment across countries. Furthermore, by relying on the CPIA to measure performance, there was no specific focus on performance in areas that are most relevant in post-conflict settings, including with respect to security and reconciliation. The proposed methodology therefore relies on a set of performance indicators that have been specifically tailored to the circumstances of post-conflict countries. These indicators represent an important innovation in performance measurement, and would serve to underpin a stronger framework for performance monitoring for a number of IDA borrowers. Their use to help set post-conflict IDA allocations would also complement the strengthened performance-based allocation system agreed in IDA11 and IDA12.

5. Section II of this paper provides a short overview of how the proposed new methodology would work. Section III examines how the initial engagement would be timed, eligibility for exceptional post-conflict allocations determined, and an initial allocation decided. Section IV looks at how progress would be monitored, and Section V explores how performance would be factored into allocations after the first year, as well as the limits that would apply to exceptional assistance. Section VI provides a brief conclusion and requests guidance from Deputies.

II. OVERVIEW OF PROPOSAL

6. The new allocation procedure encompasses the entire transition period and comprises four distinct elements:

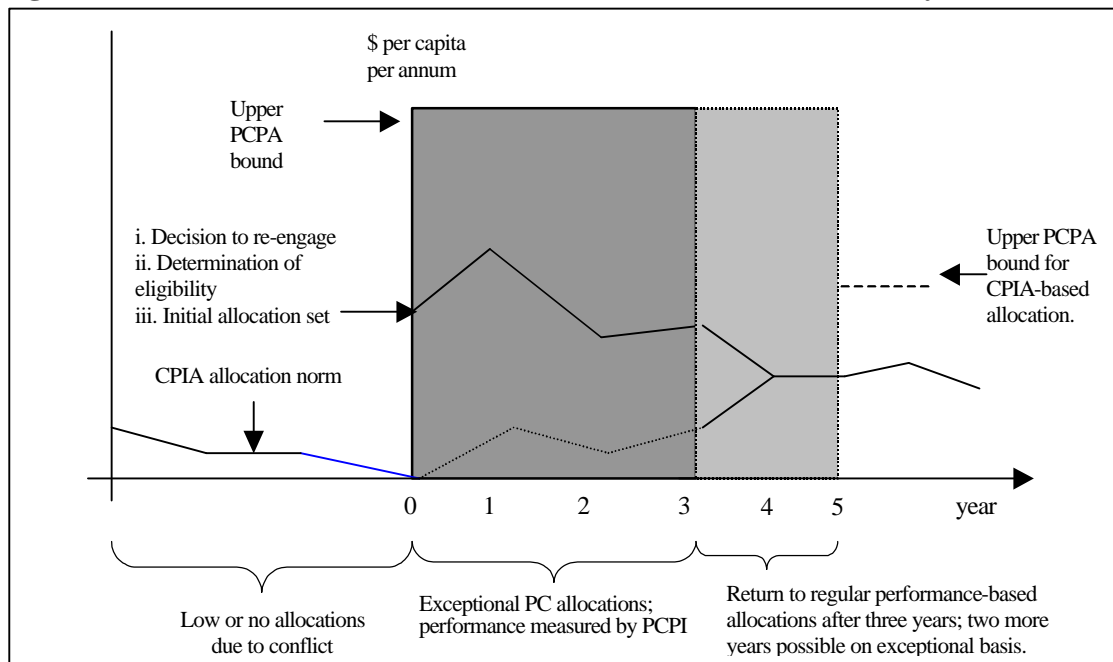
- **Eligibility criteria** – to determine which countries would be eligible for exceptional treatment;
- **Initial allocation assessment** – key considerations to aid the determination of the size of the initial allocation (Annex 1);
- **Post-conflict performance indicators** – to assess performance, and hence the likelihood that aid will be well-used in post-conflict countries eligible for exceptional treatment (Annex 2); and
- **Limits on the duration and volume of exceptional allocations** – to address urgent post-conflict needs in a performance-based framework, while maintaining a clear presumption of a timely return to IDA's regular performance-based allocations system.

7. Figure 1 provides an indicative illustration of how the proposed new methodology would work. Before the end of the conflict, allocations tend to be low or non-existent. After the decision to engage has been made, the eligibility of the country for exceptional allocations would be evaluated. If considered eligible, the country's needs and circumstances would be assessed along with the prospects that IDA resources would have a positive impact on the recovery process. This assessment would form the basis for

deciding the appropriate size of the initial one-year allocation.³ The process of determining the initial allocation would be a key component of the effort to formulate a Transitional Support Strategy (TSS), which would set out IDA’s assistance program for the immediate post-conflict period.⁴

8. Subsequent allocations would then be made at annual intervals on the basis of performance, and with country-specific adjustments, as required by specific circumstances. Performance would be measured by a set of Post-Conflict Progress Indicators (see Section IV and Annex 2 below). A country would normally be expected to return to IDA’s regular (CPIA-based) allocation process within three years. Given the level of destruction and dislocation some countries have experienced, it may in some cases be necessary to extend exceptional treatment for up to two additional years.

