

**ESTABLISHMENT OF A STATE-
AND PEACE-BUILDING FUND**

Operations Policy and Country Services

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ABBREVIATIONS AND ACRONYMS

BP	Bank Procedures
CAR	Central African Republic
CDD	Community-driven development
CPIA	Country Policy and Institutional Assessment
DGF	Development Grant Facility
HIPC	Heavily Indebted Poor Country
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDPs	Internally displaced persons
IMF	International Monetary Fund
LICUS	Low-income countries under stress
LICUS TF	LICUS Implementation Trust Fund
MDB	Multilateral development bank
MDTF	Multidonor trust fund
OECD-DAC	Organisation for Economic Co-operation and Development- Development Assistance Committee
OP	Operational Policy
OPCFC	Fragile and Conflict-Affected Countries Group
OPCS	Operations Policy and Country Services
PBA	Performance-Based Allocation
PCF	Post Conflict Fund
PRSP	Poverty Reduction Strategy Papers
PRSTF	Poverty Reduction Strategy Trust Fund
SDN	Sustainable Development Network
SPF	State- and Peace-building Fund
UN	United Nations

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I. INTRODUCTION

1. On July 1, 2007, to communicate greater clarity on its overlapping fragility and conflict agendas, the World Bank's Conflict Prevention and Reconstruction Unit and its Fragile States Unit merged into a new unit, the Fragile and Conflict-Affected Countries Group (OPCFC). At that time, Management launched an assessment of the two trust funds that have been financing fragility and conflict work, the Post Conflict Fund (PCF) and the LICUS Implementation Trust Fund (LICUS TF). Careful consideration of the purposes of and experiences with the two trust funds, and a series of interviews with country teams and other stakeholders, led to a recommendation for a new integrated fund, the State- and Peace-building Fund (SPF).¹ On December 18, 2007, the PCF/LICUS Trust Fund Committee endorsed this recommendation.

2. ***Purpose and Structure of this Paper.*** This paper proposes the creation of the new trust fund and describes its features. Following this introduction, Section II briefly reviews the Bank's institutional history in responding to the needs of fragile states and conflict-affected countries and provides an overview of the PCF and LICUS TF. Section III sets out the features and governance of the new trust fund that is proposed to replace the two existing ones.

II. BANK RESPONSE TO CONFLICT AND FRAGILITY

3. The Bank's approach to countries affected by conflict, *A Framework for World Bank Involvement in Post-Conflict Reconstruction*, was endorsed by the Executive Directors in May 1997. This framework laid the foundation for the establishment of the Post Conflict Fund (PCF) to catalyze the Bank's work in this relatively new area. The issuance of Operational Policy/Bank Procedures (OP/BP) 2.30, *Development Cooperation and Conflict*, in January 2001 provided the PCF with a policy framework to guide its work.² The Low-Income Countries under Stress (LICUS) Initiative was launched in 2002 in response to recommendations of a task force cochaired by Paul Collier and Ngozi Okongo-Iweala, which explored the international community's concern about lack of progress in countries with the weakest policy and institutional environments, many of them affected by conflict. A year later, the LICUS Implementation Trust Fund was launched to assist LICUS with the most severe conflict and institutional problems to implement the reforms needed to reengage with the international community and address urgent social needs through a coordinated multidonor approach.

¹ "Assessment of LICUS-TF and PCF Needs and Opportunities: Toward a Consolidated Framework," OPCFC, December 12, 2007.

² This policy is based on *Post-Conflict Reconstruction: The Role of the World Bank* (Washington, D.C.: World Bank, 1998), endorsed by the Executive Directors as *A Framework for World Bank Involvement in Post-Conflict Reconstruction*, May 1997.

4. **Rapid Response Policy.** The most recent policy development addressing the specific needs of fragile and conflict-affected countries was the Executive Directors' February 27, 2007, endorsement of a new policy framework expanding the Bank's ability to respond quickly to emergency situations (set out in OP/BP 8.00, *Rapid Response to Crises and Emergencies*). This policy framework has helped to further define the Bank's role where security, development, and relief intersect.³ As part of the framework, new procedures were issued that are more conducive to implementing projects in countries that are typically the recipients of PCF and LICUS TF grants.

A. Funding for Fragile and Conflict-Affected Countries

5. The Bank has various sources of financing available for fragile and conflict-affected countries.⁴ Countries involved in conflict so serious that IDA cannot be active, as well as countries in arrears, can benefit from limited grant financing from the PCF and LICUS TF. Once countries in arrears start on the path toward recovery, they can benefit from access to pre-arrears clearance grants from IDA, and eligible countries can also benefit from exceptional support for arrears clearance. Post-conflict countries benefit from exceptional allocations once arrears are cleared. The new IDA15 framework extends the period of exceptional allocation from 7 to 10 years.⁵ The Bank can also provide support from IBRD surplus.⁶ In addition to the PCF and LICUS TF, other trust funds and grant instruments support fragile and conflict-affected countries; for example, multidonor trust funds for specific countries or situations (for instance, Afghanistan, Timor-Leste, and Liberia), and mechanisms that provide financing across various regions (for example, Japan Social Development Fund, Trust Fund for Environmentally and Socially Sustainable Development, Institutional Development Fund, and Africa Catalytic Fund).

6. **PCF and LICUS TF Summary.** The Bank has assisted fragile and conflict-affected countries since 1997 through the PCF, and since 2004 through the LICUS TF.⁷ These multidonor trust funds have similar mandates, separate sources of financing, and a

³ The applicable legal and policy considerations, which apply to the Bank's activities involving peace-building, security and relief, are summarized in "Legal Opinion on Peace-Building, Security, and Relief Issues Under the Bank's Policy Framework for Rapid Response to Crises and Emergencies," issued by the Bank's Senior Vice President and Group General Counsel on March 22, 2007.

