IDA17 MID-TERM REVIEW

STRENGTHENING SUPPORT TO FRAGILE AND CONFLICT-AFFECTED STATES

PROGRESS REPORT

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ACRONYMS AND ABBREVIATIONS

CAS	Country Assistance Strategy
CCSA	Cross-cutting solution area
CCSD	Center on Conflict, Security and Development
CPIA	Country Policy and Institutional Assessment
CPF	Country Partnership Framework
CPR	Country Performance Rating
CRW	Crisis Response Window
DIME	Development Impact Evaluation
E4P	Evidence for Peace
FA	Fragility Assessment
FCS	Fragile and Conflict-affected States
FCV	Fragility, Conflict and Violence
GBV	Gender-based violence
ICT	Information and communications technologies
IDA	International Development Association
IDPS	International Dialogue on Peace-building and State-building
IEG	Independent Evaluation Group
IMF	International Monetary Fund
IPF	Investment Project Financing
JIP	Joint Implementation Plan
MDG	Millennium Development Goal
MDTF	Multi-Donor Trust Fund
MTR	Mid-Term Review
NCAF	International Network on Conflict and Fragility
OP	Operational Policies
PBA	Performance-Based Allocation
PC	Post-Conflict
PCNA	Post-Conflict Needs Assessment
PCPI	Post Conflict Performance Indicator
PI	Performance Index
PPR	Portfolio Performance Rating
PSI	Peace- and State-building Indicators
RE	Re-Engaging
SCD	Systematic Country Diagnostic
SDG	Sustainable Development Goal
SPF	State- and Peace-Building Fund
TF	Trust fund
WBG	World Bank Group
WDI	World Development Indicators
WDR	World Development Report

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Executive Summary

Fragility, conflict and violence (FCV) pose significant development challenges. Despite some progress, many fragile and conflict affected states (FCS) are not on track to meet the Millennium Development Goals. With high levels of conflict, weak institutions, low growth, wide disparities in access to basic services, dependency on commodity exports, and unfavorable demographics, FCS account for around 20 percent of the extreme poor in 2015. FCV, with negative regional and global spillovers, are increasingly affecting non-fragile IDA and non-IDA countries. A visible consequence of conflict has been the mass displacement of people for prolonged periods of time.[1]

A visible consequence of conflict and violence has been mass displacement of people for long periods of time. As of June 2015, 60 million people were displaced by conflict – the highest figure ever recorded. In 2014 alone, 13.9 million people were newly displaced – 42,500 people every day. In many parts of the world, but particularly in a 'crisis belt' stretching across Africa from Mali in the West to Somalia in the East, as well as across large swathes of the Middle East, and in Pakistan and Afghanistan in South Asia protracted crisis is becoming the "new normal." The average duration of displacement is now 17 years.

The World Bank Group (WBG) Management committed to mainstream new implementation modalities, enhance learning, simplify the framework for FCS and enhance financing for them. Based on research showing that FCS need a tailored approach to development, several reforms were put in place in recent years to improve the way the international community engages in FCS. The 2011 World Development Report (WDR) on conflict, security and development provided a basis for the WBG to initiate reforms in IDA16 to strengthen its operations in FCS. Additional policy commitments were introduced in IDA17 to: (i) address drivers of fragility and conflict, support countries facing turnaround situations and build resilience; (ii) incorporate feedback from experience to build more agile operations; and (iii) enhance financing for FCS. This paper takes stock of progress made on IDA17 commitments in FCS.

Summary Status of IDA17 Commitments to FCS at Mid-Term Review	
All CPFs in IDA FCS are to be informed by analysis of drivers of fragility and conflict.	On track; All 11 country partnership frameworks (CPF) in FCS at end-FY15 were informed by analysis of drivers of fragility;[2]
Enhance synergies through IDA-IFC-MIGA joint implementation plans in at least 10 IDA FCS, including joint frameworks to measure results.	On track; Eight Joint Implementation Plans (JIPs) are being prepared to

[1] As of June 2015, 60 million people were displaced by conflict. Starting in FY16, regional IDA projects will provide support to displaced people in the Great Lakes Region and the Horn of Africa. These projects are largely aimed at internally displaced persons and help highlight the need to provide socio-economic infrastructure and livelihood opportunities as well as improve cohesion between refugees and the host communities.

[2] The CPFs for Myanmar, Haiti and Côte d'Ivoire have been finalized and those for Afghanistan, Chad, Kosovo, Madagascar, Mali, Sierra Leone, Togo and the CPF for eight Pacific Islands, including Kiribati, Micronesia, Fed. Sts , and Tuvalu, are expected to be finalized by end-FY16.

	enhance synergies through IDA-IFC-MIGA; [3]
Propose revised procurement policy for Board approval which would incorporate special considerations for situations of urgent need of assistance, or capacity constraints, including in FCS.	Implemented
Undertake analytical work on job creation in FCS, including by rolling out a "job diagnostic tool" in at least 5 FCS.	On track;In six FCS, analytical work on job creation has been initiated;[4]
Implement gender-related commitments on Country Partnership Frameworks and operations.	On track; All CPFs under preparation for FCS are gender informed and operations meet the WBG target of having at least 66 percent of operations informed by gender considerations in the analysis, actions and monitoring;
Support efforts for addressing gender-based violence issues.	On track; IDA continues to support efforts to address gender based violence with an IDA regional operation and a Global Platform to address sexual and gender-based violence;
Implement Management's response to the recommendations of the IEG evaluation.	On track; particularly with respect to redefining fragility, developing guidelines for carrying out fragility assessments, strengthening attention to gender-based violence and economic empowerment of women;
Strengthen knowledge of what does and does not work in IDA FCS through monitoring, evaluation, including impact evaluations, tracking of results of IDA operations and expanded use of beneficiary feedback mechanisms.	On track; To strengthen knowledge of what works and does not work in FCS, the WBG launched the Evidence for Peace (E4P) program, conducted evaluations series on key FCS themes, and updated training programs;
Implement OP/BP 10.00 which incorporates a differentiated approach to investment lending in FCS.	On track; The implementation of revised operational policies for Investment Project Financing (IPF) is underway, with special provisions for FCS;
Promote more effective response in FCS by implementing the new strategic and results framework for the UN/WB partnership in FCS to strengthen collaboration among the UN, WB, MDBs and other development partners, including through the New Deal.	On track; UN-WBG Partnership has strengthened coordination at the country and regional level and in piloting state- and peace-building initiatives[5], including

[3] Burundi, DRC, Horn of Africa, Mali, Sahel, Sierra Leone, Myanmar, Haiti.
[4] Afghanistan, Côte d'Ivoire, South Sudan, Haiti, Sierra Leone, and Kosovo.
[5] Central African republic and Sierra Leone.

	in supporting countries implement "New Deal"[6] programs and monitor results;
Implement the revised IDA resource allocation framework for FCS to enhance targeting of IDA's exceptional support and financial engagement in these countries as follows: (i) implement "turnaround" allocation regime; (ii) changing the Country Performance Rating exponent in the regular PBA formula from 5 to 4; (iii) increase the minimum base allocation from SDR 3 million to SDR 4 million per year.	Implemented

IDA has also implemented IDA17 commitments to further enhance financing to FCS. T*he IDA resource allocation framework has been revised*. As a result of these changes, country allocations to IDA FCS have increased by 50 percent compared to previous replenishments. Based on current performance, IDA's allocation to FCS in IDA17 is expected to reach US$6.9 billion or 15 percent of total IDA country allocations in FY17 (up from 10 percent in IDA16). In FY15, country allocations to FCS amounted to SDR 1.7 billion (US$2.4 billion) or twice that in FY14. In addition, FCS benefited from US$307 million committed from the Crisis Response Window (CRW), especially to support countries affected by the Ebola epidemic, and additional resources from the IDA Regional window. As a result, total IDA commitments in FCS for FY15 were US$3 billion.

The exceptional allocation regime for countries facing turn-around situations is being implemented. Management is preparing to discuss with Executive Directors the potential eligibility for exceptional support under the turn-around regime for Guinea-Bissau and Madagascar during FY16.

However, early experience suggests that ways of improving financing to FCS with small populations need to be considered. Under the Turn-Around, eligible countries receive support on a per-capita basis. For countries with populations below two million (1/3 of FCS in 2015) and poor performance, this approach may result in Turn-Around allocations that do not differ significantly or are smaller than regular IDA allocations because small countries benefit disproportionately from the increased base allocation introduced in IDA17. To secure adequate support to small FCS, the paper considers two options. [7]

We recommend introducing a minimum base allocation in the Turn-Around of SDR 4 million. This ensures higher financing to countries with small populations, does not require substantial modifications to the current Turn-Around framework and would require limited additional IDA resources. Under this option, all countries eligible for the Turn-Around regime would receive a Turn-Around allocation additional to the SDR 4 million minimum base allocation. This option would benefit mainly countries with small populations, as under regular PBA. As the

[6] The New Deal was launched in Busan in 2011 to provide a global framework for reconstruction and development in fragile and conflict affected situations.

[7] The options were assessed on: (i) effectiveness in securing larger support to small FCS; (ii) preserving performance-orientation of the TA; and (iii) provision of required additional IDA resources.

number of Turn-Around cases is expected to remain limited, the need for additional annual IDA resources is not expected to increase significantly.

IDA has made significant efforts to improve portfolio performance in FCS, but the unprecedented increase of financing to FCS warrants continued monitoring of the adequacy of available resources. Since IDA16, commitments to mainstream implementation modalities, enhance learning and increase financing to address fragility have resulted not only in a growing portfolio in IDA FCS (US$12.1 billion in June 2015), but also in an increase of the quality of that portfolio. Over time, budget and staff resources have increased to meet the challenges of operating in FCS. Following the unprecedented increase in resources to FCS that took place in IDA17, Management is working to ensure continued adequacy in staffing and budget. Beyond IDA financing, Trust Fund resources have been used to cover financing gaps in FCS.

I. Introduction

1. Supporting fragile and conflict affected states (FCS)[8] is a priority for the World Bank Group (WBG) and the international community. These countries are often marked by weak governance and institutions and a fractured society. They also experience repeated disruptions in their development progress, resulting in low growth, higher vulnerability to shocks, high level of extreme poverty and lack of access to basic services, especially for the poor. In addition, they are unable to cope with political, security, economic and environmental stresses. The persistent nature of fragility and repeated cycles of conflict have led the international community to focus its attention on these challenges. Research and policy developments resulted in a paradigm shift in 2011 with the publication of the World Development Report and adoption of the New Deal, putting the challenges of peace- and state-building at the forefront of the development agenda and arguing that standard aid effectiveness principles need to be adapted to FCS.

2. Since the conclusion of the IDA17 Replenishment round in May 2014, the landscape of fragility and conflict has evolved rapidly in IDA and non-IDA countries. While the World Bank FCS list for FY15 remained relatively stable compared to previous years (see Box 1),[9] new conflicts flared up and old ones intensified in countries such as Yemen and Mali and successful or attempted military coups heightened political instability in Burkina Faso and Burundi. Extremism and violence have contributed to regional pressures in the Sahel, the Horn of Africa, and in the Middle East and precipitated the largest displacement crisis since the Second World War. [10] In the Mano River Basin, the shock resulting from the outbreak of Ebola has put recent development gains at risk and strained state-society relations. Incidents of armed conflicts in non-IDA countries are on the rise again(see Box 2). These developments underline the nature of fragility as a "global bad" that goes beyond FCS. Some positive developments should however also be underlined: in Guinea-Bissau, a record number of voters took part in a peaceful presidential election which closed the transitional period opened by the 2012 military coup; in Mali a peace agreement was brokered to end civil war; and in Myanmar, the government and ethnic groups are negotiating a historic nation-wide ceasefire to pave the way to national reconciliation.

3. A visible consequence of conflict and violence has been mass displacement of people for long periods of time. As of June 2015, 60 million people were displaced by conflict – the highest figure ever recorded. In 2014 alone, 13.9 million people were newly displaced – 42,500 people every day. In many parts of the world, but particularly in a 'crisis belt' stretching across Africa from Mali in the West to Somalia in the East, as well as across large swathes of the Middle East, and in Pakistan and Afghanistan in South Asia protracted crisis is becoming the "new normal." The average duration of displacement is now 17 years. The human cost of these trends is dramatic and translates into increased humanitarian needs, with global humanitarian financing

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8 The term FCS in this document refers to a country that (i) has an harmonized average Country Policy and Institutional Assessment (CPIA) rating of 3.2 or less (or no CPIA); or (ii) has or has had a UN and/or regional peace-keeping or peace-building mission during the past three years.