Figure 1: Possible Allocation Profile for a Conflict-Affected Country



III. DETERMINING ELIGIBILITY AND SETTING THE INITIAL ALLOCATION

9. The primary objectives for IDA’s re-engagement in a post-conflict country are to facilitate the transition to sustainable peace after hostilities have ceased and to support the resumption of economic and social development. In the case of long-lasting or intensive conflicts a “window of opportunity” exemplified by a broad-based peace treaty or ceasefire agreement may be a signal to enter. The fragility and heterogeneity of post-

³ Since countries may re-activate at any point during the year, the allocations are not tied to the fiscal year cycle.

⁴ See OP 2.30 “*Development Cooperation and Conflict*”. The TSS would be in place for a period of up to 24 months and may be renewed for additional periods with the endorsement of the Executive Directors, until such time as a full, participatory Country Assistance Strategy (CAS) can be developed.

conflict conditions, and the frequent lack of reliable information, require qualitative judgment by country teams and IDA management when determining the timing of the initial engagement, eligibility for exceptional treatment, and the volume, timing and composition of lending and non-lending assistance.

10. **Initial Engagement:** The decision to engage in a country affected by conflict is based on an assessment made by Bank staff and management, and would always be made in consultation with other international partners, including UN agencies and other multilateral organizations, bilateral donors and regional institutions as appropriate. Such consultations may be especially useful in areas where the Bank does not have the requisite in-house expertise. The significance of a particular re-engagement opportunity would be set out in a TSS, as provided for in the Bank's operational policy on "*Development Cooperation and Conflict*".⁵ The key considerations for initiating the preparation of a TSS include that: (i) active conflict has diminished sufficiently to allow effective implementation of Bank-supported activities; (ii) there is a reasonable expectation of continued stability; (iii) there is an effective counterpart for the Bank; and (iv) there is evidence of strong international cooperation and potential for a well defined role for the Bank. The process of ascertaining if the country qualifies for exceptional IDA allocations, and the size of this allocation, will be an important part of the preparation of the TSS.

11. **Eligibility for Exceptional Treatment:** After the decision on initial engagement has been made, on the basis of criteria in para. 10 above, staff would evaluate the country's eligibility for access to exceptional post-conflict IDA allocations. This access needs to be properly ring-fenced with eligibility criteria so that perennial poor performers with some record of conflict can be distinguished from countries that are making a determined effort to emerge from a protracted and highly destructive conflict. Given the many forms conflict can take, and the frequent lack of accurate information about conflict situations, it would not be practical to try to specify a precise set of indicators with which to determine eligibility. A more realistic approach is to use a set of descriptive indicators of the type of conflict and conflict intensity that would characterize a typical eligible country.

12. This proposal defines three types of eligible candidates: (i) a country that has suffered from a severe and long-lasting conflict which has led to the inactivity of the borrower for an extended period, or at least a substantial decline in the level of external assistance, including from IDA; (ii) a country that has experienced a short but highly intensive conflict leading to a disruption of IDA involvement; and (iii) a newly sovereign state that has emerged through the violent break-up of a former sovereign entity.

13. The intensity of the conflict has a direct bearing on the degree to which exceptional assistance will be needed for reconstruction efforts. The three key dimensions of conflict intensity are: (i) the extent of human casualties directly or indirectly caused by the conflict; (ii) the proportion of the population that is either

⁵ Given that countries eligible for exceptional treatment are those that have suffered serious damage to their social and economic infrastructure, it is unlikely that they would be in a position to prepare a full CAS to guide assistance in the immediate post-conflict period. The preparation of a TSS does, however, not mean that a country would necessarily qualify for exceptional treatment.

internally displaced, or in exile; and (iii) the extent of physical destruction, e.g., isolated, local, regional etc. Generally it is expected that eligible countries would be those that have experienced highly intensive conflicts as measured across one or more of these three dimensions. While it would be possible to develop quantitative indicators that correspond to each dimension, there are serious data problems inherent in a quantitative approach. IDA Management therefore proposes at this stage to rely mainly on qualitative judgment to assess conflict intensity in each dimension, supplemented by quantitative evidence where available.