⁴ Annex A provides a list of member countries, territories of member countries, and non-members that have accessed PCF, LICUS TF, IBRD surplus and customized IDA instruments.

⁵ See *Additions to IDA Resources: Fifteenth Replenishment. IDA: The Platform for Achieving Results at the Country Level*, (IDA/R2008-0021), February 6, 2008.

⁶ See *Criteria for Use of International Bank for Reconstruction and Development Surplus* (R2006-0206), November 21, 2006, for a breakdown of uses of IBRD net income and surplus. Transfers classified as "high priority funding areas" include funding to the LICUS TF as well as the following member countries, territories of member countries, and non-members: West Bank and Gaza, Bosnia and Herzegovina, Rwanda, Kosovo, Timor-Leste, Federal Republic of Yugoslavia, Liberia, and North and South Sudan. Under the category of "recovery from extreme natural or man-made disasters," transfers were also made to Aceh and North Sumatra, post-tsunami India, post-earthquake Pakistan, and Lebanon.

⁷ Funding for the Bank's Post-Conflict Program began with the creation of the Development Grant Facility (DGF) in 1997. The Post Conflict Fund was officially established in May 28, 1999, by Board Resolution R99-105. The LICUS Implementation Trust Fund was established by Resolution 2004-0001, adopted on January 15, 2004.

unified administrative mechanism. The PCF is mainly funded by the Development Grant Facility (DGF), at about \$8 million annually. The LICUS TF is mostly financed from IBRD surplus on the basis of requests to the Board for replenishment. There have been three transfers—\$25 million (2004), \$25 million (January 2006), and \$30 million (November 2006).

7. ***PCF and LICUS TF Themes, Coverage, and Administration.*** The two funds finance projects that promote economic and social recovery, governance, civil society participation, and human security. Important themes have been social development (31 percent of total grant funding) and public sector governance (17 percent of total grant funding). The LICUS TF has focused on countries in arrears, but has also supported countries in the period after reengagement. The PCF has focused on targeted, innovative approaches to the prevention of, and recovery from, conflict in a broad range of Bank member countries and non-member territories. Oversight of the funds and approval of proposed projects is guided by a single Bankwide Steering Committee, whose governance structure allows a quick response and thorough review. Day-to-day management is provided by a Secretariat that is housed in OPCFC.

8. ***Current PCF and LICUS TF Funding Status.*** The total funding for the PCF from FY98 to FY08 is \$100.4 million.⁸ As of March 1, 2008, the balance available for approval of new grants was approximately \$1.5 million.⁹ The total funding for the LICUS TF from FY04 to FY08 is \$90.4 million.¹⁰ As of March 1, 2008, the balance available for approval of new grants was approximately \$14.2 million.

B. PCF and LICUS TF Achievements

9. Over several years of operation, the PCF and LICUS TF have registered an extensive range of results, particularly in a few key dimensions that have contributed significantly to the Bank's work.¹¹

- ***Sequencing and scaling up.*** Perhaps the most important feature of both the PCF and LICUS TF is their use as instruments of Bank engagement in countries that otherwise have limited or no involvement with the Bank. Both funds have provided an entry point for scaling up Bank funding for specific projects or for reengaging with IDA in a country. In the Democratic Republic of Congo, 10 PCF projects between 1998 and 2002 built a base for a \$50 million pre-arrears clearance grant from IDA. In Côte d'Ivoire, PCF funding helped the country prepare for a \$120 million pre-arrears grant. In Haiti, \$2.2

⁸ Total funding includes DGF contributions since FY98, external donor contributions, and trust fund investment income. Donors to the PCF include Belgium, Brazil, Canada, the Netherlands, Norway, and Switzerland, as well as the UN High Commissioner for Refugees (UNHCR) and the UN Development Programme (UNDP).

⁹ The available balance is the amount remaining from total income after subtracting the full amount of grants approved by the PCF/LICUS Committee.

¹⁰ Total funding includes contributions from IBRD surplus since FY04, external donor contributions and trust fund investment income. Donors to the LICUS TF include Denmark and Norway.

¹¹ More details are available in the PCF and LICUS TF Fiscal Year 2007 Annual Report.

million in PCF funding in FY04 was scaled up to a \$6.5 million LICUS package in FY05, laying the base for IDA engagement.

- ***Cross-cutting, innovative approaches.*** Many of the projects funded by the PCF and LICUS TF apply innovative, cross-cutting approaches to the challenges of conflict and fragility. As a result, it is often difficult to classify projects according to the Bank's sector classification scheme. For example, community-driven development (CDD) projects have featured prominently in both trust funds because they can quickly deliver high-visibility services at the local level and build peaceful relations within communities through participatory processes. The PCF, in particular, has funded projects focusing on vulnerable population groups: former combatants (via demobilization and reintegration programs), refugees and internally displaced persons (IDPs), youth, children, and women (including war widows). Both funds have also pursued unique approaches to peace-building in areas such as psychosocial health care, leadership training, conflict-sensitive education reform, and dialogue and reconciliation programs.
- ***Strategic partnerships.*** Partnership with UN agencies has played an important role both by filling gaps in the Bank's capacity to operate in certain countries (due, for example, to its limited field presence), and by fostering a collaborative, comparative advantage-driven approach to development. Both funds operate at the intersection of development, conflict prevention, post-conflict reconstruction, and peace-building, within the Bank's legal and policy framework. They have allowed the Bank to engage with organizations that it does not typically work with, including a wide range of nongovernmental organizations (NGOs) and such government agencies as the Committee of Real Property Claims of Displaced Persons (Bosnia and Herzegovina) and regional entities such as the African Union Mission for Darfur, Sudan (in support of the peace process). The PCF has also supported cutting-edge academic research at world-class institutions such as the Harvard Program in Refugee Trauma, Oxford University, Yale University, the Woodrow Wilson International Center for Scholars, and the Center for Conflict Resolution (South Africa).