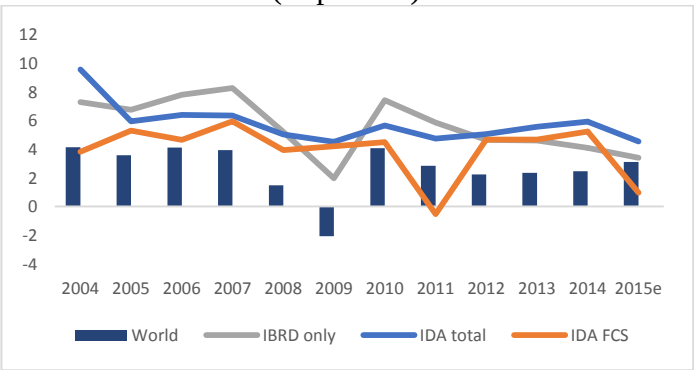
9 Republic of Congo, Malawi and Nepal graduated out of fragility. No new entrants were add to the list.

10 See "*World at War*", UNCHR Globalt Rends 2014.

increasing from US$2 billion in 2000 to nearly US$25 billion in 2014 (from 2.2 percent in 2000 to 18.2 percent in 2014 as share in total ODA).[11]

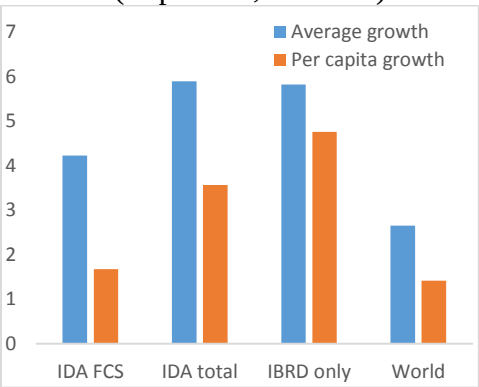
4. Low growth together with high population growth has resulted in limited poverty reduction or job creation in IDA FCS. The resource boom helped FCS grow even during the global economic and financial crisis. Real GDP growth in FCS is estimated to have averaged 4.2 percent over 2004-2014 because of increased investment in resources, tempered by resurgence of conflict in 2011 and Ebola and conflict in 2015 (Figure 1) because of Ebola and conflict. However, high population growth in FCS increased resulted in per-capita growth averaging only 1.7 percent per year (1.9 percent below the IDA average) (Figure 2).[12] This low per capita growth has not allowed IDA FCS to reduce the extreme poverty rate which stood at 53 percent in 2012. Over the last three decades the number of extreme poor[13] living in IDA FCS has increased twofold and accounted for 21 percent of the world's extreme poor in 2012 (figure 3). By 2030, this figure is expected to double. Over the course of the last IDA cycle, IDA FCS experienced twice as much unemployment as their non-fragile peers. The young – especially young women – were disproportionately affected. Given the rapid pace of demographic growth in FCS, the lack of employment opportunities for youth can become a driver of fragility.

Figure 1. Growth in FCS increased in recent years, but remains volatile…
(In percent)



Source: WDI, *World Economic Outlook* and staff calculations.

Figure 2. … and remained low in per-capita terms
(In percent, 2004-14)



Source: WDI.

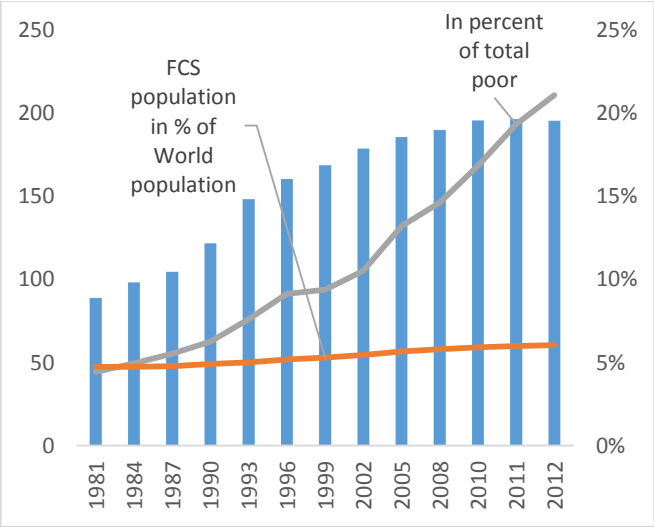
5. Despite recent progress, FCS will not achieve many MDGs. While 20 FCS have recently met one or more targets under the MDGs, and an additional six countries are on track to meet individual MDG targets ahead of the 2015 deadline,[14] FCS posted the slowest progress towards any MDG. While global targets have already been met for reduction of extreme poverty, gender disparity in primary education, access to safe drinking water and improved conditions for slum dwellers, more than four out of five FCS are off track to meet the goals of halving extreme poverty, halving the proportion of people without access to safe drinking water and improving the lives of

[11] See http://www.unhcr.org.
[12] Based on the FY15 FCS list and the UN *World Population Prospects: 2012 Revision*
[13] Defined as the number of people with a daily consumption/income below $1.90 in 2011 PPP terms.

slum dwellers and only one third will meet the gender education parity goal. Progress towards other MDGs is equally disappointing, with none of the 28 IDA FCS posting sufficient progress towards the infant mortality target (Figure 4).

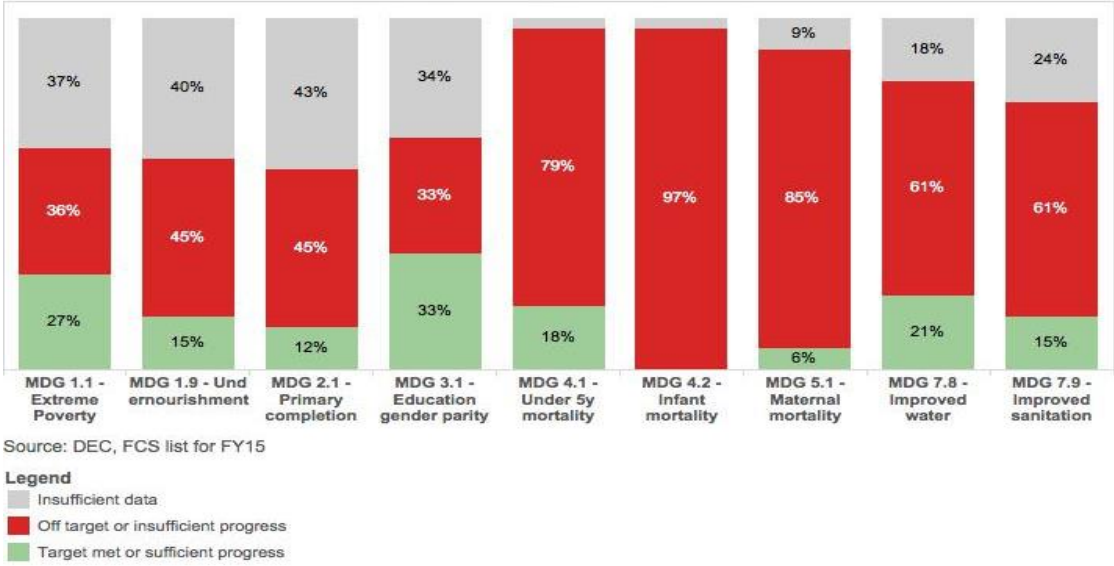
6. The structure of the remainder of this report is as follows. Section II reports on the status of implementation of the IDA17 commitments, excluding that related to financing. Section III discusses further enhancements to the IDA financing framework to enhance support to FCS and section IV reviews the status of implementation of the Turn-around regime. Section V presents conclusions and issues for discussion.

Figure 3. The number of the extreme poor in FCS has increased
(In millions)



Source: PovCal Net, WDI and staff estimates.

Figure 4. FCS are lagging in most MDGs
(Percentage of FCS per progress status on each MDG)



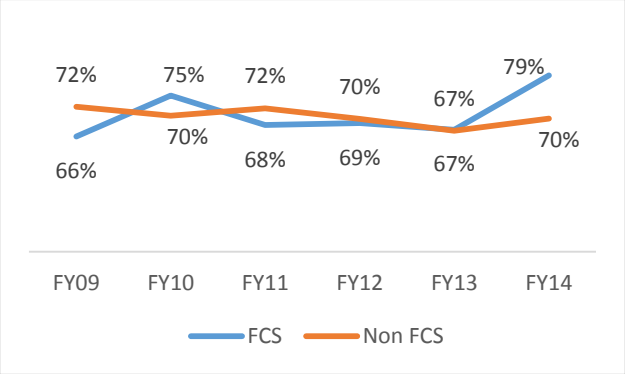
Box 1. Harmonized List of Fragile Situations FY15			
IDA-Eligible Countries			
Afghanistan	Eritrea	Mali	South Sudan
Burundi	Guinea-Bissau	Marshall Islands	Sudan
Central African Republic	Haiti	Micronesia, FS	Togo
Chad	Kiribati	Myanmar	Tuvalu
Comoros	Kosovo	Sierra Leone	Yemen
Congo, Dem. Republic	Liberia	Solomon Islands	Timor Leste
Côte d'Ivoire	Madagascar	Somalia	Zimbabwe
Middle Income Countries			
Bosnia and Herzegovina	Iraq	Libya	Syrian Arab Republic
Territories			
West Bank and Gaza			

II. Progress on strengthening IDA's operational effectiveness in FCS during IDA17

7. To better respond to the specific needs of FCS, the WBG has launched a wide set of reforms beginning in IDA16. The WBG created the Center on Conflict, Security and Development (CCSD). The CCSD was tasked with improving the way the WBG operates in FCS. The CCSD pursued change in four directions: (i) improving operational flexibility; (ii) informing strategies and operations; (iii) increasing financial and human resources; and (iv) building partnerships for better results. By the end of IDA16, significant changes were made (see Box 3) and further strengthened during IDA17.

8. A key feature of IDA17 is the commitment to mainstream new implementation modalities, enhance learning, and simplify the framework for financing FCS. By adopting these changes, IDA committed to (i) addressing drivers of fragility and conflict, supporting countries facing turnaround situations and building resilience; (ii) enhancing feedback from experience to build more agile operations; and (iii) strethening financing for FCS (see Box in Executive Summary).

Figure 5. FCS projects now out-perform non-FCS at exit
(Satisfactory[1] IEG outcome ratings, in percent)



Source: Business Warehouse, The World Bank.
[1]Moderately sarisfactory or higher.

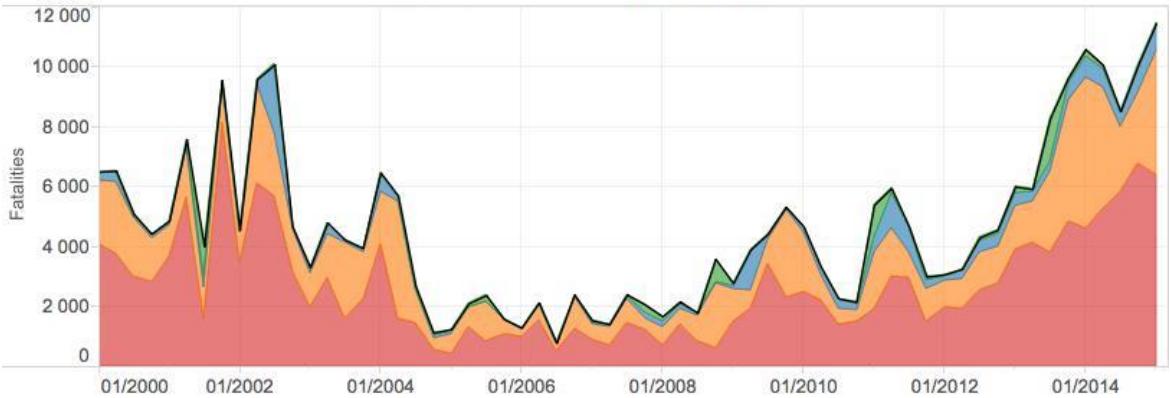
9. Overall, these efforts are having a positive impact on IDA's FCS portfolio. At end FY15, IDA FCS portfolio stood at 239 projects (totaling $12.05 billion), with three global practices accounting for almost half of the volumes: Transport & ICT (18

percent), Social, Urban, Rural and Resilience (14 percent) and Governance (18 percent). The Africa region has the largest portfolio, with just under half of the number of projects. The performance of the IDA FCS portfolio has been robust. The problems which used to undermine the performance of projects in FCS – from slow disbursements to unstable environments – are becoming less frequent. As a result, the disbursement ratio has increased to 25 percent at the end of FY15, above the performance standard expected for IDA17, and the share of projects at risk in the portfolio is steadily converging with the benchmark set by non-fragile states. The quality of projects at exit has also improved with projects in fragile states outperforming their peers on their IEG outcome ratings in FY14 (see Figure 5).