14. **Determining the Initial Allocation:** Once the decision to engage has been made and country eligibility has been affirmed, staff would initiate a consultative process to determine the level of exceptional support required in the first year. The lack of recent performance track records and other reliable information that often characterize the immediate post-conflict period necessitate that this initial allocation be based mainly on qualitative judgments, though supplemented with quantitative data where available. It is proposed that the key input into this process would be an assessment of key country issues that could have a bearing on the size of the initial allocation. The assessment would carefully weigh these issues to find the best possible match between the size of the initial allocation and country needs and circumstances, and the prospects for strong performance on a social and economic recovery program. In country-cases where an allocation norm made on the basis of IDA's regular performance-based methodology is deemed adequate in light of this assessment, the presumption is that the country would not qualify for exceptional IDA allocations. The assessment, which would be summarized in the TSS, would explicitly examine the:

- **Prospects of Peace**, including progress on reconciliation, the domestic security situation, and the impact of conflict in neighboring states;
- **Needs**, including an assessment of damages due to the conflict, an assessment of absorptive capacity, and the adequacy of available resources to meet reconstruction needs;
- **Government Commitment to Sustainable Development**, including the adequacy of the recovery program and of economic management functions (in particular fiduciary safeguards), and efforts to normalize relations with donors and creditors; and
- **Moral Hazard Considerations**, including the possibility that resumed IDA assistance could negatively affect domestic and regional commitment to peace; and the possibility that IDA resources could fuel the conflict.

15. To guide this assessment and help provide an analytical basis for the size of the initial one-year allocation, an indicative list of 10 sets of questions has been developed (see Annex 1). It should be noted, however, that this will be a complex exercise given that situations in post-conflict countries often provide contradictory signals. For instance, a high level of devastation may suggest the need for a high allocation. But if absorptive capacity has been devastated as well, this may argue for a lower allocation until this constraint has been dealt with. Similarly, the risk of a relapse into conflict may argue for

limiting IDA's exposure. However, by not making a substantial commitment, IDA may inadvertently contribute to increasing this risk since the resources with which to fully consolidate the peace may be insufficient.

16. Given the acute need for resources typically faced by countries devastated by conflict, it is expected that most eligible countries would need an allocation that exceeds what they would qualify for based on their regular IDA performance rating. Based on previous experience it is expected that allocations would in most cases range from \$10 to \$20 per capita per year. By comparison, the average allocation per capita per annum to all IDA-only countries is approximately \$7.5. While this range is in line with the per capita levels that have been seen as necessary in recent post-conflict cases, it is important to note that most past cases have been countries with relatively small populations. More populous countries may face special difficulties in absorbing high per capita levels of aid. To avoid over-allocating scarce IDA resources, special attention should therefore be given to assessing the absorptive capacity of countries with large populations.

17. Higher allocations could be considered if 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. Eritrea, which received an initial allocation of \$30 per capita, is a good example of a country where both the post-conflict resource needs and the absorptive capacity were very high. While it is expected that allocations for most countries would not exceed \$30 per capita, experience, e.g., in the Balkans, has shown that consideration of even higher allocations may be warranted in special cases.

18. At the time of the determination of the initial allocation, the country team would also do a 'shadow' rating of country performance, using a set of indicators tailored to post-conflict circumstances (see Section IV). Given the data limitations that are normal in the early post-conflict recovery phase, the main function of the results of this rating exercise would be to provide a benchmark against which future ratings could be compared.

19. **Pre-Arrears Clearance IDA Grants:** For post-conflict countries with large and protracted arrears to the Bank, the allocation methodology is also proposed to be used as an input to the determination of the size of pre-arrears clearance IDA grants authorized in the IDA12 Replenishment Agreement.⁶ Such grants would only be used as a last resort where the needs are great, alternative sources of financing are inadequate or inappropriate, and in the context of a concerted international assistance effort where other creditors agree to allow arrears to accumulate. In such exceptional cases, it will of course be important to ensure that the size of the grant would not reduce incentives to proceed with an orderly and expeditious clearance of arrears.

⁶ "Additions to IDA Resources: Twelfth Replenishment", January 12, 1999 (para. 38).

IV. MEASURING POST-CONFLICT PERFORMANCE

20. Performance in post-conflict countries that are receiving exceptional IDA allocations would be measured by a set of Post-Conflict Progress Indicators (PCPI). Most of the PCPIs (summarized in Box 1 and presented in detail in Annex 2) have been adapted from existing CPIA indicators to better reflect the realities of post-conflict countries. The main exceptions are the new indicators that relate to security and reconciliation, which are not part of the CPIA. The PCPIs are grouped in four clusters: (i) *Security and Reconciliation*; (ii) *Economic Recovery*; (iii) *Social Inclusion and Social Sector Development*; and (iv) *Public Sector Management and Institutions*. There are a total of 12 indicators – three in each cluster, compared to the 20 indicators used in the CPIA.

21. The indicators are formulated to take account of the lack of reliable information and data that is often a feature of post-conflict contexts. As with the CPIA, standards would be set such that a country at any stage of development would be able to score well. Furthermore, performance would be measured on the basis of the government's record of implementing pro-poor measures.

22. The PCPI rating scale has been narrowed to 2 to 5 because the evaluation covers only a transitional period while the top and bottom ratings 1 and 6 used in the CPIA involve the same rating over an extended period of time. Given the short-term horizon of the new allocation mechanism and the volatility of post-conflict-situations, the PCPI would be updated at least once a year. Where available, the ARPP (the portfolio component of the performance rating) would be included with a 20 percent weight.