10. ***Recent Results from the LICUS TF.*** The following summarizes some of the key results that have emerged during FY08 from projects funded by the LICUS TF.

- ***Visible results in support of peace-building efforts.*** Through a project focusing on labor-intensive rebuilding of basic infrastructure, the Government of Haiti has been able to demonstrate the potential for activities that address two key risks to political and economic stability: high unemployment and poor infrastructure. In addition to the hands-on, community-based pilot project, institutional approaches were developed to improve waste collection and disposal in Port-au-Prince and community-managed water and sanitation in rural areas.

- ***Preparing financial systems for arrears clearance.*** In December 2007, the Government of Liberia cleared its arrears to the World Bank, beginning the process for full debt relief under the Heavily Indebted Poor Country (HIPC) and Multilateral Debt Relief Initiative programs. LICUS TF funding was a vital source of support for technical assistance to rebuild the country's public financial management system—an essential prerequisite to the clearance of public debt.
- ***Poverty reduction strategies for more effective donor engagement.***¹² The Central African Republic (CAR), Liberia, and Guinea Bissau have been supported in their preparation of poverty reduction strategy papers (PRSPs). In CAR, LICUS TF financing supported preparation of a macroeconomic framework, rendering it compatible with the Debt Sustainability Analysis being prepared in the context of the HIPC Decision Point document; proper costing of PRSP programs by sector and at the aggregated level; and the establishment of appropriate monitoring and evaluation mechanisms, including appropriate budget execution information systems.
- ***Catalyzing international engagement.*** In Togo, after a decade of political and social instability, legislative elections held in October 2007 produced a window of opportunity for the government to reengage with the international community. After supporting two phases of a social services delivery program in two regions of the country, LICUS TF funding was scaled up in November 2007 with a \$5 million package of support to further institutionalize social services delivery and to carry out economic recovery activities. The LICUS TF-supported activities are providing a foundation for rapid Bank engagement and collaboration with other donors that have begun to reengage and scale up their support to the country (for instance, the IMF, African Development Bank, and European Commission).

11. ***Recent Results from the PCF.*** Since the establishment of the LICUS TF, the PCF has been focusing mainly on two areas: (a) activities that seek to address the root causes of conflict and the need to rebuild the social fabric of conflict-affected societies, increasingly in middle-income countries; and (b) early post-conflict reengagement in non-LICUS countries and certain non-members. The following are a few examples of FY08 results in these areas.

- ***Conflict-sensitive approaches in middle-income countries.*** In Sri Lanka, a Peace Audit in late 2006 provided information that has facilitated more conflict-sensitive development planning at the district level. This project paved the way for the approval of a “strategic package” of seven grants to be implemented over the course of FY07-09 by NGOs that are all working to develop and apply new peace-building approaches.

¹² Support from the LICUS TF has helped to address a gap in funding that arose with the decision to close the Poverty Reduction Strategy Trust Fund (PRSTF) in 2006. The proposed new trust fund would be expected to fill some of the demand that can no longer be met by the PRSTF.

- ***Subnational focus on development in conflict-affected areas.*** The Mindanao Reconstruction and Development Program in the Philippines was established at the request of the government to channel resources from development partners for peace-building activities in the conflict-affected areas of the Mindanao Islands. A PCF grant has supported the assessment and establishment of the program as well as funding for several community-based infrastructure projects.
- ***Support to non-members and territories of non-members.*** As a complement to IBRD surplus funding, the PCF has supported activities in West Bank and Gaza and Kosovo. Funding for West Bank and Gaza has supported the monitoring of the flow of cargo between the Palestinian areas and Israel, a core element of the November 2005 Agreement on Movement and Access between the two parties. In Kosovo, the PCF has provided almost \$10 million in financing since 1999. The active portfolio of projects amounts to more than \$4 million for three projects (fiscal decentralization, education, and youth); this exceeds the \$3 million IDA allocation to support the one-year 2007 Interim Strategy Note.

III. CREATING THE STATE- AND PEACE-BUILDING FUND

12. This paper proposes the creation of a new multidonor trust fund, the State- and Peace-building Fund (SPF), to replace the PCF and LICUS TF.¹³ The primary rationale for establishing this new fund is to consolidate the Bank's strategic approach to conflict and fragility and streamline related processes and procedures. This consolidation would align the two funds with the merger of Bank units responsible for fragility and conflict, and would also address several problems with the two existing funds: their objectives overlap considerably; the existence of two different funds with different channels of funding has led to complex accounting and reporting arrangements; and the funding streams—particularly that for the LICUS TF, which relies on replenishment requests from IBRD surplus—are erratic from year to year and unpredictable.

13. ***Conceptual Alignment.*** By placing the interlinked processes of “state-building” and “peace-building” at the core of the new trust fund, the Bank would be more closely aligned with the discourse in the international community (such as the UN Peace-Building Commission), the OECD-DAC emphasis on Security and Development, and the statement of the Heads of the Multilateral Development Banks (MDBs) on pursuing a more harmonized approach to engagement in fragile situations that acknowledges state- and peace-building as areas for shared action.¹⁴

¹³ Annex B presents a draft resolution for the creation of the trust fund.

¹⁴ See *Principles of Good International Engagement in Fragile States and Situations*, April 2007, OECD-DAC. Also see Report of the MDB Working Group: *Toward a More Harmonized Approach to MDB Engagement in Fragile Situations*, Meeting of Heads of Multilateral Development Banks and Multilateral Financial Institutions, October 2007, Washington, D.C.