Box 2. FCV challenges go beyond IDA FCS

While conflicts decreased and become less lethal after the end of the Cold War, evidence points to a resurgence over last 6 years. The Middle-East is now engrossed in a series of conflicts spreading from Syria to Yemen. In Africa, new conflicts in Nigeria, South Sudan, CAR, Mali and old ones in Somalia, DRC and the Darfur have also pushed the trend upwards (see figure A).

Figure A - The new rise in conflicts, the example of Africa
Fatalities in the Africa region, 2000-2015



Source: Armed Conflict Location and Event Data Project (ACLED), March 21st 2015
Note: Excludes MNA countries (Algeria, Djibouti, Egypt, Lybia, Morroco, Tunisia) and non-violent conflict events (head-quarter or base established, non-violent activity by a conflict actor, non-violent transfer of territory).

Event Category
Riots/Protests | Remote violence | Violence on civilia.. | Battle

IDA countries, such as Ethiopia, Pakistan Uganda and Tanzania, are affected by spillover effects of conflict, fragility and violence. They require assistance beyond an immediate emergency response to cope with longer-term development needs of displaced people and of local communities affected by their inflows. In addition, while fragility continues to affect development outcomes in FCS, it now also clearly affects countries beyond the FCS list or IDA (see table below). At the 2015 Annual Meetings in Lima, the World Bank, together with the UN and the Islamic Development Bank, announced a joint initiative to scale-up financing to help countries hosting significant refugee populations, countries affected by conflict, as well as countries that have significant investment needs to achieve economic recovery.

Select FCV episodes since the conclusion of the IDA17 replenishment	
Examples beyond the FCS list	Examples beyond IDA
Nigeria: In March 2014, Boko Haram started to intensify its activities in the north. Since then, it has caused the death of an estimated six thousand civilians and forced over 250,000 persons to flee. The conflict has spilled over to Chad, Niger and Cameroon. **Kenya**: The Somali-based group Al-Shabaab started a campaign of attacks in Kenya which culminated with the killing of 147 people in April 2015. **Bangladesh:** A political crisis paralyzed the country as the main opposition party boycotted the general election in 2014. Episodes of political violence continued throughout 2015, reaching a peak in January with the arrest of the opposition leader on corruption charges.	**Iraq-Syria**: The spread of Isis continued and the conflict triggered the largest forced displacement episode in modern history causing an estimated 10 million people to flee their homes. **Libya**: Infighting between militias in March 2014 added to the chaos. Lack of governance in the south has serious implications for security of neighboring IDA countries such as Chad or Niger.

Box 3. IDA16 marked the beginning of a new operating model for FCS at the World Bank

Improving operational flexibility	- Revision of the **operational policy on development cooperation and conflict** (OP 10.00) to streamline procedures for operations conducted in situations of fragility, notably during the due diligence process. - Launch of the review of the Bank's **procurement policies** and proposal for a new approach with special considerations for FCS.
Informing strategies and operations	- 25 **fragility assessments** conducted to better inform WBG country strategy and operations in FCS. - Increase in the share of **gender-informed operations in FCS** from 62 to 93 percent between FY10 and FY13.
Increasing financial and human resources	- Enhancement of **IDA16's financial framework** through (a) the extension of the phase out period for countries under the post-conflict or re-engaging exceptional regimes, (b) the reduction to the number of countries required to participate in a regional project from three to two if one is an FCS. - Revision of the **post-conflict performance indicators (PCPI)** to better link the allocation of resources to reengaging and post-conflict countries with progress made towards peace and state-building goals. - Adoption of a **comprehensive human resource package** to bring the right skills to FCS and improve career development for staff with fragile country experience.
Building partnerships	- Collaboration on **Multi-Donor Trust Funds** to foster and share lessons applicable to the design and implementation of MDTFs in FCS. - Creation of **a new Trust Fund focusing on questions of fragility** and state building - the Korea Trust Fund. - Adoption of the **UN-WB FCS Strategic Results Framework** to guide and support partnership efforts between UN agencies and the WBG.

10. However, several challenges remain. Although FCS projects disburse faster on average, they are also more likely to display outliers with long delays in effectiveness. FCS also have overall higher transactions costs in terms of staffing and budget requirements. Additionally, there

has been growing recognition that it is not enough to "do projects right," it is also necessary to do the "right projects" that address fundamental drivers of fragility and conflict and achieve significant outcomes. IDA operational effectiveness in FCS also extends to the support to reconciliation and state-building arrangements it provides through development policy operations. This also resonates with the key message of the New Deal – that different kinds of interventions, including in the areas of Justice and rule of Law, are needed in FCS contexts.

11. The overall objectives of FCV commitments are to sustain the recent positive results in operations while better addressing the drivers of fragility and conflict. Country programs need to do more to ensure that they address key drivers of fragility and conflict together with client governments and key stakeholders. Stronger partnerships are required to draw on the comparative advantages of a wider range of international and local actors in addressing the complex issues of citizen security, justice and jobs. More operational flexibility and greater local capacity are needed to respond to the volatility and risk inherent in FCS contexts. Bringing the right staff skills in a sustainable and cost effective model to operate in these challenging environments remains an important issue for the Bank as well as all international actors. Sub-sections A to G describe progress on the actions to strengthen IDA's operational support to FCS as agreed with IDA Deputies in the context of the IDA17 discussions. Sub-section H describes a number of follow-up actions envisaged under the broader WBG reform and modernization agenda.

A. All Country Partnership Frameworks in IDA FCS are informed by analysis of drivers of fragility and conflict

12. In July 2013, the World Bank Management adopted proposals for creating an evidence-based model for client engagement. These include (i) a Systematic Country Diagnostic (SCD), and (ii) a Country Partnership Framework (CPF). The 2011 WDR and the 2013 IEG evaluation of WBG support to FCS highlighted that CASs in FCS were not tailored to fragility and conflict drivers. To address this, fragility assessments are now an integral part of SCDs and CPFs. The FCV-CCSA works with the Country teams to translate these assessments into priority areas in SCDs and subsequently in programs, implementation arrangements, and risk and results frameworks in the CPFs. For example, in Mali, the findings of the fragility assessment helped shape operations to support decentralized governance and social accountability in the CPF. Since 2012, 31 fragility assessments have been conducted, with19 in IDA FCS[15] and six in non-IDA fragile countries.

13. A guidance note was prepared on fragility assessments and incorporating FCV considerations in SCDs and CPFs. Periodic training is offered at headquarters and in the regions. Looking forward, by the end of FY17, an assessment of all CPFs in FCV countries will be carried out to understand success and gaps in the effort to foster fragility sensitive programming.

14. By end-September 2015, three CPFs were prepared for FCS,[16] and eight more are expected by the end of FY16.[17] While it is too soon to draw rigorous conclusions, there is early

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[15] Burundi (2), CAR, Chad, Côte d'Ivoire, Djibouti, DRC, Great Lakes Region, Guinea, Guinea Bissau, Liberia, Madagascar, Sierra Leone, Somalia, South Sudan, Sudan and Darfur, Yemen, and Zimbabwe.

[16] These are the CPFs for Myanmar, Haiti and Côte d'Ivoire. A Country Engagement Note for Central African republic was also discussed in July 2015.

[17] These are Afghanistan, Chad, Kosovo, Madagascar, Mali, Sierra Leone, Togo and the CPF for eight Pacific Islands, including Kiribati, Micronesia, Fed. Sts , and Tuvalu, as IDA FCS.

evidence that FCV concerns are reflected in the narrative on constraints and opportunities to shared growth and sustainability. For example, Myanmar's CPF used conflict sensitivity throughout the portfolio to understand how to operate in areas where government is not seen as legitimate or how to engage with non-state service providers in those areas. Further, in using risk-reward ratio as a selectivity criterion, the program identified high-risk interventions particularly in its support of communities in conflict-affected areas where engagement may be complicated and costly. It also put in place continuous and systematic monitoring of conflict risks to enable projects and the overall program to respond flexibly to the fluid situation on the ground.

B. Enhance synergies across the WBG through joint IDA-IFC-MIGA work

15. IDA17 introduced Joint implementation plans (JIPs) in eight FCS to enhance synergies in the WBG. Such plans are in progress in 31 countries, including eight FCS (see Table 1). Additional JIPs are expected to be identified in the ongoing SCD/CPF process. JIPs in FCS focus mostly on power and agribusiness sectors, given the pivotal role of these sectors for FCS economies and potential for leveraging WBG products and expertise. An effort to develop joint result measurement frameworks has been initiated to track higher order objectives, greater than those of the individual projects/activities supported by IDA, IFC and MIGA. This approach was piloted in a few JIPs, including that supporting the development of Myanmar's power sector, and will be extended to other JIPs in FCS.

Table 1. Joint Implementation Plans in FCS – status as of June 2015

Region	Country	Sector/Project	Stage
AFR	Burundi	Energy/Agro-business, Investment Climate	Implementation
	DRC	Financial Sector, Agribusiness	Early stage
	Horn of Africa[1]	---	Early stage
	Mali	Irrigation	Design
	Sahel	Irrigation	Design
	Sierra Leone	Infrastructure, Agribusiness	Early stage
EAP	Myanmar	Power/energy	Implementation
LAC	Haiti	Energy	Early stage

[1]Including Somalia, Ethiopia and Kenya.

16. Collaboration across the WBG is also moving forward in other countries. In the Solomon Islands, for example, the World Bank and the IFC are working together in the Tina River Hydropower project to transform the energy sector, decrease the price of energy and increase the potential for large scale foreign investment in the country. The WBG is helping the government: (i) ensure that engineering feasibility studies, environmental studies, and approaches to community benefit sharing are developed; (ii) attract bids from experienced international dam investors/operators; (iii) provide with a partial risk guarantee protection against political risks linked to non-performance of contractual obligations by public sector actors.

C. Undertake analytical work on job creation in FCS, including by rolling out a "job diagnostic tool"

17. Growth translates into poverty reduction if it leads to more and better jobs that expand opportunities in an inclusive manner. Creating jobs is a priority in FCS, which face challenges related to a rapidly growing young labor force, commodity dependent economies,

constraints to private sector development, and low productivity. Knowledge on job creation in fragile states and post-conflict situations remains limited. Recent research shows that political instability and conflict affects mainly foreign direct investment not related to the natural resources sectors, which have also the greatest potential to create jobs and facilitate economic diversification.[18] According to the IEG report on IDA FCS, inclusive growth was constrained by absence of a clearly prioritized and sequenced support for a medium-to-long term strategy that identifies binding constraints and opportunities for private sector development. The Jobs and FCV CCSAs have launched analytical work on "jobs and conflict" to address key research gaps jointly with the UN and ILO.

18. The job diagnostic tool is being applied to six FCS. The tool uses multidisciplinary micro- and macro-level data to understand where good jobs are in a specific country context. Applications of the tool are at an early stage in Afghanistan, Côte d'Ivoire, South Sudan, Haiti, Sierra Leone, and Kosovo, and early lessons from these cases are expected during the second half of FY16.

D. Promote stronger partnerships for a more effective response in FCS

19. The World Bank has intensified efforts to bring together international actors to support development solutions in FCV situations. Building on progress made under IDA16, including the joint visits by the UN Secretary-General and the WBG President to the Great Lakes and Sahel regions in 2013 and to the Horn of Africa in 2014, IDA17 promotes a more effective response in FCS by encouraging activities that strengthen collaboration with the UN, MDBs, and other development partners. This includes stepped-up efforts to implement the Strategic Results Framework (SRF) for UN-WBG collaboration in FCS and support to the New Deal for Engagement in Fragile States.