Box 1: Post-Conflict Performance Indicators

A. Security and Reconciliation: These indicators assess the authorities' efforts to reduce the probability of renewed conflict and to provide security for the population. They are not measures of the security situation per se, but of actions taken by the government to improve the environment for sustainable peace. Three dimensions are rated: (i) public security; (ii) reconciliation; and (iii) demobilization and disarmament.

B. Economic Recovery: This cluster of indicators measures the extent to which policies have been implemented to spur economic recovery. Three dimensions are rated: (i) management of inflation, external debt, and the management and allocation of available budget resources; (ii) trade policy, foreign exchange and price regimes; and (iii) management and sustainability of the development program.

C. Social Inclusion and Social Sector Development: This cluster of indicators assesses if immediate social needs are addressed and focuses on the distribution of income, services and assets among the groups affected by the conflict. Three dimensions are rated: (i) reintegration of displaced population; (ii) education; and (iii) health services.

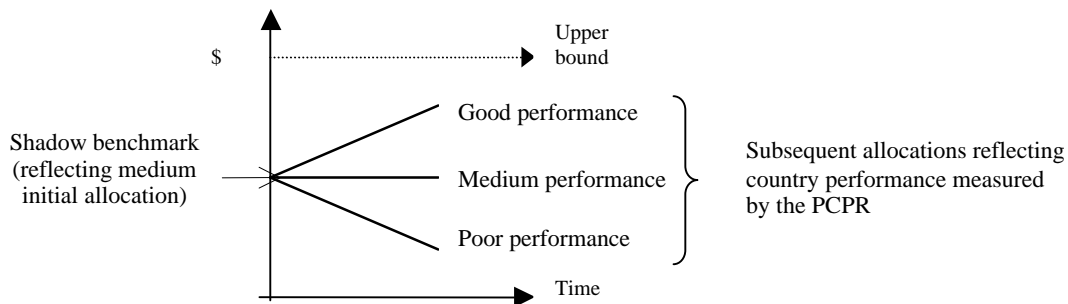
D. Public Sector Management and Institutions: This cluster evaluates the quality of governance in focusing on the government's public sector management and the quality of its institutions. Three dimensions are rated: (i) budget formulation and effectiveness of revenue mobilization; (ii) reestablishing the administration and rule-based governance; and (iii) transparency, accountability and corruption in the public sector.

V. DETERMINING ALLOCATIONS FOR SUBSEQUENT YEARS

23. The initial allocation would be for one year and would in most cases have to be determined in the absence of a performance track record (as discussed in Section III). Allocation norms for the second and subsequent years could in contrast be based on more systematic performance measurement because more reliable data would have become available. The performance measurement process would rely on the proposed set of PCPI indicators and the ARPP rating (in countries where IDA has projects under implementation), which would be combined to form the Post-Conflict Performance Rating (PCPR).⁷ The PCPR would be the basis for the calculation of post-conflict allocation norms. These norms, in turn, would be the basis for determining lending levels for the lending program that would be set out in the TSS for each country.

24. The post-conflict allocation norms would increase or decrease depending on country performance: countries with good performance would be able to maintain or increase their exceptional allocation norms, whereas less strong performers could see a significant decrease. If the initial allocation was already at the high end of the normal allocation range, continued strong performance would be necessary to sustain that level for a second year. If the initial allocation was in the medium range, subsequent allocation norms reflecting various performance levels could be represented as shown in Chart 1.

Chart 1. Performance and Allocations



25. The PCPR-scores would be translated into indicative allocation norms using an allocation matrix (see Table 1). The matrix has an indicative upper bound of \$30, which is significantly higher than for regular IDA allocations, and thus provides a substantial incentive to perform. It is therefore proposed that the matrix would have a linear (rather than exponential) relationship between the performance rating and the allocation. It is expected that most countries would cluster around a rating of 3.5, which would yield an indicative allocation of \$15. For the sake of comparison, this is in the high range of what a strong performer could receive under IDA's regular performance-based allocation system. In cases where performance is very poor, e.g., below 2.5, it is not clear that donor assistance could be effective, and it would therefore be necessary to reconsider IDA involvement.

⁷ The PCPI would account for 80 percent, and the ARPP for 20 percent of the PCPR. Where ARPP is not available, PCPI would determine the full rating.

Table 1: Post-Conflict Allocation Guidelines

Post-Conflict Performance Rating	Allocation Maximum (in \$ per capita per annum)
2.0 to 2.5	5.0
2.5 to 3.0	10.0
3.0 to 3.5	15.0
3.5 to 4.0	20.0
4.0 to 4.5	25.0
4.5 to 5.0	30.0

26. It should be noted that the amounts given in column 2 of Table 1 represent the allocation norm for a given level of performance, and would serve as guidelines for resource envelopes (which is the case for regular performance-based lending). As outlined above, the lending levels planned in the TSS would take account of country-specific circumstances, including absorptive capacity and fiduciary concerns, which are especially important in post-conflict settings where policies and institutional depth are often embryonic. Thus lending programs and commitments may in many cases fall short of the available resource envelope. This should be viewed as a result of careful management of resource transfer into difficult situations.