14. **Defining State- and Peace-building.** Building states and building peace should not be understood as separate objectives of the new fund, but rather as interrelated, complementary processes. The following definitions can guide the fund's operational focus.¹⁵

- **State-building** seeks to strengthen, build, or rebuild institutions of governance that are capable of providing the population with transparent and accountable management of public finances and state assets, investment in human capital and social development, the rule of law, basic services and infrastructure, and an enabling environment for market formation, among other functions. The inability of the state to perform such functions is inherent to conditions of fragility and conflict. By strengthening and building institutional capacity to discharge those functions, state-building contributes to increasing the state's effectiveness.¹⁶
- **Peace-building** seeks to develop conditions, values, and behaviors that foster and sustain social and economic development that is peaceful, stable, and sustainable. According to the United Nations, peace-building includes the broad spectrum of reconstruction and institution-building efforts that are necessary for a country to recover from conflict and that support the development of integrated strategies to lay the foundation for sustainable development.¹⁷

15. **Goal.** The SPF's overarching goal would be to address the needs of state and local governance and peace-building in fragile and conflict-prone and -affected situations.¹⁸ SPF would conceptually combine the LICUS TF's focus on early systematic strategic analysis, harmonized donor approaches, economic governance reform, and capacity and institutional development interventions with PCF's more targeted, operationally speedy and innovative project approach responding to high visibility needs and opportunities.

16. **Objectives and Activities.** The SPF would operate in accordance with the Bank's Articles of Agreement and its areas of core competencies under two main objectives: to support measures to improve governance and institutional performance in countries

¹⁵ Both state-building and peace-building activities would be undertaken consistently with the Bank's mandate under the Articles of Agreement and the applicable legal and policy framework.

¹⁶ See for example, *Principles for Good International Engagement in Fragile States*, OECD, April 2007, "An Agenda for State-building in the Twenty-first Century," Ashraf Ghani, Clare Lockhart and Michael Carnahan, *The Fletcher Forum of World Affairs*, vol 30:1, Winter 2006, *Low Income Countries Under Stress Update*, (IDA/R2005-0251), December 2005, and *Fragile States: Good Practice in Country Assistance Strategies*, (IDA/R2005-0252), December 2005.

¹⁷ See "Remarks on the General Assembly's Endorsement of the Peace-Building Commission" (SG/SM/10277 GA/10440), December 20, 2005, UN Secretary-General. This definition is also cited in the "Legal Opinion on Peace-Building, Security, and Relief Issues Under the Bank's Policy Framework for Rapid Response to Crises and Emergencies,"

¹⁸ The emphasis on local governance connotes the need for carefully targeted assistance in strong central states with weak periphery or subnational governance, in effect addressing the needs of populations that have become vulnerable because of weak governance and incipient conflict.

emerging from, in, or at risk of sliding into crisis and arrears; and to support the reconstruction and development of countries prone to, in, or emerging from conflict.¹⁹ It would strive to contribute to harmonized multidonor approaches whenever possible and to capture and disseminate the lessons of its activities to promote a better understanding of fragility and conflict dynamics and of effective strategic and operational approaches to engagement in fragile and conflict situations.

Objective 1: Support measures to improve governance and institutional performance in countries emerging from, in, or at risk of sliding into, crisis or arrears. This objective would focus on strengthening, building, and rebuilding state effectiveness through institutional strengthening and economic governance interventions. The main priorities for support would be fragile countries and areas of countries in arrears and/or political, economic, or social transition. In addition, the fund could provide smaller, more localized assistance to member countries or areas of member countries that are in political transition or low-intensity conflict or are at risk of conflict.

Indicative activities that could be funded under this objective might include the following:

- strengthening economic governance at national and subnational levels;
- activities relating to the transparent and accountable collection, management, and use of public resources for all government functions, including the security sector, within the Bank’s mandate;²⁰
- creating inclusive, cohesive, and accountable institutions;
- support for the establishment of property rights and asset restitution mechanisms;
- providing initial salary support to alleviate fiscal pressure in weak states, particularly the provision of salaries for critical basic services;
- providing leadership and technical training for a cadre of nationals responsible for managing (planning and implementing) a transition; and
- establishing technical assistance programs that attract diasporas, develop human capital, and facilitate south-south exchanges.

¹⁹ Activities to be financed by the trust fund would be consistent with the Bank’s applicable legal and policy framework for operations in fragile and conflict-affected countries, including: OP 2.30, *Development Cooperation and Conflict*; OP 6.00, *Bank Financing*; OP 7.30, *Dealings with De Facto Governments*; OP 8.00, *Rapid Response to Crises and Emergencies*; OP 8.45, *Grants*; OP 14.40, *Trust Funds*; and such other documents as the operational memorandum *Demining—Operational Guidelines for Financing Land Mine Clearance* (February 7, 1997).

²⁰ The Bank’s work in the security sector will be undertaken in accordance with the existing legal and policy framework discussed in “Legal Opinion on Peace-Building, Security, and Relief Issues Under the Bank’s Policy Framework for Rapid Response to Crises and Emergencies” issued by the Bank’s Senior Vice President and Group General Counsel on March 22, 2007.

Objective 2: Support the reconstruction and development of countries prone to, in, or emerging from conflict. This objective would place emphasis on post-conflict recovery, bridging the gap between humanitarian relief and development activities, addressing heightened conflict risk and growing tensions, designing more conflict-sensitive development interventions, responding to the targeted needs of vulnerable or conflict-affected populations, and deepening the knowledge base for successful intervention via research.

Indicative activities that could be funded under this objective might include the following:

- local area-based CDD-type mechanisms and funds;
- social and economic reintegration of conflict-affected populations—IDPs, refugees, former combatants—including cash transfers as a form of transitional safety net;
- providing technical assistance on economic issues to peace mediation processes;
- employment creation and support to the private sector;
- access to justice and establishment of the rule of law;
- developing Watching Briefs to build knowledge, create partnerships, and position the Bank for early and effective engagement;
- support to cross-border public goods (such as regional integration); and
- support to victims of violence or conflict enduring psychosocial duress or post-traumatic stress disorder.