20. UN-WB collaboration has seen significant progress. Joint analytical and operational work is now in place for further collaboration on extension of state authority, investment in energy infrastructure, addressing development dimensions of forced displacement, and scaling up support to regional partners. Innovative partnerships were developed in Myanmar, Yemen, CAR and Somalia in support of political transitions. A joint fragility assessment was carried out in Guinea-Bissau in 2015 to support the ongoing transition.[19] UN and WBG regional and country teams have also been working closely together to support the immediate Ebola crisis response and longer-term recovery planning for the Ebola-affected countries. A significant portion of the IDA/CRW emergency response in support to Ebola affected countries was channeled through UN agencies. At the end of June 2015, UN agencies had signed 32 contracts under the IDA funded Ebola Emergency Response Project (EERP), amounting in total to $246.9 million (63% of total project cost). Additional collaboration is ongoing through a joint facility in the Great Lakes Region.

21. The following examples serve to show how the joint efforts will have an impact on strategic and operational collaboration going forward:

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[18] See Burger, M. E. Ianchovichina, B. Rijkers, 2015,"Risky business : political instability and greenfield foreign direct investment in the Arab world", forthcoming in the WBER.

[19] Beyond IDA, Joint Post-conflict Needs Assessments were conducted in Gaza and Ukraine.

- New tools and frameworks were developed by the UN and WBG and are currently being rolled out to support innovative joint work on financial management reviews in the security sector, using political economy approaches in the justice sector, and the reestablishment of core government functions in the immediate aftermath of conflict (see Box 5);
- An ongoing joint review of Post-Conflict Needs Assessments will serve to strengthen this part of collaboration on strategy and operational elements of early support to recovery and development;
- A Resource Note for WBG staff on how to work with the UN in FCS has been prepared. This aims to improve mutual understanding of how each institution operates and provides information on the tools and resources available. It also highlights successful models and lessons from cooperation to date;
- An updated operational guidance on UN-WBG collaboration is being developed, and UN and WBG teams are working to streamline contracting processes building on recent lessons, including from the Ebola response, and to improve the use of the Fiduciary Principles Accord (FPA);
- Partnership training is now included in the FCV Core Course.

Box 4. UN-WBG collaboration on State-building in FCS – an example from CAR

State-building and in particular (re)building of core government functions – including policy planning, public financial management, civil service management and local governance – are a priority for stabilization and reconstruction efforts in FCS. In 2014, the UN-WB Fragility and Conflict Partnership Trust Fund provided a grant to develop and pilot a joint UN-WB diagnostic framework for (re)establishing core-government functions in post-conflict situations. The joint diagnostic framework was developed in 2014, and joint efforts on Core Functions are already underway to pilot the tool in several countries in 2015, including Central African republic (CAR), South Sudan and Libya.

Initial testing of the tool in CAR is supporting the transitional government. Drawing on the diagnostic, the UN and WB developed a joint strategy to re-register all civil servants and provide critical financing for salaries. The tool is now being used to guide more comprehensive support in the restoration of state authority in CAR. The tool has also improved the joint understanding of the operating rules and regulations of the two organizations, which allowed for more efficient collaboration in the payment of salaries. The tool will be refined in 2015 based on the findings of the pilot countries, followed by a communication/outreach strategy to align future UN-WB programming efforts in support of state building in FCS.

22. The UN-WB Fragility and Conflict Partnership Trust Fund has facilitated stronger strategic and operational collaboration between the UN and the WBG. This includes collaboration in key thematic areas that emerged from the 2011 WDR such as security, justice and core government functions, and a surge in demand for partnership resources, including through strategic staffing arrangements and cross-secondments in Yemen, South Sudan and Eastern DRC. The scale of the uptake brings to the forefront the need to provide timely and adequate financing for future projects and collaboration. This will be particularly critical as the partnership moves from developing tools and modalities to their application at the country level.

23. The WBG has actively supported the New Deal, and its impact is regularly assessed. The New Deal was launched in Busan in 2011 to provide a global framework for reconstruction

and development in fragile and conflict affected situations.[20] It was formulated as a response to the limited progress of FCS in achieving the MDGs. The emphasis on legitimate politics, security and justice as prerequisites for socioeconomic development makes the New Deal framework qualitatively different from earlier development paradigms. The WBG was one of the original signatories to the New Deal, and regular meetings are taking place between the WBG President and the g7+ to assess the impact and role of the WBG in FCS. The Bank has played a key role in several respects, both through active support to the process of developing global indicators for the Peace-and State-Building Goals (PSGs), and by supporting the g7+ to strengthen their capacity to advocate for and implement the New Deal at the country level (see Box 6). The World Bank is also at the forefront of the process of improving donor responses to implementing the New Deal by co-chairing a working group within the OECD's International Network on Conflict and Fragility (NCAF) focused on key reforms to policies and procedures to make tangible progress in implementing the New Deal.

Box 5. New Deal Implementation – Capacity Development in Somalia

The UN and WBG in Somalia have achieved a high degree of cooperation based on strong complementarities and the need to build on the momentum of the Government's New Deal Compact adopted in 2013. The joint WB-UNDP Capacity Development Program addresses the priorities identified in the Compact through capacity injection, civil service management and ensuring coherent approaches in cross-government functions, in support of the goal of Inclusive Politics. The WBG is also working with the UN to provide joint support on aid coordination, justice and security sector reform, forced displacement and Sexual and Gender Based Violence; while also looking together at addressing challenges in the border region to close the gap between peace, security and development. In addition to a shared analysis of key priority areas, these efforts have resulted in better collaboration and the creation of a joint risk analysis and management framework guiding the work of both organizations.

E. Integration of a Gender Perspective in IDA's Support to FCS

24. IDA has committed to include gender considerations in all CPFs, including in FCS, and the World Bank has established a corporate commitment to ensure that at least 66 percent of projects are gender-informed, including in the analysis, actions and monitoring. IDA17 reaffirmed these commitments with gender highlighted both as a special theme and as a focus area in FCS. Importantly, IDA17 includes a commitment to report on progress in addressing GBV issues.

25. Integration of gender considerations within operations in FCS has increased over time. During IDA16, 93 percent of operations in FCS in FY13 were gender-informed in at least one dimension, as compared to 62 percent in FY10, 64 in FY11 and 81 percent in FY 12. Projects approved under IDA17 maintain this trend: all 50 projects approved during FY15 are gender-informed in at least one dimension, while 66 percent (33 out of 50 projects) include gender considerations across all three dimensions, thus meeting the corporate target. This reflects a significant increase from projects approved in FY14, when only 55 percent were gender-informed across all three dimensions.

26. IDA plans to scale up support to programming addressing GBV in FCS, drawing on lessons learned from an on-going IDA operation and evidence-based analysis generated by a

[20] For a description of the New Deal, see "*IDA's Support to Fragile and Conflict-Affected States",* Annex 7, March 2013.

Global Platform on Addressing Sexual and GBV. The commitment to address GBV exemplifies the importance of mobilizing financing beyond IDA and to scale up through IDA what has proven to work. An IDA-financed project implemented in the Great Lakes Region scaled up, using government systems, actions piloted using a grant from the State and Peace-Building Fund (SPF). The SPF, together with the Korea Trust Fund and Nordic Trust Fund, subsequently financed an additional number of pilot projects to implement and evaluate prevention activities and provide economic and judicial support to victim of SGBV in fragile situations, with the intention of facilitating knowledge sharing and applications. In principle, new evidence emerging from projects under Global Platform and the lessons learned from implementation of the current IDA project can be leveraged for future IDA17-funded initiatives. Box 7 outlines how IDA can push new boundaries on critical FCV themes and could be considered as a financing approach for other persistent FCV challenges (e.g., jobs, justice reform).

F. Ensure more agile operational policies and practices

27. Several commitments were made in IDA17 to further improve the WBG's operational policies in FCS. These include further revisions to procurement procedures to reflect FCS challenges, and the implementation of the new OP 10.00 for investment operations.

28. A new procurement framework with special considerations for FCS was approved in June 2015. The new framework separates the procurement policy based on broad principles from Directives to Bank staff and from the Borrower Procurement Procedures. This approach aims to reduce the requirement for policy waivers and increase operational efficiency by empowering Bank Management to take decisions to address situations that may be exceptions to standard operational procedures. In the new procurement policy framework, task teams are required to prepare a procurement strategy that ensures the use of 'fit for purpose' approaches for each operation. Further, the framework provides for the use of hands-on support for Borrowers with low capacity. It also proposes special considerations for procurement in FCS that will allow more flexibility and efficiency in cases of urgent need or capacity constraints, and the use of broader procurement options, including contracting with UN partners, in the absence of viable implementation mechanisms in these contexts.

29. OP/BP 10.00 is being implemented and incorporates a differentiated approach to investment project financing (IPF) in FCS. All investment projects are processed according to the provisions of OP/BP 10.00, which define the preparation, implementation and completion of IPF operations. Special policy provisions apply to recipients that may (a) be in urgent need of assistance because of a natural or man-made disaster or conflict, or (b) experience capacity constraints because of fragility or specific vulnerabilities (for example in small states). In the policy, all these situations are referred to as situations of fragility, capacity constraints, conflict, and emergency (FCCE). In such situations, projects financed under IPF may be able to benefit from special treatment: task teams may be authorized to prepare the project using accelerated procedures under which (a) the normally sequential stages of identification, preparation, and appraisal may be consolidated; (b) the decision to authorize negotiations may be taken after a single review; (c) turnaround time for certain steps is reduced; (d) especially in situations of urgent need for assistance, the production of the required safeguards instruments may be deferred into the implementation period; and (e) in case of recipients with extremely low capacity, the Bank may execute tasks on their behalf.

30. As of end-September 2015, 21 percent of projects in FCS used available exceptions and benefited from a shorter processing time. Projects that used available exceptions of OP10.00 had an average processing time (from concept note to Board approval) of less than 11 months, compared to an average of more than 13 months for all projects approved or in preparation in FY16. While these findings are encouraging, they remain partial as no projects using the exceptions has reached the disbursement phase.

Box 6. Advancing the WBG's work on the development dimensions of GBV

The WBG's State- and Peace-building Fund provided US$ 9 million in support for pilot programming on gender based violence in DRC and Côte D'Ivoire, which focused on strengthening government and local non-governmental capacity to undertake GBV prevention activities and to provide services to survivors of GBV. The pilot grants also included a robust impact evaluation carried out by Johns Hopkins University. Learning from these pilot grants and evaluation directly informed design of the WBG's first ever SGBV focused IDA operation in the Great Lakes Region, approved by the Board in June 2014 for US$ 107 million. Objectives of the regional project include (i) to expand the provision of services to mitigate the short and medium term impact of sexual and gender based violence; and (ii) to expand utilization of a package of health interventions targeted to poor and vulnerable females. The regional project includes Burundi, DRC (Kivus), Rwanda and the International Conference on the Great Lakes Region.

The State- and Peace-building Fund, Korea Trust Fund, and Nordic Trust Fund are currently supporting an over US$ 10 million multi-country Global Platform on Addressing Sexual and Gender-Based violence that will continue to contribute to the WBG's activities and learning on SGBV response, and expand SGBV activities to other regions. The Strategic Initiative focuses on: (i) facilitating South-South knowledge sharing and learning across regions, (ii) strengthening client knowledge and capacity to address SGBV, and (iii) providing evidence-based analysis and lessons learned on scalable pilot initiatives on addressing SGBV in a wide variety of conflict-affected and fragile contexts. The Global Platform includes: Learning on SGBV in FCS (impact evaluations and South-South Exchanges); DRC: Prevention and Mitigation of SGBV in North and South Kivu; Papua New Guinea – Addressing Family and Sexual Violence in Extractive Industries Areas; and Nepal – Multi Stakeholder Platform to Fight Gender Based Violence. Outcomes of the strategic initiative will inform further IDA engagement on GBV, using flexible trust fund resources to pilot approaches that can be brought to scale.

G. Implement Management's response to the recommendations of the IEG evaluation of WBG support to FCS

31. Several IDA17 commitments broadly correspond to Management's response to the IEG evaluation of WBG support to IDA FCS in 2013. These include consideration of fragility in CPFs and SCDs; adoption of the Turn-around regime to provide predictable and adequate financing to FCS in the context of country driven programs and strong international support; increased attention to gender in strategies and operations in FCS and support efforts to address GBV; focus on FCS to roll out the new job-diagnostic tool and develop medium-to long-term strategies for inclusive growth and jobs in FCV; and finally better integrate WBG actions through Joint Implementation Plans (JIP).