27. Exceptional post-conflict allocations are not an “entitlement”, but rather a reflection of special assistance by IDA to support countries performing strongly in a program to consolidate peace and reconciliation. To underline this fact and ensure broad equity in IDA’s performance-based allocation system, exceptional post-conflict allocations would be limited in duration. Eligibility for exceptional allocations would normally be limited to three years. At the end of these three years, the allocation would again be determined by IDA’s regular PR-based allocation norms, although it may be necessary in some cases to consider continuing exceptional assistance for up to two additional years. IDA’s country program managers will need to gradually phase lending allocations back to normal levels. It is therefore expected that by the third year of post-conflict allocations, the overall CPIA measure for the country is consulted, so that the actual allocation is determined with a view to phasing post-conflict allocations back to a normal level in the near term.

28. While a full evaluation of the new methodology will need to wait until more countries have both entered and exited the period during which exceptional financing would be available, preliminary results suggest that the proposed approach is working well. To date the methodology has been applied to three countries: Eritrea and the Republic of Congo (initial allocations), and Sierra Leone (exceptional fourth year allocation). Details are provided in Annex 3.

VI. CONCLUSION AND ISSUES FOR DISCUSSION

29. The new allocation methodology provides a coherent framework within which the special needs and circumstances of post-conflict countries can be considered, and within which IDA lending decisions can subsequently be made. In particular, it establishes an explicit link between post-conflict performance, measured by criteria tailored to post-conflict conditions, and IDA allocations. The process also allows sufficient room for qualitative judgment by country teams to consider country specific conditions when proposing the initial allocation.

Deputies may wish to discuss the following issues:

- Is there a need for a more systematic approach to allocating resources to post-conflict countries?
- Does the proposed methodology meet this need in a manner that is responsive to the needs and circumstances of post-conflict countries, while at the same time maintaining a strong and appropriate focus on performance?

CONSIDERATIONS FOR THE INITIAL ALLOCATION

Dimensions	Questions
Prospects of Peace	1. Reconciliation: ⁸ Is a peace treaty in place? Have all the major parties signed it? Are insurgent groups still carrying out activities? Which accompanying efforts have been carried out to safeguard the peace treaty or cease fire agreement? Is a mediation process in place and how effective is it?
	2. Domestic security: Have there been shootings over the past six months? Is movement of goods and people around the territory unhindered. To what extent does the security situation allow the preparation, implementation and supervision of projects?
	3. Impact of neighboring conflict: To what extent does conflict in neighboring countries affect the internal conflict dynamics? How would stabilization impact the country's neighbors?
Needs	4. Damage assessment: What is the extent of destruction of social and economic infrastructure? What are the needs of conflict-affected groups? What is the estimated cost of a comprehensive emergency recovery/ reconstruction program?
	5. Absorptive capacity: What level of government and donor resources can be effectively absorbed? If low, can capacity be quickly augmented? What are the main constraints to absorb development assistance?
	6. Adequacy of available resources: Is there a substantial unmet resource need in light of available government and donor resources? Are other donors making a substantial effort to ensure that the recovery program is fully funded? Would IDA engagement help mobilize donor resources? If IDA has a portfolio in the country, what level of resources can be redirected to support the recovery program?
Government Commitment to Sustainable Development	7. Social and economic reform program: Is the government intending to pursue social and economic policies that would contribute to sustainable and broad-based economic growth and poverty reduction? Which constraints could impede the implementation of the reform program?
	8. Economic management: Is the government putting in place adequate economic management functions, including fiduciary safeguards? Is the government committed to normalizing relations with donors and creditors, and has it encouraged official creditors to participate in an orderly arrears clearance process?
Moral Hazard Concerns	9. Signaling impact of IDA involvement: Could a resumption of IDA assistance undermine the domestic or regional commitment to peace? What role did the incumbent government play in the conflict? Could IDA assistance be perceived to "reward" one or more parties to the conflict?
	10. Probability of misuse of IDA assistance: Could IDA assistance fuel the conflict? To what degree should the fungibility of resources be considered a concern, either in the country or regionally?

⁸ To judge incumbent government's reconciliation efforts see also Post-Conflict Performance Indicator #2.