17. **Monitoring, Evaluation, and Knowledge Sharing.** To reinforce the SPF’s role in catalyzing the Bank’s state- and peace-building work, the Bank would use a robust system of monitoring and evaluation to extract lessons learned and disseminate them widely both internally and externally. Country teams’ application of this knowledge would strengthen the design and implementation of operations in fragile and conflict situations.

18. **Country Eligibility.** Like the PCF, financing from the new SPF would be available to all Bank member countries (IBRD and IDA-eligible countries, as well as countries in arrears). Assistance from the trust fund would also be available to non-members on a case-by-case basis when the Executive Directors have determined that the Bank’s assistance to such non-members is in the interests of the membership as a whole. To ensure selectivity, however, priority would be given to countries with one or more of the following characteristics: arrears to IBRD and/or IDA; “fragile state/situation,” defined by a CPIA rating of 3.2 or lower (reflecting poor governance and weak institutional capacity); the presence of a UN or regional peacekeeping or political

mission; current violent conflict; violent conflict within the past 10 years;²¹ insufficient IDA grant allocations during a transition process when needs are high; and deteriorating situations, including an escalating risk of falling into arrears or violent conflict.

19. **Complementary Role of the SPF.** As the IDA15 paper *Operational Approaches and Financing in Fragile States* notes, PCF and LICUS TF grants have complemented the support made available by IDA by providing financing for countries in arrears and for small and urgent activities not easily funded under regular IDA credit or grant operations.²² The new trust fund would continue with this approach. Careful consideration would be given to maintaining the integrity of IDA's Performance-Based Allocation (PBA) system while recognizing the need for timely Bank assistance in crisis situations.

20. **Project Justification.** In addition to the country characteristics, funding applicants would be required to provide justification for the use of funds based on the unique context of their proposed projects. Funding from the SPF would be considered most suitable where high-priority activities could not be supported easily or in a timely fashion with regular IDA and IBRD resources and operations; there is a high likelihood that funding the activities would contribute to peace and development; and/or there is a high likelihood of scaling up operations or testing new approaches by leveraging government, donor, or additional Bank financing.²³

21. **Implementing Agencies.** As for the PCF and LICUS TF, grant recipients would include member countries and non-member territories and their agencies, agencies of the United Nations, regional organizations, nongovernmental organizations and other public or private institutions acceptable to the Bank. In certain exceptional situations, the Bank would also be able to act as executing agency for activities to be financed by an SPF grant.²⁴ To address a decline in global and regional activities funded by PCF and LICUS TF in recent years, special emphasis would also be given to cultivating partnerships with research institutes that are known for their expertise in state- and peace-building.

A. SPF Funding

22. To finance the SPF, Management will request an amount of \$100 million for the three-year period FY09-11 as part of the IBRD's administrative budget, to be approved annually by the Board in \$33.3 million increments. The budget would be treated as a

²¹ This 10-year period aligns with the decision under IDA15 to extend the period of exceptional post-conflict allocations from 7 to 10 ten years. Empirical research has shown that the risk of reversion to conflict diminishes significantly only after 10 years. See Chapter Four in "Breaking the Conflict Trap: Civil War and Development Policy," World Bank, 2003.

²² *Operational Approaches and Financing in Fragile States*, June 2007.

²³ The SPF foresees the possibility of providing seed funding via MDTFs administered by the Bank to ensure the rapid implementation of critical activities and mobilize additional donor resources.

²⁴ In exceptional cases, for example, when a recipient is a new member country or inactive borrower, if its administrative capacity has been adversely affected by conflict or civil strife- the Bank may consider carrying out project activities on the recipient's behalf. In such cases, the bank retains the funds for execution of agreed activities and enters into a legal agreement with the recipient. However, the Bank never executes cofinancing trust funds or funds final design or project implementation activities.

below-the-line item, and would be the subject of a separate recommendation in the budget document. This amount would include Secretariat costs.²⁵ To ensure sustained country engagement, funding at a similar or higher level would be expected to continue beyond the initial three-year period. The use of the administrative budget for the new trust fund would provide for more medium-term certainty in the flow of funds while strengthening accountability and transparency.²⁶ Inclusion of the SPF in the administrative budget would require an amendment to OP/BP 8.45, *Grants* to make reference to the SPF as a significant provider of grant funds in addition to the DGF and other Bank-administered trust funds mentioned in the policy.

23. ***Bilateral Donors and Funding Mix.*** Bilateral donors now contribute less than 10 percent to the PCF and LICUS TF. To allow for an increased volume of grants and promote a broader framework of donor collaboration and alignment in addressing the issues of state- and peace-building, efforts would be made to attract a higher percentage contribution of bilateral donors to the new trust fund. New donors would be charged a customized fee to cover the costs of administration in line with the Management Framework for World Bank-administered Trust Funds that was endorsed by the Board on October 30, 2007.

24. ***Phasing Out PCF and LICUS TF.*** Neither the PCF nor LICUS TF would be open to further contributions from FY09 forward. However, the Secretariat for the new SPF would continue to operate as the Secretariat for the PCF and LICUS TF until all of the remaining funds from each of the trust funds have been disbursed, and they are closed. Phasing out both funds in this way would ensure their accountability to contributing donors as well as the continuity of their financial reporting and audits. In consultation with donors, the closing dates for each trust fund would be extended for an appropriate time to ensure the successful implementation of all active projects.

B. SPF Governance and Management

25. The current PCF/LICUS TF Committee would be retained as the new SPF Committee, ensuring that the Regional, Network, Legal, and other relevant vice-presidencies are represented.²⁷ OPCS would continue to appoint the Committee chair. Terms of reference for the new Committee, including the core responsibility of approving project proposals, would be presented for the Committee's endorsement. Staff guidelines for use of the trust fund would also be developed on the basis of the existing guidelines for the PCF and LICUS TF. Efforts to simplify the procedures of applying for, activating

²⁵ Secretariat costs would be budgeted for a total of six years, including a period of three years beyond the FY09-11 funding requested, with the cost per year diminishing over the last two years. This would allow for the ongoing management and closure of the trust fund if no further funds were allocated after FY11. The cost of the Secretariat would also include administration of the active PCF and LICUS TF grant portfolios, as well as winding down and closure of the two trust funds.