32. In addition to the commitments above, the World Bank is also making progress on the remaining agreed recommendations of the IEG report.

- **Recognizing the changing nature of FCV, Management committed to develop a more suitable and accurate mechanism to define FCS status.** In FY15, the FCV CCSA has carried out substantial background work and consultations to develop improved mechanisms for

identifying fragility, recognizing that the WBG's current approach to defining fragile situations does not capture the spread and characteristics of fragility in different countries, and thus limits its ability to identify risks early. Work included a review of the recent literature on fragility, a review of existing framework of indicators of state fragility, a review of issues related to the use of the CPIA threshold for defining FCS,[21] and a review of the criteria underpinning the Harmonized List of Fragile Situations. In collaboration with OECD and key international partners, the World Bank supported a broader review of list-based definitions of fragility as part of the OECDFragile States Report.[22] By end FY16, a report will consider how the emerging view of fragility can be conceptualized and operationalized to guide the WBG design of development strategies, projects and programs in FCV contexts and to enhance the Bank's ability to identify and monitor FCV-related risks, and to provide timely and effective preventive and mitigatory responses. Work will involve intensive consultations, including with g7+ countries, AfDB and ADB.

- **To enhance state-building outcomes, the World Bank committed to providing increased support to reform-oriented FCS for capacity building at national levels.** A "How to" Note was developed in June 2015 to guide staff on use of country systems and a module on use of country systems was added to the core course on FCS operational practice. This note was shared with the g7+ secretariat in October 2015 and with other development partners. The World Bank also tracks progress on use of country systems every quarter and shares the results with the g7+ secretariat. The World Bank has selected 10 countries across the globe for a review of capacity building efforts to help identify effective models for building capacity and better use of existing PFM systems. The complete report with clear recommendations of applicable models will be finalized in FY16, and widely disseminated.

- **The World Bank is developing a plan to ensure the institutional sustainability of the community-driven development (CDD) programs through which large volumes of investments have been channeled within FCS.** To this purpose, the World Bank: (i) compiled a report[23] that assessed 11 country case studies (including three current or previous FCS per the IEG report), with relevant laws, policies, and regulations, where CDD operations have influenced or are closely linked to national systems; (ii) organized a conference of practitioners and task teams of CDD operations in 13 client Governments (of which five are categorized as currently or previously FCS, and four experience sub-national conflicts or fragility) in EAP and SAR, which focused on mainstreaming CDD operations into Government systems and programs; and (iii) organized a conference of practitioners and task teams of CDD operations in FCV contexts in the Africa region.

H. Strengthen knowledge of what does and does not work in IDA FCS

33. IDA17 includes a commitment to broaden the knowledge base of what works in IDA FCS through impact evaluations and expanded use of beneficiary feedback mechanisms. To promote the enhanced use of evaluation in fragile settings, the FCV CCSA and the WB Development Impact Evaluation Unit (DIME), together with the International Initiative for Impact

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[21] See M. Woolcock, "*Engaging with Fragile and Conflict-Affected States*", Harvard Kennedy School, RWP14-038, August 2014.

[22] See "States of Fragility 2015: Meeting post-2015 ambitions", OECD, 2015.

[23] See "Designing community-driven development operations in fragile and conflict-affected situations: lessons from a stocktaking", The World Bank, 2013.

Evaluation (3ie) and Innovations for Poverty Action jointly launched the "Evidence for Peace" program (E4P). The goal of E4P is to enhance the evidence base of development approaches to peace- and state-building challenges and to link this evidence with the policy design and management to achieve better outcomes. The initiative aims to develop improved methodologies and data collection tools tailored for FCS environments as well as better integrate evaluation methods in the World Bank's and other donors' programs in FCS as well as into Government-led policy development processes. DIME has launched an impact evaluation series in FCV with a focus on four sub-themes: 1) jobs for at-risk youth; 2) public governance; 3) gender-based violence; and 4) urban crime. At end-September 2015, DIME oversaw 19 impact evaluations in 13 FCS across those themes, with an additional 15 in preparation. In April 2015, E4P also released the first "evidence gap map" and stakeholder survey results that present the state of the evidence for FCV operations.[24] The evidence gap map will now inform the next steps on E4P – to mobilize more work on evaluation in critical areas and to continue to capture/disseminate existing results.

34. To ensure that better knowledge translates into better operations, a new series of FCV core courses has been designed for Bank staff deployed in FCS. The course features two components: one on strategy and programming which focuses on integrating a fragility lens in the Bank's development approach ("doing the right projects") and the other on operations which teaches staff to navigate the challenges of working in FCS ("doing the projects right"). In FY15, three sessions took place in Washington, Istanbul and Bangkok. In addition to 95 World Bank staff, participants included the UN, international NGOs, and staff from development agencies in France, Germany, and Norway. The target is now to have 160 staff trained per year to ensure a robust talent pipeline for FCS in the future.

I. Additional policy priorities and challenges identified under the WBG modernization agenda

35. One WBG strategy for working in FCV. The WBG reorganization has strengthened focus on FCS through elevating this as a Cross-Cutting Solutions Area. This increased focus has stepped-up efforts to improve sectoral approaches and knowledge about what works in FCS. The FCV CCSA presented its strategy to the Board in January 2015.

36. Understanding the impact of the SDGs. The post-2015 development agenda will determine the major issues and the direction of global development efforts from 2016-2030 and will further intensify the focus on fragility, conflict, and violence. The SDGs will have an effect on future plans, operations and the mobilization of human and financial resources. The inclusion of a sustainable development goal focused on peace and state-building (SDG 16 – "Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels") translates the last six years of progress and discussion on fragility into concrete targets shared by all. The goal has 10 targets on fostering peaceful and inclusive societies and seven targets on the rule of law and effective and capable institutions. These targets are likely to shape the future direction of aid delivery in FCS and the implementation of the New Deal principles. In particular, they promote a different approach focused on helping countries prevent conflict and become resilient to shocks as a more cost efficient way to develop. The WBG will need to better understand how to support prevention in the coming year, as well as how IDA can be best applied in support of such efforts.

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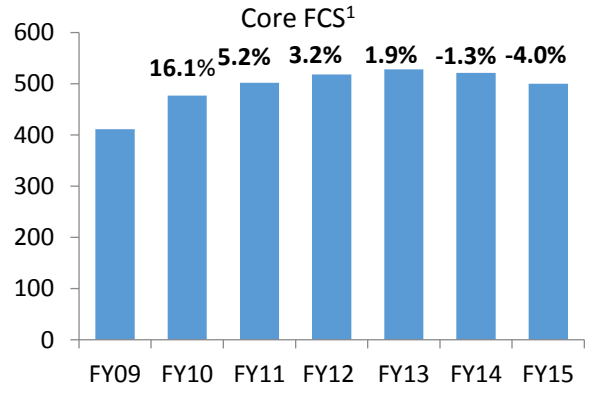
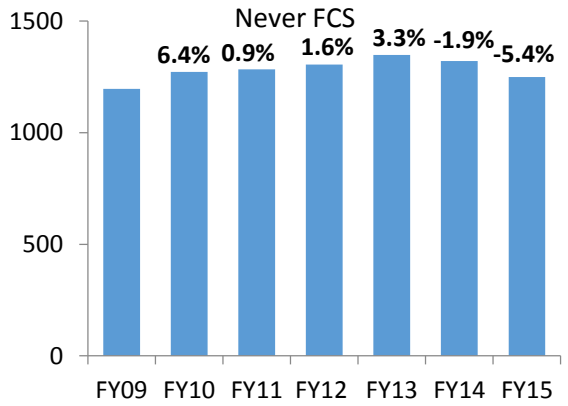
[24] See "*Evidence for peacebuilding: an evidence gap map*", 3IE, 2015.

37. Management monitors on a continual basis the adequacy of staffing for programming and project delivery in FCS. From FY07 to FY12, total staff in FCS increased by 55 percent. Since then staff deployed in "core" FCS country offices[25] (i.e. the countries who have always been on the FCS list) has been less affected by the strategic staffing exercise and the Expenditure Review initiated in 2014 (Figure 6).[26] While a recent IEG report[27] concluded that staff working in FCS is currently considered adequate. Management is monitoring both the quality and career of staff working in FCS with a view to maintaining a robust and qualitiatively high level of engagement within the existing budget and to avoid bottlenecks as the volume of lending increases.

Figure 6. The workforce deployed in "core" FCS has remained constant during the strategic staffing exercise and the Expenditure Review
(Full time staff in country offices)



Source: World Bank.



Source: World Bank.

[1] The office in South Sudan is here included since, upon its opening, its staff growth was accompanied by comparable staffing decline in the Sudan's office.

38. Similarly, Management monitors the adequacy of budget resources needed to tackle higher costs of operating in FCS. From FY07 to FY12, projects in countries that were always FCS have received 9 percent more on average in real terms for project preparation, and 19 percent more for supervision than projects in IDA countries that were never FCS.[28] The country engagement (CE) envelope, which regroups all the expenditures incurred by the country offices in the delivery of their work program,[29] is a good measure of amount of resources directed towards the delivery of Bank products. Between FY12 and FY15, FCS benefited from a growth in budget for CE, despite implementation of the results of the Expenditure Review to reduce costs. During the same period, net commitments to new projects rose by 71 percent. While this points towards

[25] There are 20 countries in the "core FCS" category: Afghanistan, Burundi, Central African Republic, Chad, Comoros, DRC, Côte d'Ivoire, Eritrea, Guinea-Bissau, Haiti, Kosovo, Liberia, Myanmar, Sierra Leone, Solomon Islands, Somalia, South Sudan, Sudan, Timor-Leste, Togo, Yemen, Zimbabwe.

[26] During IDA15, staff deployed in Country Offices decreased by 18 people. The reduction of core FCS staffing in FY15 was in part due to the relocation of staff from Afghanistan to the Gulf States for security reasons.

[27] See "World Bank Group Assistance to Low-Income Fragile and Conflict-Affected States", IEG, December 2013.

[28] Ibid.

[29] The following business processes are part of the CE category: Project preparation, project supervision, ESW, technical assistance, impact evaluation, client training, economic and social monitoring, outreach and partnerships, support to operations, preparation and monitoring of the CPF, ad-hoc studies. Security costs are not included as they were transferred to GSD for medium and high risk countries in FY14.

greater efficiency in delivering the program for FCS, Management will further examine the adequacy of budget with a view to ensuring full delivery of the remainder of the IDA17 program.

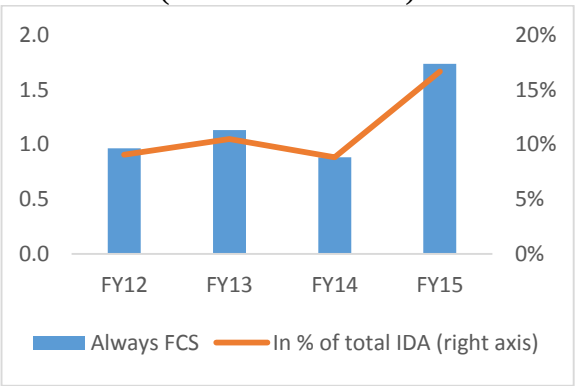
III. IDA financing to FCS

39. To enhance targeting of IDA's exceptional support and financial engagement in FCS, the IDA17 agreement made three changes to IDA's resources allocation framework:

- Modification of the PBA framework by making the IDA allocation system more poverty oriented and capable of addressing the vulnerability of small and fragile states to economic shocks and natural disasters. This was achieved by a reduction of the exponent of the country performance rating in the allocation formula from 5 to 4 and the increase of the minimum base allocation from SDR3.0 million to SDR4.0 million per year.
- Introduction of exceptional allocations for "turn-around" situations to respond quickly and decisively to openings that enable policy and institutional reforms to build resilience and avoid fragility traps. Through this option, IDA could provide exceptional support also to countries that are not necessarily defined as post- conflict (PC) or re-engaging (RE), but that are undergoing unforeseen openings for significant policy and institutional changes.[30]
- Enhanced support to PC and RE countries by providing, subject to performance, higher level of resources to eligible FCS for a longer period of time. This proposed modification reflects key findings of the 2011 WDR regarding the protracted nature of fragility and conflict and the need for substantial resources over long periods of time. Enhanced support would be provided by IDA through case-by-case extension of the phase out period from the exceptional allocation regimes for the duration of IDA17[31] and increase in per-capita allocations for PC and RE countries to the level adopted for Turn-Around situations.