POST-CONFLICT PROGRESS INDICATORS⁹

A. SECURITY AND RECONCILIATION

This cluster of new indicators covering Public Security, Reconciliation, and Demobilization and Disarmament, underscores the importance of a sustainable peace in post-conflict countries. This cluster draws on indicators used to measure the effectiveness of Bank assistance in previous post-conflict situations (e.g., Sierra Leone). The indicators assess the authorities' efforts to reduce the probability of renewed conflict and to provide security to the population. They are not measures of the security situation *per se* but of actions taken by the government to improve the environment for sustainable peace. For several of these indicators, IDA will need to rely on information provided by UN and bilateral agencies.

1. **Public Security**

2	<ul style="list-style-type: none">• Civilian policing is not functioning.• Crime in the major cities is rampant.• Security for war-affected population is not provided.
5	<ul style="list-style-type: none">• Civilian policing is effective.• Crime in the major cities is reduced substantially.• Security for war-affected population is provided.

2. **Reconciliation**

2	<ul style="list-style-type: none">• Government is not recognized by all conflict parties. It is unstable and likely to collapse.• Mediation is not in place or existing mediation is not accepted by the conflict parties.• Parties to the conflict are not being reintegrated into economic and social processes.
5	<ul style="list-style-type: none">• Government is cohesive and functioning. It is recognized by the conflict parties• Mediation is in place and accepted by all conflict parties• Parties to the conflict are fully reintegrated into economic and social processes.

3. **Demobilization and Disarmament**

2	<ul style="list-style-type: none">• Demobilization and disarmament program is not set up or not effective.• Efforts to reintegrate ex-combatants into civil life have not been successful. No transitional safety-nets for ex-combatants have been established.
5	<ul style="list-style-type: none">• Demobilization and disarmament are under way and affecting in equal terms government and rebel combatants.• Transitional safety-nets for ex-combatants have been established.

⁹ This indicator set presents a compilation of CPIA-indicators, performance triggers used by the Sierra Leone Country Team, performance criteria of the PCU, and input from FRM staff.

B. ECONOMIC RECOVERY

This cluster of indicators measures the extent to which policies have been implemented to spur economic recovery. It adapts indicators from the CPIA-categories on Economic Management and Structural Policies. CPIA-indicators that measure performance in areas that are likely to be relevant only in the medium term have been dropped, including *Financial Stability and Depth*; *Banking Sector Efficiency and Resource Mobilization*; *Competitive Environment for the Private Sector*; and *Policies and Institutions for Environment Sustainability*. The new PCPI-indicators *Management of Inflation, External Debt and Adequacy of the Budget*; and *Trade Policy, Foreign Exchange and Price Regimes* (indicators 4 and 5) result from an adaptation of CPIA-indicators measuring *Management of Inflation and Current Account*; *Fiscal Discipline and Management of External Debt*; *Trade Policy and Foreign Exchange Regime*, and *Factor and Product Markets*. The indicator on *Management and Sustainability of the Development Program* (indicator 6) has been kept in a simplified and less demanding mode to emphasize the importance of country ownership and government commitment as key factors for sustainable development.

4. Management of Inflation, External Debt, and Adequacy of the Budget

2	<ul style="list-style-type: none">• Fiscal deficit continues to be a severe concern; the government has not taken measures to increase revenues and/or reduce spending.• The core budget contains inadequate levels of levels of productive expenditures.• Substantial arrears are not addressed adequately. There is no program in place or existing program is not being followed.• Program with the IMF suspended or performing poorly.
5	<ul style="list-style-type: none">• High momentum in implementing structural reforms. The core budget reflects a productive set of expenditures in alignment with agreed priorities for poverty reduction.• Strong commitment to minimize the fiscal deficit and manage the external debt situation.• Program with IMF is on track.

5. Trade Policy, Foreign Exchange, and Price Regimes

2	<ul style="list-style-type: none">• Customs authorities make discriminatory or <u>ad hoc</u> exemptions and valuations.• Gap between official and parallel market rates of foreign exchange remains significant (more than 50 percent).
5	<ul style="list-style-type: none">• Minimal or no foreign exchange restrictions on long-term investment capital inflows.• Official foreign exchange rates are adjusted to parallel market rates (gap stays below five percent).

6. Management and Sustainability of the Development Program

2	<ul style="list-style-type: none">• Actual or incipient economic, political, or security obstacles make it unlikely that authorities will implement needed reforms or prevent backtracking.• Policies and actions of key agencies are not coordinated.• The public and key stakeholders have no influence on, or do not support, key economic development decisions.
5	<ul style="list-style-type: none">• Policies and actions of key agencies are well coordinated.• Authorities have a coherent program of reform or a record of sustained good performance with broad public support.• Participatory processes exist to permit people and stakeholders to influence economic development decisions.

C. SOCIAL INCLUSION AND SOCIAL SECTOR DEVELOPMENT

This cluster assesses if immediate social needs are addressed and focuses on the distribution of assets, income and services among the groups affected by the conflict. It draws on CPIA Indicators on *Equality of Economic Opportunity*; *Equity of Public Resource Use*; *Building Human Resources*; and *Poverty Monitoring and Analysis*. The new set measures the government's policies to reintegrate the displaced population and its provision of the most crucial services in education and health.