²⁶ Currently, PCF funds are allocated on an annual basis as a part of the DGF request to the Board. LICUS TF funds are approved separately through occasional requests to the Board for the use of IBRD surplus, and are dependent upon the availability of such funds. The SPF would therefore simplify requests to the Board for funding to a single decision point. DGF funding for the PCF would be redirected to the new trust fund within the administrative budget.

²⁷ After the SPF is established, the SPF Committee will also discharge for the functions of the existing PCF/LICUS Committee for activities financed from the PCF and LICUS TF.

and managing SPF grants would be undertaken in cooperation with other relevant Bank units to ensure rapid response and project delivery.

26. **Secretariat.** The current PCF/LICUS Secretariat would be renamed the SPF Secretariat, and would provide integrated management of the new fund as well as of the PCF and LICUS TF until they are fully disbursed and closed. The Secretariat would aim to retain and enhance its highly flexible and rapid response support to country teams, processing proposals on a year-round, rolling basis. Knowledge and learning activities would be strengthened to ensure that all grants benefit from high-quality evaluations (by staff and external evaluators) and that the lessons from PCF, LICUS TF, and SPF grants are disseminated widely. The Secretariat's knowledge management function would be an integral part of OPCS's corporate knowledge sharing on fragility and conflict.

IV. CONCLUSION AND NEXT STEPS

27. By including "Fragility and Conflict" as one of the six strategic themes for achieving inclusive and sustainable globalization, the Bank has expressly renewed its commitment to this critical segment of the Bank's client base. The unique and often perplexing challenges that accompany work in these countries have long been a frustration to development practitioners. This is why these countries require customized strategies and dedicated resources. This paper has set out a proposal for a new trust fund, the State- and Peace-Building Fund, which would replace two trust funds that have had a strong record of success in fragile and conflict-affected countries. Creation of the SPF would send an important signal of the Bank's intent to address the challenges of fragility and conflict in an integrated way.

28. **Next Steps.** If the Executive Directors approve the establishment of the new SPF, Management will revise OP 8.45, *Grants*, accordingly. It would also cease to accept new contributions to the PCF and LICUS TF and will proceed to close the trust funds as soon as practically possible. It is expected that the Secretariat will begin processing applications for the new grant funds upon approval of the Bank's FY09 budget by the Executive Directors. The Secretariat would report annually to the Board and to donors on the use of trust fund resources.

ANNEX A: SOURCES OF FUNDING FOR FRAGILE AND CONFLICT SITUATIONS^a

<i>Country/territory</i>	<i>LICUS TF</i>	<i>PCF</i>	<i>IBRD Net Income/ Surplus Transfer</i>	<i>IDA Pre- Arrears Clearance Grant</i>	<i>IDA Re-engage- ment Allocation</i>	<i>IDA Post- Conflict Allocation</i>
Afghanistan		X		X		X
Angola						X
Bosnia and Herzegovina		X	X			
Burundi	X	X				X
Cambodia	X	X				
Central African Republic	X	X			X	
Chad		X				
Colombia		X				
Comoros	X	X				
Congo, Democratic Republic of		X		X		X
Congo Republic		X				X
Côte d'Ivoire	X	X		X		X
Eritrea		X				X
Georgia		X				
Guinea-Bissau	X					X
Haiti	X	X			X	
India (post-tsunami)			X			
Indonesia		X	X			
Iraq		X				
Kosovo ^b		X	X			
Lebanon		X	X			
Liberia	X	X	X	X		X
Nigeria		X				
Pakistan (post-earthquake)			X			
Philippines		X				
Russia ^c		X	X			
Rwanda		X	X			
Serbia ^d		X	X			
Sierra Leone		X				X
Somalia	X	X				
Sri Lanka		X				
Sudan	X	X	X			
Tajikistan		X				
Thailand		X				
Timor Leste	X	X	X			X
Togo	X					
Uganda		X				
West Bank and Gaza		X	X			
Zimbabwe	X					

^a Exceptional allocations for post-conflict and re-engaging countries are provided in accordance with the rules set out in IDA replenishment agreements. The rules applicable for the IDA15 period are provided in: "Additions to IDA Resources: Fifteenth Replenishment. IDA: The Platform for Achieving Results at the Country Level", IDA/R2008-0021, February 6, 2008. See Section IV.B and Annex 1, paragraph 7.

^b Kosovo was eligible for PCF grants initially as a part of FRY Yugoslavia, subsequently as a part of Serbia and Montenegro, and then as a part of Serbia. The actual recipient of the grants was the United Nations Mission in Kosovo (UNMIK).

^c This also includes a grant to the Union of Socialist Soviet Republics (USSR) from IBRD surplus in 1991.

^d Serbia received PCF funds initially as a part of FRY Yugoslavia and subsequently as Serbia and Montenegro.