40. The reforms have substantially increased core IDA resources available to FCS in FY15. Total core allocations to FCS (excluding exceptional windows)[32] amounted to SDR 1.7 billion (US$2.6 billion) in FY15 or twice as much as the allocation in FY14 and 75 percent more than the average allocation to FCS during IDA16 (FY12-14). Allocation to FCS increased in FY15 to almost 17 percent of total IDA annual allocations, compared to a share of 9-10 percent during IDA16 (Figure 7). Based on current performance, core IDA allocations to FCS would amount to US$ 6.9 billion in IDA17,

Figure 7. Core Annual IDA Allocations (In billions of SDR)



Source: DFiRM.

[30] See "Implementation Arrangements for Allocating IDA Resources to Countries Facing "Turn-around" Situations", Background note, IDA Resource Mobilization Department (CFPIR), October 2013.

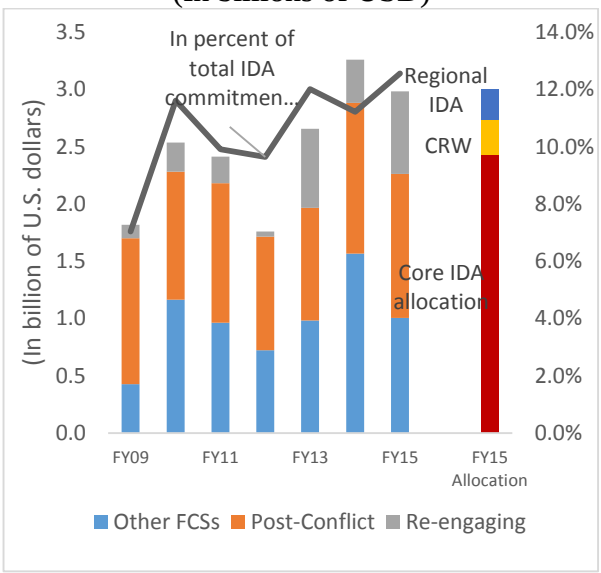
[31] The criteria governing the extension decisions are defined in Annex 3 in *Updated IDA16 Financing Framework and Key Financial Variables*, IDA, Sept. 2016.

[32] Ex-ante allocations exclude possible front-loading and back-loading of IDA funds and financing through IDA set asides, including Regional IDA, the Crisis Response Window, the set aside for arrears clearance and the transitional support for India.

or 15 percent of total core IDA, compared to US$4.5 billion in IDA16, corresponding to 10 percent of total core IDA16 allocations. In FY15, 14 IDA FCS (1/2 of the total) received US$ 1.3 billion financing on grant terms. Grant financing corresponds to 44 percent of IDA commitments to FCS, compared to seven percent for non-FCS countries.

41. Commitments in FY15 have reflected the expected IDA allocation to FCS. Total IDA resources[33] in FY15 available to FCS amounted to US$3.0 billion, similar to total commitments in FY14 and well above commitments in previous fiscal years. At end FY15, US$3.0 billion or 99 percent of IDA FY15 allocation to FCS had been committed through regular allocations and access to the exceptional regimes for countries considered post-conflict or re-engaging with IDA (Figure 8). Commitments include not only country allocations but also US$307 million financing from the CRW, largely used in the countries affected by Ebola, and US$263 million available from the IDA regional window.

Figure 8. Total IDA Allocations to FCS
(In billions of USD)



Sources: Loan Data Warehouse Oracle database, and the SAP Business Warehouse; and DFiRM.

42. Starting in FY16, regional IDA projects will provide support to displaced people in the Great Lakes Region (GLR) and the Horn of Africa. Two regional projects totaling US$250 million and involving DRC and Tanzania in the GLR and Ethiopia, Djubuti and Uganda for the Horn of Africa will support provision of social services by host countries, expand the economic opportunities and enhance environmental sustainability for people displaced by conflicts in DRC, Burundi, Somalia, South Sudan and, more recently, Yemen. These projects are largely aimed at internally displaced persons and as such do not respond to the transnational problem of refugees; yet they do help promote a shift in focus from the provision of emergency humanitarian aid to the need to provide socio-economic infrastructure, livelihood opportunities and improve cohesion between refugees and the host communities. Some of the financing would also go to a number of non-FCS countries in order to address negative spillovers of conflict and violence beyond the border of FCS. As such the financing would not count as financing to FCS, but it will be part of the effort of IDA to address spillover effects of fragility.

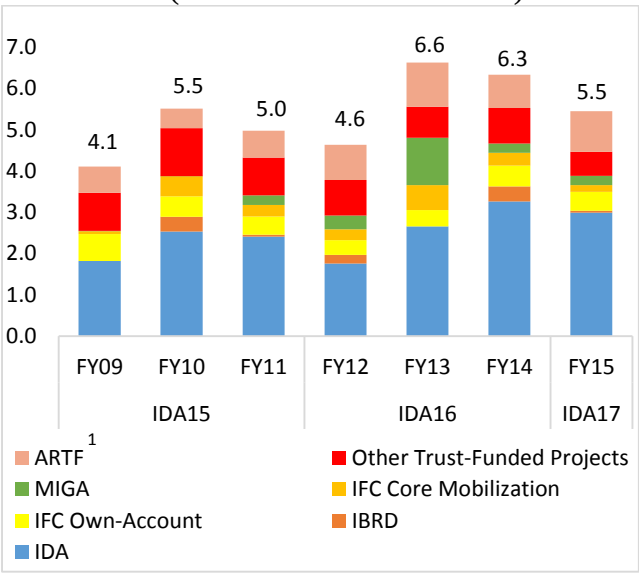
43. Multi-donor trust funds (MDTFs) play a key role in supplementing IDA in FCS by meeting needs that cannot be properly addressed by traditional lending. Commitments from MDTFs reached US$1.4 billion in FY15 or more than 90 percent of commitments from all World Bank-managed trust funds to FCS (Figure 9). [34] At a global level for instance, the State- and Peace-

[33] Including national IDA allocations, access to the CRW, and IDA top-up for regional projects.

[34] This includes commitments from the Afghanistan Reconstruction Trust Fund (ARTF), which amounts to between 50 and 66 percent of all MDTF commitments.

building Fund (US$247 million between 2008 - 2015) –WBG's largest global MDTF on FCV issues – has served as a 'solutions provider.' It pushed the frontiers of WBG's engagement in FCV settings and supported clients and World Bank teams to experiment with approaches and partnerships, combining operational grants with research and learning to advance global knowledge. 2014 saw a surge in demand for SPF resources from country teams due to the rising conflict and crises particularly in Africa and the Middle East. At the end of FY15 the resources of the State and Peace-building Fund were nearly fully committed.

Figure 9. Since FY09 the WBG has mobilized close to US$38 billion for FCS
(In millions of U.S. dollars)



Source: Business Intelligence for IDA, IBRD and Trust Funds, MIGA financial reports, President's Delivery Unit, and IFC Annual Reports.
[1] Afghanistan Reconstruction Trust Fund
Notes: Net commitments for newly approved projects for IDA, IBRD and Trust Fund resources; new investment commitments and core resource mobilization for IFC; and gross issuance for MIGA. Trust Funds are Recipient Executed only.

44. Beyond IDA financing, additional resources have been used to meet several financing gaps. Throughout IDA16 and IDA17, the WBG has complemented IDA financing for FCS by mobilizing trust fund support, at both country level through MDTFs and at a global level – through funds such as the SPF, UN-WB Partnership Trust Fund, Korea Trust Fund for Economic and Peace-building Transitions and the Global Program on Forced Displacement. Availability of additional trust fund resources has allowed financing in: (i) low income, low capacity countries with arrears to IDA; (ii) innovative, high-risk schemes and/or engagement with non-traditional partners; and (iii) non-fragile countries that deal with spillovers from FCS (e.g., hosting displaced people). The complementarity of trust fund financing for FCS is illustrated in the WBG's support to Somalia's transition (see Box 7).

IV. Implementation of the Turn-Around Regime

45. At the time of the IDA17 Mid-Term Review, Management committed to report on its experience in implementing the exceptional Turn-Around regime and propose adjustments to the framework if needed. The proposed reporting by the IDA17 MTR will elaborate – in light of implementation experience – on possible adjustments to the definition of a Turn-Around situation as well as on the process, criteria and other implementation arrangements underpinning the framework. It will also report on the modalities for incorporation of the elements currently in

development under the New Deal and experience with the enhanced role of portfolio performance under the new exceptional regime.[35]

46. The implementation of the Turn-Around regime responds to the commitment of further enhancing targeting of IDA's exceptional support to FCS, reflecting current understanding of fragility and conflict, while maintaining performance orientation. The new regime builds on the implementation experience of the PC and RE countries but at the same time incorporates the lessons from the literature on fragility and conflicts, including the results of the WDR 2011 as well as the empirical literature that have led to the formulation of the New Deal. Its principles aim at maximizing its effectiveness, ensuring the coordination of interventions with other donors, maintaining a flexible context-specific approach, and includes adequate monitoring and evaluation to ensure that exceptional support achieves its intended objectives.

Box 7. WBG Engagement in Somalia – the role of TFs

Somalia has been a key client for the SPF, being a country in arrears and having limited access to other sources of funds. The SPF has financed projects since 2010 to address emergency and urgent needs. In 2012, the Somalia SPF Strategy Initiative was developed alongside the Interim Strategy Note (ISN) and was intended to support the World Bank's reengagement in the country. The strategy initiative funded a number of projects across the ISN's two strategic objectives, namely 1) Building national and international trust in Somalia's public institutions and 2) Supporting early recovery and longer-term economic resilience.

The Strategy was intended not only to produce project-level results but also to support innovative, catalytic activity in Somalia that would provide the entry points and lay the foundations for more significant engagement and support to Somalia.

In the context of weak country systems and limited data after over 20 years of conflict, the US$ 20 million SPF investment helped to build capacity, build systems and create the analytical underpinnings necessary for deeper engagement by the WBG and the international community as a whole. At the same time, in 2014 the SPF provided seed funding to the Somalia Multi-Partner Fund (MPF), which now has a value of about US$150 million.

The shift from SPF to MPF resources has seen the Somalia WBG portfolio activity shift from pilot projects of around US$3 million to larger development projects of US$10 – 40 million, financing capacity building, recurrent costs, public financial management, ICT and urban infrastructure. This scaling up of the program had been done on the basis of the relations, capacities and confidence built up through the initial engagement enabled by the SPF.

47. The Turn-Around regime innovates with respect to the existing regimes as it recognizes country heterogeneity.[36] As in the PC and RE regimes, eligibility to the new Turn-Around regime requires (i) a clear assessment of the drivers of fragility and conflict facing a fragile country and of the commitment of the government to reform; and (ii) Management decision in consultation with the Executive Directors. These elements would be set out in the eligibility note. Financing in the Turn-Around regime is also defined based on the notional maximum per-capita allocation, to grant higher access to resources to eligible countries, compared to the standard PBA

[35] See "Implementation Arrangements for Allocating IDA Resources to Countries Facing "Turn-Around" Situations – Background Note", IDA, October 2013.

[36] See Annex 3 in "Additions to IDA Resources: Seventeenth Replenishment - IDA17: Maximizing Development", IDA, March 25 2013 for a full description of the elements of the TA regime.

system. And financing subsequent to the first year rewards performance, consistent with the performance orientation of IDA's PBA system. However, key elements differentiate the new regime from the existing ones:

- *Eligibility* can also be established for countries that have not experienced major conflict (as for PC countries) or extended periods of inactivity (required for the RE regime). In addition, eligibility can be established also for countries that are not formally considered fragile by the World Bank.
- *The application process* for the Turn-Around regime defines the nature of the challenge, the scale of the resources needed (compared to a more rigid, formula based approach in the PC and RE regimes) and the duration of the eligibility period (compared to a defined support period followed by a phase-out period in the PC and RE regimes). In addition, the application and the time of the allocation are independent from the IDA annual resource allocation cycle, to underline the importance of providing timely and adequate financing when opportunities arise.
- *The monitoring and evaluation framework* measures progress and incorporates feedback loops to periodically assess performance of a country in the Turn-Around.