7. Reintegration of Displaced Population

2	<ul style="list-style-type: none">• Provision of services for the displaced is mainly donor driven.• Government does not recognize the needs of the internally displaced. Reintegration efforts are ineffective.
5	<ul style="list-style-type: none">• Government coordinates and provides assistance for displaced and returnees.• Displaced population have returned to their homes or substantial progress in returning them is being made.

8. Education

2	<ul style="list-style-type: none">• Programs to address urgent needs, particularly in primary education, are not in place or existing programs are ineffective.• Number of open and functioning schools has not increased.• Spending patterns are significantly biased to the disadvantage of one or several of the groups affected by the conflict.
5	<ul style="list-style-type: none">• Programs to address urgent needs, particularly in primary education, have been set up.• Number of open and functioning schools is increasing steadily.• The government does address disparities among individuals, groups or geographic areas, and in particular the groups affected by the conflict.

9. Health

2	<ul style="list-style-type: none">• No significant improvements in the provision of health to the local population.• Government does not address medical needs of war affected population.• Spending patterns are significantly biased to the disadvantage of one or several of the groups affected by the conflict.
5	<ul style="list-style-type: none">• Number of operating primary health care centers is increasing.• Urgent needs, particularly in war affected areas, are addressed.• Government does address disparities among individuals, groups or geographic areas, and in particular the groups affected by the conflict.

D. PUBLIC SECTOR MANAGEMENT AND INSTITUTIONS

This cluster evaluates the quality of governance by focusing on the government's efforts to effectively manage the public sector, and on the state of its institutions. The cluster draws on the five CPIA governance indicators, which are combined into three PCPI-governance indicators. The CPIA indicators on the *Quality of Budgetary and Financial Management*; *Efficiency of Revenue Mobilization*; and *Efficiency of Public Expenditure* have been combined to one new indicator measuring *Budget Formulation and Efficiency of Revenue Mobilization* (indicator 10). Given the general importance of *Property Rights and Rule-Based Governance* as well as *Transparency and Accountability in the Public Sector*, these two CPIA-indicators have been kept with slight modifications.

10. Budget Formulation and Efficiency of Revenue Mobilization

2	<ul style="list-style-type: none">• A budget is not formulated or formulated budget is not effective.• Revenue collection as a share of GDP remains at very low levels.• No auditing of public accounts.• Tax obligations are negotiable rather than rule-based.
5	<ul style="list-style-type: none">• Budget is formulated and implemented.• Revenue collection authorities are functioning; revenue collection increased significantly (in case of very low revenue/GNP ratios, a two percent increase is desirable).• Public accounts are audited by an independent entity.• Tax administration is effective, cost-efficient, and rule-based.

11. Reestablishing the Administration and Rule-Based Governance

2	<ul style="list-style-type: none">• Civil administration is barely functioning, civil servants work only occasionally (ghost workers and absenteeism).• Salaries are not paid on time.• Contracts cannot be enforced through formal mechanisms.• Number of ministries is very high.
5	<ul style="list-style-type: none">• Administration delivers basic services.• Salaries are paid on time. Efforts are made to improve the efficiency of the civil service.• Contracts are enforced.• Number of ministries is near norm for well-functioning organization (below 20).

12. Transparency, Accountability and Corruption in the Public Sector

2	<ul style="list-style-type: none">• The general public has little voice or participation in public activities. Many public officials have private interests that conflict with their professional duties.• Corruption in the public sector (e.g., bribe-seeking or nepotism) is systemic.
5	<ul style="list-style-type: none">• Accountability for decisions is ensured through independent audits, inspections, etc.• Authorities monitor the prevalence of corruption and implement sanctions transparently; corruption has been reduced significantly or remains at low levels.

RECENT EXPERIENCE WITH POST-CONFLICT ALLOCATIONS

1. This annex shows the result of applying the proposed methodology to three countries over the past year. Section A looks at the how eligibility was determined, and Sections B and C give a synopsis of the assessments for the Republic of Congo and Eritrea, on which the size of the initial allocation was based. These assessments respond to the four groups of questions listed in Annex 1.

I. Eligibility

2. On the basis of a qualitative assessment of conflict intensity (see Table 1) two new countries qualified for exceptional post-conflict treatment during this period. The Republic of Congo qualified because a very high share of its population was displaced and there had been a high degree of physical destruction. Eritrea qualified – in contrast to Ethiopia – because the impact of the conflict (share of human casualties and people displaced) on the social and economic life was disproportionately very much higher.

3. Based on the high number of displaced people and level of physical destruction, it was also decided to continue exceptional treatment for Sierra Leone for a fourth year. The new one-year allocation of \$40 million, or approximately \$8.2 per capita, was based on the country’s PCPR.