ANNEX B: DRAFT RESOLUTION OF THE EXECUTIVE DIRECTORS OF IBRD AND IDA

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION**

RESOLUTION NO. _____

RESOLUTION NO. IDA _____

**ESTABLISHMENT OF A TRUST FUND FOR STATE- AND
PEACE- BUILDING**

WHEREAS:

(A) the Executive Directors of the International Bank for Reconstruction and Development (“IBRD”) and the Executive Directors of the International Development Association (the “Association”) (IBRD and the Association, collectively, the “Bank”) agree that it is desirable to promote the purposes of the Association by establishing a State- and Peace- Building Trust Fund (the “Trust Fund” or “SPF”), administered by the Bank, in order to provide grant funding for: (i) fragile, conflict-prone, or conflict-affected member countries of IBRD (ii) areas or territories of IBRD member countries that are fragile, conflict-prone, or conflict-affected; and (iii) fragile, conflict-prone, or conflict-affected non-members in respect of which the Executive Directors shall have determined that assistance from IBRD or the Association or both is in the interests of the membership as a whole; and

(B) the Bank is prepared to establish the Trust Fund, to be trustee thereof (in such capacity, the “Trustee”), and to administer it on the terms and conditions set forth in this Resolution;

NOW, THEREFORE, it is hereby resolved that:

1. The Trust Fund is hereby established as a multidonor trust fund (“MDTF”) of the Bank, constituted from the funds that shall, from time to time, be contributed in accordance with the provisions of this Resolution, and any other assets and receipts of the Trust Fund.

2. The Trustee is authorized to accept contributions to the Trust Fund from the Bank in its capacity as a donor to the Trust Fund and from donors other than the Bank (collectively, “Contribution Funds”) for the general purposes of the Trust Fund on terms to be agreed between the Trustee and each contributor. The Trustee shall enter into a Trust Fund Administration Agreement with each donor other than the Bank (the

“Administration Agreement”), in form and substance satisfactory to the Trustee, whereby each donor shall agree to pay its contribution to the Trust Fund in accordance with the terms of this Resolution. In order to assist the Trustee in defraying costs and expenses of administering the donor contribution, the Trustee shall deduct and retain, for its own account, from each donor contribution an amount consistent with the Bank’s policy on cost recovery for trust funds. The Trustee shall not charge an administrative cost recovery fee on the Bank contributions to the Trust Fund. Contributions to the Trust Fund shall be denominated in United States dollars or any other currencies acceptable to the Trustee, provided, however, that the Trustee shall, upon receipt, convert contributions made in currencies other than in United States Dollars into United States Dollars for the purposes of the Trust Fund.

3. The Trustee shall hold and administer all Contribution Funds, assets, and receipts in trust for grants and contributions to (i) fragile, conflict-prone, or conflict-affected member countries of IBRD; (ii) areas or territories of IBRD member countries that are fragile, conflict-prone, or conflict-affected; and (iii) fragile, conflict-prone, or conflict-affected non-members in respect of which the Executive Directors shall have determined that assistance from IBRD or the Association or both is in the interests of the membership as a whole. The Trustee shall manage and use the Contribution Funds, assets, and receipts only for the purposes of, and in accordance with the provisions of, this Resolution. Except as otherwise provided in this Resolution, and in accordance with the Bank’s policies and procedures, the Trustee shall keep the Contribution Funds, assets, and receipts separate and apart from all other accounts and assets of the Bank. However, the Trustee may commingle the Contribution Funds with other trust fund assets maintained by the Bank, and such Funds may, at any time, be freely exchanged by the Trustee into other currencies to facilitate their administration and disbursement.

4. The Trustee is authorized to use the Contribution Funds to finance the Secretariat costs of administering the trust fund and activities related to winding up the Post Conflict and the Low Income Countries Under Stress Implementation Trust Funds, to make grants directly from the Trust Fund and to make contributions from the Trust Fund to Bank administered MDTFs (as defined below) in accordance with the Bank’s operational policies relevant to state-building and peace- building activities¹ and with the terms of this Resolution to support the following broad objectives:

¹ For the purpose of this resolution, (a) the term “state-building activities” means: activities that can be undertaken or financed consistently with the Bank’s mandate and legal and policy framework that are directed at strengthening, building, or rebuilding institutions of governance that are capable of providing the population with transparent and accountable management of public finances and state assets, investment in human capital and social development, the rule of law, basic services and infrastructure, and an enabling environment for market formation, among other functions; and (b) the term “peace-building activities” means: activities that can be undertaken or financed consistently with the Bank’s mandate and legal and policy framework that include the broad spectrum of reconstruction and institution-building efforts necessary for a country to recover from conflict and that support the formulation of integrated strategies in order to lay the foundation for sustainable development including social and economic reintegration of conflict-affected populations, financing labor-intensive employment initiatives, financial support and technical assistance for economic reconstruction, and rebuilding legal and judicial systems.

- (a) support measures to improve governance and institutional performance in countries emerging from, in, or at risk of sliding into crisis or arrears; and
- (b) support the reconstruction and development of countries prone to, in, or emerging from conflict.

All such grants and contributions shall be made subject to the approval of the SPF Committee, a committee comprising representatives from various units within the Bank.

5. Grants and contributions from the Trust Fund may be made to: (a) eligible grant recipients as defined in paragraph 6; and (b) Bank-administered MDTFs. All Contribution Funds credited to the Trust Fund shall be used to provide grants for activities that support the objectives referred to in paragraph 4 and in countries and territories described in paragraph 3 above. "Bank-administered MDTFs" shall refer to (a) trust funds administered solely by IBRD or the Association, or (b) trust funds administered collectively by IBRD and the Association.

6. For grants made directly from the Trust Fund to eligible grant recipients, the Trustee shall enter into a grant agreement with each recipient setting forth the terms and conditions on which such grant shall be provided ("Grant Agreement"). Eligible grant recipients shall include member countries or non-member territories, their agencies or instrumentalities, nongovernmental organizations, agencies or instrumentalities of the United Nations, international or regional organizations, and other public or private institutions acceptable to the Trustee. The Trustee shall be solely responsible for the supervision of activities financed under the Grant Agreements except in cases involving execution of activities by agencies of the United Nations if the underlying Grant Agreements provide for alternative supervision arrangements. In such cases, the Trustee shall not be responsible for the supervision and monitoring of the United Nations and shall act as a purely fiscal agent or a financial intermediary ("FIF").