48. The Turn-Around regime can incorporate elements of the New Deal to provide support to government-defined strategies to exit fragility, when sufficient commitment is present. To operationalize the commitment the Bank made at the 2011 Fourth High Level Forum on Aid Effectiveness in Busan, the elements of the Turn-Around regime have been linked to the three building parts of the New Deal: (i) the FOCUS principles of engagement;[37] (ii) the TRUST set of commitments;[38] and (iii) the Peace-building and State-building Goals (PSGs).[39] The eligibility criteria and the application process of the Turn-Around regime are premised on the analysis of the drivers of fragility and the commitment of the governments to adopt a credible and donor supported strategy, consistent with FOCUS elements of the New Deal. The expected good performance of the program ensures adequate and timely financing to support the government owned-plan, aligned with the TRUST elements of the New Deal. Finally the monitoring framework can incorporate the State- and Peace-Building Goals, the linchpin of the New Deal, to measure progress. The Turn-Around regime retains the necessary flexibility to support countries also outside the New Deal framework when countries obtain adequate support from development partners, commit to a clear strategy and develop a monitoring framework to address the causes of fragility.

49. Management is preparing to discuss with Executive Directors the potential eligibility for exceptional support under the Turn-Around regime to Guinea-Bissau and Madagascar. The Country Eligibility Notes (CEN) currently under preparation for the two countries define political instability as the main driver of fragility that undermines development efforts. In both countries, recent inclusive political agreements provide a window of opportunity to break away from the cycle of recurrent crisis, but the resources needed require a concerted, timely and large

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

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

[39] The PSGs highlight legitimate politics, security, justice, economic foundations and revenue and services.

support from implementing partners. Financing from the Turn-Around regime is considered as part of a coordinated assistance package agreed by the respective governments with donors, with a clear role for IDA.

- **Guinea Bissau.** Preparatory work for eligibility under the Turn-Around regime started in 2014 after the successful conclusions of democratic elections. It is expected that the CEN will be finalized by November 2015 and that consultations with Executive Directors on the parameters for the provision of exceptional support and its duration will take place by end-2015. Based on the guidance received, a CPF will establish final eligibility under the Turn-Around before the end of FY16. However, this timeline depends on the timely resolution of a political crisis that has led to the dismissal of the government in August 2015. The CEN, which incorporates the findings of a Fragility Assessment undertaken in May 2015, jointly between the WBG and the UN, identified five key challenges to peace, stability and prosperity: (i) unfinished political transformation and the disconnect between state and society; (ii) military interference in political and economic spheres; (iii) impunity and a weak justice sector; (iv) captured economy and poverty; and (v) lack of institutional capacity and rural-urban disparities. The new government is committed to tackle these challenges and to turn the page with the past, including through transforming the way decisions are made, improving overall and equal access to services, reforming the public financial management system to increase transparency, and reducing and reforming the military. The fragility assessment concluded that reforms undertaken are broadly supported and show sign of early success. The government also maintained a sound macroeconomic framework under an IMF supported program. Under the Turn-Around, IDA would finance for the period FY17-21 activities to support the rehabilitation of key infrastructure, improve service delivery in rural areas, support private sector development to diversify the economy, and strengthen public financial management and transparency, including in the military.
- **Madagascar.** The presidential and parliamentary elections of December 2013, marked the end of a long political crisis that started in 2009. Since then a process of national reconciliation has been initiated under the leadership of the President with the involvement of all four former Presidents. The CEN is expected to be finalized by end-2015. Consultations with IDA's executive directors are expected in early 2016, with the view of approving the CPFs, establishing the eligibility under the Turn-Around before the end of FY16. The CEN identifies elite capture of growth dividends as the reason for repeated cycles of political instability, as opposite factions compete for power. The government program commits to (i) state-building goals, including the improvement of tax administration, a program of decentralization to improve inclusiveness, a platform for strengthening social accountability and dialogue; and (ii) peace-building goals, focusing on both the marginalized rural poor and the urban poor, which before the recent crisis constituted the middle-class, with a special focus on work opportunities for women. The government received strong regional and international support, with IDA activities focusing on supporting power sector reforms, reforms in governance, and private sector development in urban and rural areas, with a special focus on areas at risk of natural disasters.

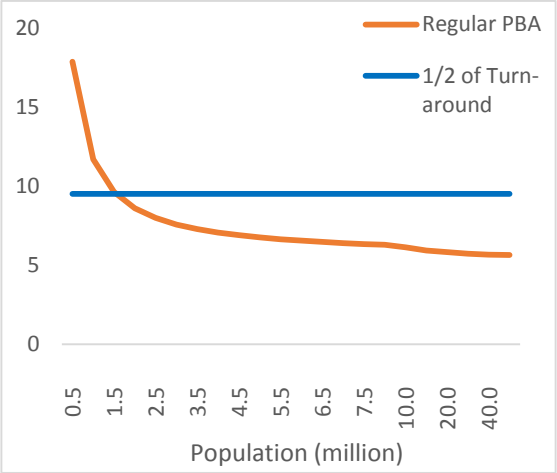
50. Depending on progress, two other countries could become eligible under the Turn-Around regime in FY16. A number of other countries have been considered based on the definition of their turn-around situations, the commitment of the governments to implement a reform program to address fragility, the support received from the international community and

the existence of a clearly defined role for IDA. For both these cases, time will be a critical factor to identify and support a possible turnaround. Early efforts are underway by the country teams to identify the conditions under which exceptional support might be warranted, how this might manifest itself, and the types of objectives that IDA would support. Such early efforts will hopefully facilitate the application process once a Turn-Around actually happens.

51. Early evaluation of country cases suggest that options to improve financing to countries with small populations should be considered. The main issue is that Turn-Around allocations for countries with small populations (in particular those with low PCPI scores) do not differ significantly from the country's regular PBA allocations. This is because the IDA allocations for countries with small populations are disproportionaltely influenced by the minimum base allocation that all IDA countries receive. To illustrate, Guinea-Bissau with a population of 1.7 million in 2013 had a regular PBA allocation of US$10.6 million in FY15 and could receive an annual Turn-Around allocation amounting to US$[11.9] million, an 11 percent increase. Madagascar, on the other hand, with a population of 23.6 million in 2013, had a regular PBA allocation of US$102.1 million in FY15 but could benefit from a Turn-Around allocation of US$223.9 million, or an increase of 119 percent over the regular PBA. Per capita allocations in the two countries differ widely because of performance,[40] but even assuming the same performance indicator, financing under the Turn-Around regime for Guinea Bissau would corresponds to US$16.6 or a 57 percent increase compared to regular PBA, or less than half of the 119 percent available to Madagascar.

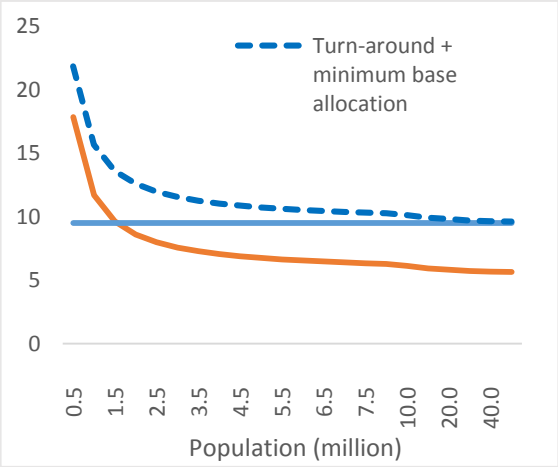
Figure 10. Impact of Alternative Modifications of the Turn-Around Regime
(In USD)

(a) Per-capita allocations to FCS



Source DFiRM staff estimates.

(b) Introduce the minimum base allocation



Source DFiRM staff estimates.

52. Simulations which benchmark per-capita allocations under the regular PBA and the Turn-Around regime confirm low access to small states.[41] According to simulations that uses

[40] Guinea-Bissau has a PCPI of 3.1 and a PPR of 4.0, corresponding to a *Performance Index* (PI) of 3.2. Madagascar has a PCPI of 4.1 and a PPR of 3.0, corresponding to a *PI* of 3.8. The maximum notional per-capita allocation for Guinea Bissau amounts to US$13.6, while that for Madagascar amounts to US$ 19. As neither country has suffered the consequences of a heavy conflict, an access of ½ the maximum allocation was deemed appropriate.

[41] See Annex 1 for an explanation of the methodology used.

average values for the elements of the PBA formula and the Performance Index, countries with population smaller than 2 million (1/3 of FCS in FY15) would receive a per-capita allocation under the regular PBA system equivalent or higher than the normal per-capita allocation under the Turn-Around regime, expected to be ½ of the notional maximum (Figure 10, panel (a)). While results are somewhat sensitive to the assumptions made, the higher the share of the minimum base allocation in the total PBA allocation, the smaller is the increase in per-capita allocation granted by the Turn-Around regime, for any level of performance.

53. To secure more adequate support to all countries under the Turn-Around, two possible modifications were considered. The first option would exploit the flexibility of setting the scale factor "α" coefficient at higher levels to address the challenges of scale and geography faced by small countries. The second option would introduce an SDR 4 million minimum base allocation in the Turn-Around regime, as under regular PBA. The options are assessed relative to the current regime in terms of advantages (ease of implementation and effectiveness in increasing allocations for countries with small populations), disadvantages (additional requirements and loss of incentives based on performance) and estimated costs (additional IDA annual resources needed). Cost estimates, for illustrative purposes, are calculated as annual maximum costs in the event that all FCS in FY15 would qualify for the Turn-Around regime. However, actual costs are expected to be substantially lower as only few countries are expected to become eligible for Turn-Around allocations (see Annex 2 for a full discussion of the alternative options and Table 2 for a summary comparison of the two options).

Table 2. Assessment of modifications to the Turn-Around regime

Proposed modification	Advantages	Disadvantages	Estimated costs[42]
Small states consideration for setting "α".	No formal change to the regime, but small states expected to have higher scale factor.	For the four FCS with populations below 500K, PBA allocation will remain larger than Turn-Around access.	$10-20 million or 0.1—0.2% of core IDA[43] if population cutoff at 2 or 4 million.
Introduce SDR4 million minimum annual base allocation in Turn-Around	Strong performance orientation maintained and small state bias addressed.	Increase in costs is highest as all eligible countries would receive the minimum base allocation.	US$140 million or 1.0% of the annual core IDA envelope.

54. Option 2 ensures higher financing to countries with small populations; does not require substantial modifications to the current Turn-Around framework; and would require limited additional IDA resources. Under this option, all countries eligible under the Turn-Around regime would receive a Turn-Around allocation additional to the SDR 4 million

[42] Increase in costs is the difference, when positive, between financing under the TA regime and that granted under the regular PBA (i) assuming core IDA as in IDA17; (ii) calculated for all IDA FCS; (iii) Assuming all FCS have the same performance measured by the PCPI, the CPIA and the PPR as the median of the 10 countries eligible for PC and RE regimes in FY15.

[43] Assuming core IDA as in IDA17

minimum base allocation, as under the regular PBA.[44] This option would benefit mainly countries with small populations, as under regular PBA, and remove entirely the small states bias of the current Turn-Around regime (Figure 10, panel (b)). It would apply equally to all Turn-Around-eligible countries, maintain the strong performance orientation of the Turn-Around regime and the simple formula-based rule, as countries with better performance would receive higher per-capita access. Compared to Option 1, under which estimated Turn-Around per-capita allocations could not increase sufficiently in the four FCS with populations smaller than 500,000, all small states would benefit. While estimated costs under this option are the highest, the need for additional annual IDA resources is not expected to increase significantly, as the number of Turn-Around cases is expected to remain limited.

55. Other elements of the regime proved to be adequate to the goals of further enhancing targeting of IDA's exceptional support to FCS. In particular:

- **The definition of Turn-Around situations**, pending feedback from IDA's Executive Directors on the two CENs that are being prepared, would allow support to be channeled to two countries that would not have been eligible for the PC or RE regimes, as they had not withstood the effects of a severe conflict or disengaged with the World Bank for a prolonged period. Importantly, the adopted definition allows consideration of the eligibility of remaining protracted arrears cases, of countries that might face subnational conflict or violence, or that would phase out from the existing exceptional regimes at the end of IDA17. It would also enable IDA to consider support to countries with elements of fragility that have had, in the recent past, significant negative spillover effects in IDA-eligible countries that are not considered fragile, thereby overcoming the limitation of the threshold effect present in the existing regimes.