Table 1: Conflict Intensity in Recent Cases

Conflict Intensity	Low	Medium	High	Very High
Extent of human casualties		Rep. of Congo Sierra Leone	Eritrea	
Proportion of displaced people			Sierra Leone	Rep. of Congo, Eritrea
Extent of physical destruction		Eritrea	Sierra Leone, Rep. of Congo	

II. Assessment of the Need for an Exceptional Allocation for the Republic of Congo

4. **Overall Assessment:** Improved prospects for peace and increased government commitment to jumpstart the economy and reduce poverty presented a window of opportunity to resume external assistance in support of recovery efforts. Overall needs were high due to the long-term disruption of the administrative and economic life, the high number of refugees, severe war damages, and arrears to IFIs. Still, the initial IDA allocation was kept in the medium range, at about \$13 per capita, mainly because windfall oil revenues reduced the need for external financing.

5. **Probability of Peace:** A peace treaty was signed by major factions in November 1999 and hostilities have ceased since then. Domestic security stabilized and donor agencies resumed their activities in most of the country. However, the conflict dynamics

in the Great Lakes Region continue to pose a threat to sustainable peace. Stabilizing the Republic of Congo could have critical demonstration effects for neighboring conflict-affected countries.

6. **Needs:** The Republic of Congo's social and economic infrastructure was significantly damaged by the civil war. Total damages have been assessed at about \$3 billion (more than GDP). While absorptive capacity has been significantly reduced, some administrative entities have demonstrated a strong ability for speedy reconstruction (e.g., rehabilitation of railroad between Brazzaville and Point Noire). High oil prices have led to higher than expected oil revenues, which has reduced somewhat the need for external assistance. The Bank would be a catalyst for a substantial donor response, particularly since the involvement of some donors may be contingent on the Bank's presence.

7. **Government Commitment to Sustainable Development:** The government has demonstrated its commitment to sustainable development in a three year emergency and rehabilitation program prepared on its own initiative. It has also partially rehabilitated administrative capacity in the health and education sectors, and reopened the Brazzaville-Point Noire railroad, which is critical to restarting the economy and generating government revenue. Lastly, the government has agreed to an orderly arrears clearance process with the IMF and the Bank, in which IDA-arrears would be cleared up-front and IBRD-arrears cleared gradually in the first year of IFI involvement.

8. **Moral Hazard Concerns:** The Republic of Congo has suffered from a long history of poor governance, which worsened further in recent years and contributed to setting off the civil war. Support for the incumbent government is not expected to have adverse consequences, rather it may have a strong signal effect to other governments in the region that are involved in conflicts. The misuse of Bank funds does present a risk in the very fragile domestic and regional environment. However, the peace agreement appears solid, which reduces fungibility concerns, and the incumbent government has been using resources effectively since taking office.

III. Assessment of the Need for an Exceptional Allocation for Eritrea

9. **Overall Assessment:** While the resumption of aid raised moral hazard concerns due to the nature of Eritrea's conflict with Ethiopia, these have subsided as the commitment to peace has increased. Because of the very high needs and the government's proven track record in peaceful times to use donor assistance effectively, the allocation was set at the higher end of the allocation scale (\$30 per capita).

10. **Probability of Peace:** After the Eritrean and the Ethiopian governments signed a cessation of hostilities agreement in June of 2000, and allowed for the deployment of UN troops, the probability of peace improved markedly. Security concerns have been concentrated mainly in the border areas. Developments in neighbouring countries are not now deemed likely to have a significant positive or negative influence on the

Ethiopian/Eritrean relations, though a permanent settlement between the two countries would serve to reduce regional tensions.

11. **Needs:** The overall damage has been estimated at \$800 million. Every fourth Eritrean was displaced and agricultural production was severely disrupted. Because Eritrea was engaged in a border war, the administrative apparatus remained in place and development assistance continued to be executed throughout the conflict. Therefore, the necessary institutions already exist and are able to effectively manage donor assistance. The Bank is playing a leading role in preparing and appraising the entire Eritrea Emergency Reconstruction Program, which is receiving substantial support from all major donors to Eritrea.

12. **Government Commitment to Sustainable Development:** Eritrea presents a paradox between a government that has engaged in a devastating cross-border conflict, yet has a strong general commitment and substantial success in reducing poverty through its social and economic policies. The country's ownership of its development strategies and policies has been exceptional. Its home-grown strategies guided the dialogue with its external partners. Despite the war, the Eritrean government prepared, in a short period of time, projects for Early Childhood Development and the prevention of Malaria and HIV/AIDS even without typical Bank support for project preparation.

13. **Moral Hazard Concerns:** The moral hazard concerns present a critical aspect in the Bank's post-conflict assistance to Eritrea. With the effectiveness of the peace treaty and the deployment of UN troops, the probability of renewed conflict has been minimized. The government's request for Bank assistance with the demobilization of combatants indicates that Bank involvement could strengthen the peace process.