7. Except as the Trustee may otherwise agree, the Grant Agreements shall provide that the recipients will use Contribution Funds to finance expenditures for works, goods, and services as the case may be, in accordance with the World Bank's "Guidelines on Procurement under IBRD Loans and IDA Credits," "Guidelines on the Selection and Employment of Consultants by World Bank Borrowers," and "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants" that are in effect at the date of the Grant Agreements. Upon the written request of the member or territory, the Bank may act as executing agency for the recipient in carrying out the activities to be financed by the grant. In such cases, categories of eligible operational expenditures may include: short term consultant fees, extended term consultant salaries and benefits; contractual services; travel expenses; media and workshop costs; associated overheads; and when the provisions of the Bank's operational policy on rapid response to crises and emergencies apply, small contracts for start-up goods (including equipment costs) and works necessary to enable the recipient to undertake the execution of subsequent

project activities. Proposed expenditures for small contracts for start-up goods and works in situations where the Bank's operational policy on rapid response to crises and emergencies does not apply shall be presented for approval to an internal review committee. Secretariat costs may include staff (direct and indirect costs), temporary staff, and consultant costs (including short term and extended term consultant fees), as well as contractual services, travel expenses, media and workshop costs, and associated overheads.

8. The Trustee shall promptly inform the donors of any significant modification to the Grant Agreements and of any contractual remedy that the Trustee exercises under the Grant Agreements.

9. Upon request, the Trustee shall provide the donors to the Trust Fund with copies of all financial statements and auditors' reports received by the Trustee from recipients who receive financing directly from the Trust Fund pursuant to the Grant Agreements upon request. The Trustee shall furnish a copy of each Grant Agreement to the donors upon request.

10. Contributions from the Trust Fund to Bank-administered MDTFs shall be managed in accordance with the applicable requirements of such MDTFs; provided that in consideration of the administrative fees already paid to the Trustee by the donors as set forth in paragraph 2, the Bank may in appropriate cases adjust as necessary the second administrative fee applied to donors for contributions from the Trust Fund to Bank-administered MDTFs. Eligible expenditures and grants provided under Bank-administered MDTFs shall be disbursed in accordance with the applicable requirements of such MDTF.

11. The Trustee shall establish and maintain appropriate records and accounts to identify the resources of the Trust Fund, commitments financed out of the Trust Fund, including contributions made to Bank-administered MDTFs, and the receipts and disbursements of Contribution Funds in the Trust Fund. Except as set forth in paragraphs 13 and 14, the Trustee shall not be responsible for the use or reporting of funds, or for providing financial statements of Bank administered MDTFs to which contributions are made from the Trust Fund. Upon request by any donor, the Trustee, will forward to the donor all reports it receives from Bank administered MDTFs.

12. Pending the disbursement of Contribution Funds from the Trust Fund, the Trustee shall invest the Contribution Funds held in the Trust Fund in such manner as the Trustee may decide, in accordance with the criteria for the investment of trust funds administered by the Bank. All the income from such investment shall be credited to, and used exclusively for the purposes of, the Trust Fund.

13. The Trustee shall furnish to the donors current financial information relating to receipts, disbursements and fund balance with respect to the Contribution Funds via the World Bank's Trust Funds Donor Center secure website. Within six (6) months after all commitments and liabilities under the Trust Fund have been satisfied and the Trust Fund has been closed, the final financial information relating to receipts, disbursements, and

fund balance with respect to the Contribution Funds will be made available to the donors via the World Bank's Trust Funds Donor Center secure website.

14. The Trustee shall provide to the donors, within six (6) months following the end of each Bank fiscal year, a management assertion together with an attestation from the Bank's external auditors concerning the adequacy of internal control over cash-based financial reporting for trust funds as a whole. The Trustee shall bear the cost of such attestations. The Trustee shall also, as soon as practical after the end of each fiscal year of the Bank, furnish to the donors a report on the activities directly financed from the Trust Fund, including the sum of aggregate contributions to Bank-administered MDTFs and a brief summary of activities supported by such MDTFs.

15. If a donor wishes to request, on an exceptional basis, a financial statement audit by the Bank's external auditors of the Trust Fund established under this Resolution, the donor and the Trustee shall first consult as to whether such an external audit is necessary. The Trustee and the donor shall agree on the most appropriate scope and terms of reference of such an audit. Following agreement on the scope and terms of reference, the Trustee shall arrange for such external audit. The costs of any such audit, including the internal costs of the Trustee with respect to the audit, shall be paid by the donor.

16. Any Trust Fund donor or the Trustee may, upon three (3) months prior written notice, cancel all or part of the donor's pro rata share of any remaining balance of the Contribution Funds that is not committed pursuant to any agreements entered into between the Trustee and any consultants and/or other third parties for the purposes of this Resolution, including the Grant Agreements and other agreements entered into by the Trustee to contribute to Bank-administered MDTFs, prior to the receipt of such notice.

17. The Trustee shall be responsible only for performing those functions specifically set forth in this Resolution. The Trustee shall not be subject to any other duties or responsibilities to the donors to the Trust Fund, including without limitation, any duties or obligations that might otherwise apply to a fiduciary or trustee under general principles of trust or fiduciary law. The privileges and immunities accorded to the Bank shall apply to the property, assets, archives, operations and transactions of the Trust Fund.

18. On the termination of the Trust Fund pursuant to paragraph 19 of this Resolution, except as the Trustee and the donor may otherwise agree in each respective Administration Agreement, undisbursed funds of the Trust Fund shall be forthwith transferred to the Bank and to other donors on a pro rata basis.

19. The functions of the Bank as Trustee shall terminate, except for action necessary for winding up the activities of the Trust Fund in an orderly and expeditious manner, at such time as the Executive Directors of the Bank may decide.

20. This Resolution will enter into effect on the date of its adoption by the Executive Directors.