- **The use of the PPR in the Performance Index (PI)** remains a useful element to differentiate among performance of FCS. Data available for IDA16 confirms a positive trend for the average portfolio performance in FCS, with the number of projects rated as satisfactory by IEG increasing to 90 percent in FY14. Therefore, the consideration of the capacity of the country to achieve satisfactory implementation of the portfolio would help distinguish countries that, during the period of the regime, remain committed to reforms from countries less committed to reforms. In the two cases considered, Madagascar PPR reduced the *PI*, however an improvement of the PPR to the level achieved by Guinea-Bissau would allow a higher access of financing from the Turn-Around facility in subsequent years. In addition, the weight of the PPR in the *PI* can be flexibly adjusted in the current framework in cases where it would penalize initial access, as would be the case in countries with no current active project portfolio.

- **The feedback loops and the monitoring framework,** at this stage have not been fully tested. Elements of monitoring frameworks have been established in both Guinea-Bissau and Madagascar based on Bank's supported fragility assessments. It is also envisaged that this could be done through a collaborative effort around the g7+ fragility spectrum and compacts in New Deal pilot countries, and based on a finalized framework of Peace-building and State-building indicators as developed by the International Dialogue. However, to date, the countries that could become eligible under the Turn-Around regime had not adopted New Deals

[44] See "Additions to IDA Resources: Seventeenth Replenishment IDA17: Maximizing Development Impact", March 25, 2014

compacts. The effectiveness of the use of elements of the New Deal in the Turn-Around regime remains to be tested in future cases.

56. As Turn-Around situations imply a sense of urgency, a remaining challenge is to further understand the operational and additional financing support required for Turn-Around countries, as they move from eligibility to implementation. As mentioned in section III above, the WBG will continue to monitor the implementation of OP/BP 10.00 to assess how the flexibilities that exist are being applied, and to monitor whether staffing and budget allocations are sufficient to support a higher level of engagement in support of these countries' transition. Drawing on experiences from IDA16, there is a need to further advance the complementarities that exist between IDA Turn-Around allocations and the availability of trust funds, managed by the WBG or by other organizations, to ensure the earliest possible support to turnaround situations and the ability to pilot and innovate in response to a challenging operating environment.

V. Conclusions and issues for discussion

57. A strong performance on commitments marked the beginning of IDA17. In the first 15 months of IDA17, IDA has significantly modified the WBG's strategic engagement in FCS, adopted more fit-for-purpose operational modalities and substantially increased financing to FCS. Implementation of the IDA17 commitments has seen the roll out of key tools of analysis, the attention to gender, the strengthening of partnerships and the development of a work program to improve understanding of operational effectiveness. The Turn-Around regime was adopted to allow IDA to further tailor support to fragile states facing the opportunity to break away from fragility and the eligibility of two countries is being considered.

58. A number of challenges and tasks remain. This includes redefining FCV situations in a way that would help further direct IDA financing, incorporating lessons learned into operations, including for gender, ensuring the scaling up of interventions that work, and their sustainability, and ensuring that staff working in FCS are up to these challenges. Finally, it is necessary to ensure that the large increase in IDA financing to FCS continues to be matched by adequate budget and human resources, recognizing the higher-than normal costs and difficulties in operating in many FCS where instability is rampant.

59. At Mid-Term Review, Staff would welcome deputies views on:

- The Bank's efforts to improve the operational effectiveness in fragile states, including the implementation of actions agreed in the context of the IDA17 Replenishment.
- The effects of the modification to the IDA PBA framework introduced in IDA17 to increase financing to FCS while maintaining a strong performance orientation, including the implementation of the Turn-Around regime.
- The proposed modification of the Turn-Around regime according to option 2, which has the advantage of increasing resources to countries with small populations while maintaining the general performance-orientation and with a moderate level of estimated additional resources needed.
- The continued focus on operational reforms to render support to FCS more effective and results-driven.

ANNEX 1. ASSUMPTIONS UNDERLYING THE COMPARISON OF THE PER-CAPITA ALLOCATIONS UNDER THE REGULAR IDA PBA AND THE TURN-AROUND REGIME

The comparison of allocations is possible only for those countries that are currently eligible of the PC and RE regimes. Because it requires countries to have both CPIA and PCPI scores. The simulations compare the hypothetical per-capita country allocation received under the regular IDA PBA and the Turn-Around regime. The components of the PBA formula reported below

$$PBA_i = \frac{{CPR_i}^4 * Pop_i * (GNI\ per\ capita_i)^{-0.125}}{\sum_{i=1}^{N}\left[{CPR_i}^4 * Pop_i * (GNI\ per\ capita_i)^{-0.125}\right]} * IDA\ Envelope$$

are as follows: the CPRi and the GNI per-capita equal the average for the 10 countries that had PCPI scores used to define IDA FY15 allocation; the IDA Envelope is net of the IDA set asides (Regional , CRW, arrears clearance, and transitional support for India) and the capped allocation to Pakistan for IDA17. Population ranges from a minimum of 100.000 people to a maximum of 70 million, to reflect the heterogeneity of FCS in FY15.

The components of the Performance Index used to determine the maximum notional per-capita allocations under the Turn-Around regime are reported below.

$$PI = (0.8) * PCPI + (0.2) * PPR$$

For the simulations, the PCPI and the PPR are assumed equal to the average of the 10 countries eligible for the PC and RE regimes in FY15.

Departing from the actual calculations of the FY15 IDA country allocations, the following simplifying assumptions were made:

- All countries that had CPIA and CPR[45]for FY15 were included in the simulations. Hence simulations include Sudan Eritrea and Zimbabwe, even though they are considered inactive, but do not include Somalia because no data are available.
- No adjustments for grant/credit allocations and for MDRI netting out were made. Therefore the simulations compare notional PBA allocations with no reduction in case the actual allocation reflects a 20% reduction in volumes for the grant component or MDRI netting out. Conversely, the allocations do not reflect also the re-allocation of the grant and MDRI netting out to all IDA-only countries, based on their PBA score.

The simulated PBA annual allocation for the average PC/RE eligible country is the average annual total IDA17 allocation. In addition, the total simulated annual allocation cannot be smaller than SDR 4 million, the minimum base allocation adopted in IDA17. As a result of the assumptions above and the introduced minimum base allocation, the simulated per-capita allocations under the PBA reach a maximum of US$576.67 for a population of 100,000 and a minimum of US$5.09 for a population of 70 million.

[45] Country Performance Rating

The simulation uses a scale factor of 0.5 to benchmark the per-capita allocation under the turn-around regime. As reported in Annex I, the notional maximum allocation is adjusted by a scale factor that reflects the status of a country, its absorption capacity and the level and duration of exceptional support already received. As the 10 countries whose data have been used in the analysis are all eligible for support under the exceptional PC or RE regimes, the scale factor was set at 0.5 as most of these countries have already received exceptional support from IDA.

ANNEX 2. SIMULATIONS OF DIFFERENT OPTIONS UNDER THE TURN-AROUND REGIME

Two possible modifications are considered for the resource allocation under the Turn-Around regime. All ttwo modifications detailed below address the small states bias of the per-capita based regime while at the same time maintain the performance orientation of the original regime. The options are assessed relative to the current regime in terms of advantages (ease of implementation and effectiveness in increasing allocations for countries with small populations), disadvantages (additional requirements and loss of incentives based on performance) and estimated costs (additional IDA annual resources needed). Cost estimates, for illustrative purposes, are calculated as annual maximum costs in the event that all FCS in FY15 would qualify for the Turn-Around regime and are the sum of the difference, if positive, between the financing under the different options for the Turn-Around and the regular average annual per-capita allocation under IDA17. Other simplifying assumptions apply, as reported in Annex 2.

Option1. Exploit the flexibility of setting the scale factor "α" coefficient. This coefficient multiplies the applicable notional maximum per-capita allocation taking into consideration county needs (high in a post-conflict situation), country absorptive capacity (expected to be low at least at the beginning of a Turn-Around situation) and the level and duration of the exceptional support already provided by IDA. Only for countries gaining access for the first time to the exceptional regime after a severe conflict or when absorption capacity is strong "α"is expected to be close to 1 (See Annex 1). Special considerations could also be given to the challenges faced by small countries. If "α" for small states could be set at a level close to 0.66, Turn-Around per-capita allocations to countries with a population of 2 million would correspond to an increase with respect to regular PBA allocation comparable to that calibrated for a country with the median population and income per capita for the group of FCS eligible for PC and RE regimes, assuming the same *PI*. Further increasing the scale factor for countries with smaller populations would allow maintaining the same increase (Figure A1, panel (a)). However, even assuming that "α"would equal 1 for small island economies with population smaller than ½ million, the per–capita PBA would still remain above the maximum notional per-capita allocation of the Turn-Around regime.

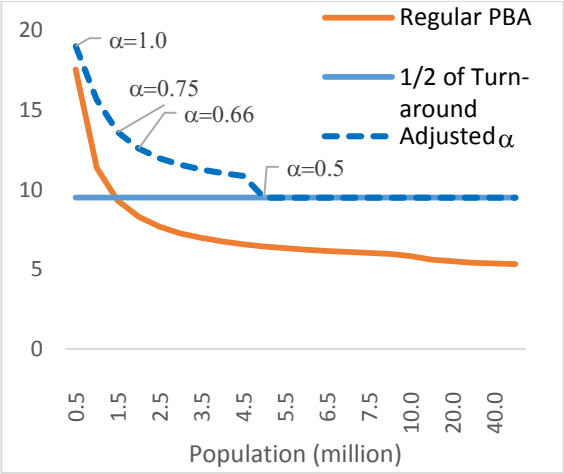
- Advantages. This approach has the benefit of maintaining the simple formula based framework of the Turn-Around regime and preserve its performance orientation, while at the same time provide more incentives to FCS with smaller populations
- Disadvantages. The ceiling of the maximum notional per-capita allocation would still remove incentives for four small island fragile economies with population smaller than 500,000.
- Costs. Additional resources to the Turn-Around regime would decrease resource available under the regular PBA. As this option would require only discretional increases, additional resources would be required only for small states, with minimal impact on the overall annual country allocation. Additional annual costs, calibrated on the 28 IDA-eligible FCS in FY15 are estimated to be around US$10-20 million or 0.1%-0.2% of the core annual IDA envelope, depending on the population cut-off used for increasing the scale factor, with the highest cost range applying a population cutoff of 8.5 million equivalent to the median population of FCS in FY15.

Option 2. Modify the Turn-Around regime with an explicit small state floor. According to this option, the Turn-Around per-capita allocation would become additional the SDR 4 million minimum base allocation. As in the regular PBA, per-capita allocation to small states would increase and maintain the incentive for small states to apply, entirely removing the small states bias of the current Turn-Around regime (Figure A1, panel (b)).

- Advantages. This option maintains the strong performance orientation of the Turn-Around regime and the simple formula-based rule, as countries with better performance would receive higher access, given their needs, independently of the population size. For larger countries the addition of the minimum base allocation would only marginally increase the per-capita allocation.
- Disadvantages. All countries eligible for Turn-Around would receive an allocation increased by SDR4 million, independently of size.
- Costs. The introduction of the SDR4 million minimum base allocation would increase costs for countries with larger populations, but not for the small countries that would not have incentives to apply for the current Turn-around regime, as a country receiving the regular PBA would receive at least the minimum base allocation. Additional annual costs calibrated on the 28 IDA eligible FCS in FY15 are expected to amount to US$140 million or 1.0% of the annual core IDA envelope.

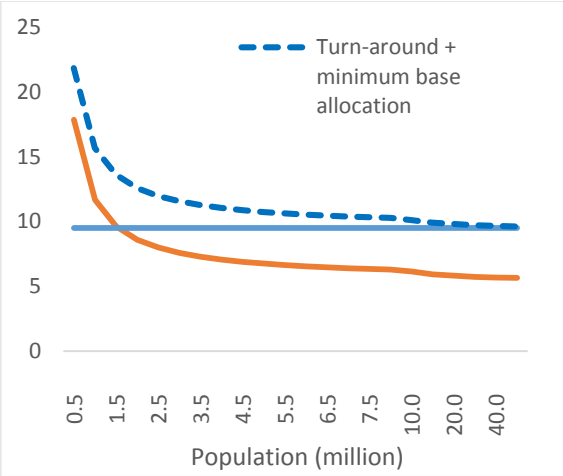
Figure A1. Impact of Alternative Modifications of the Turn-around Regime
(In USD)

(a) Exploit the flexibility of the scale factor "□"



Source DFiRM staff estimates.

(b) Introduce the minimum base allocation



Source DFiRM staff estimates.