AFRICA OPERATIONS SERVICES SERIES

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Dealing with GAC Issues in Project Lending

The Special Case of Fragile and Conflict-Affected States

GLOBAL CENTER ON CONFLICT SECURITY AND DEVELOPMENT

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THE WORLD BANK

Contents

Boxes and Table

Abbreviations and Acronyms

CAS	Country Assistance Strategy
CDD	Community-driven development
CSO	Civil society organization
DFID	U.K. Department for International Development
EITI	Extractive Industries Transparency Initiative
FCS	Fragile and conflict-affected states
GAC	Governance and anticorruption
IBRD	International Bank for Reconstruction and Development
ICT	Information and communications technology
IDA	International Development Association
IFI	International financial institution
INT	Department of Institutional Integrity
ISN	Interim Strategy Note
M&E	Monitoring and evaluation
MDGs	Millennium Development Goals
MDTF	Multidonor trust fund
NGO	Nongovernmental organization
OECD	Organisation for Economic Co-operation and Development
ORAF	Operational Risk Assessment Framework
PCN	Project Concept Note
PMU	Project management unit
TAP	TAP principles—transparency, accountability, and participation
TTL	Task team leader
WDR	World Development Report

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Preface

The World Bank's concern with governance and corruption issues arises from the effect that poor governance and corruption have on the prospects for sustainable growth and poverty reduction in its member countries, including on the development programs the Bank helps to finance. The Bank's 2007 strategy for tackling these issues focuses, at the country level, on helping to create more capable and accountable states; at the operational level, on improving the development impact and integrity of Bank-funded projects; and at the global level, on working with other donors to coordinate action in countries where governance issues pose a significant challenge for development, as well as supporting collective action against corruption through a variety of international conventions.

The Bank has been struggling for more than a decade to figure out how best to assist a particularly challenging group of low-income countries that suffer from especially poor governance, often complicated by internal strife**.** These 33 fragile and conflict-affected situations (FCS) account for over 500 million people, half of whom earn less than one dollar a day. There is growing concern within the international community about these countries' failure to meet the Millennium Development Goals, and about the "spillover effects" they may have on other countries. These concerns are now reflected in the Bank's strategic priorities, reinforced under the recent IDA16 agreements, and highlighted in the 2011 World Development Report (*Conflict, Security, and Development*) and in the recently issued Africa Regional Strategy

The FCS face a twofold challenge: first, to achieve a peaceful settlement of the conflict (peace-building); and second, to strengthen (or build) the institutions needed for the state to carry out its basic functions (state-building). The challenge for the international community, including donors such as the Bank, is how to support both peace-building and state-building as prerequisites to getting on with the development process.

This note aims to bring together these two areas—governance and anticorruption (GAC) and the FCS agenda—to provide project task teams with practical, principles-based guidance that can be used for dealing with GAC issues in the FCS in Africa. It provides a conceptual framework for understanding the risks and opportunities of project design, implementation, and supervision; highlights key lessons learned and good practice examples from others working in this area; and suggests some topics where further work is needed to understand and mitigate operational risks.

I. Introduction

The principal objective of the Bank's governance work should be to help develop capable and accountable states to deliver services to the poor, promote private-sector-led growth and tackle corruption effectively.[1]

The Bank's Governance and Anticorruption Strategy

Governance is a country's exercise of power in managing its economic and social resources for development. Good governance is generally associated with faster, private-sector-led growth and with more pro-poor development outcomes. Poor governance has the opposite effects and provides greater scope for corruption to occur. The World Bank's interest in these topics arises from the impact that poor governance and corruption have on member countries' prospects for sustainable growth and poverty reduction, including the effectiveness of the development programs it helps to finance.

Bank Strategy. In March 2007, the Bank's Board approved a new strategy for tackling governance and corruption issues, with three pillars:

- ***Country level.*** The Bank focuses on helping countries strengthen their effectiveness, transparency, and accountability through initiatives to improve governance and reduce corruption.
- ***Operational level.*** The Bank aims to improve the development impact and integrity of Bank-funded projects by focusing on strengthening country systems and enhancing project design, implementation, and evaluation.
- ***Global level.*** The Bank works to harmonize its approach with others', coordinate action in countries where governance issues pose a significant challenge for development, and support international conventions such as the OECD Anti-bribery Convention, the Extractive Industries Transparency Initiative, and the Stolen Asset Recovery Initiative.

Progress. Under the implementation plan launched in December 2007, progress has been achieved at all three levels. The agenda for action has been defined, new tools and approaches have been developed, and governance and anticorruption (GAC) issues and concerns are increasingly being mainstreamed in the Bank's operational work at the country, sector, and project levels. With the introduction of the Operational Risk Assessment Framework (ORAF), the Bank has undertaken a major effort to improve how it manages GAC risks in the development projects and programs it supports.

The Special Case of Fragile and Conflict-Affected States

On a parallel track, the Bank has been struggling for more than a decade to figure out how best to assist a particularly challenging group of low-income developing countries that suffer from especially poor governance, complicated in many instances by internal strife—including civil wars

[1] *Strengthening World Bank Engagement on Governance and Anti-Corruption* (World Bank, March 2007).

and other forms of conflict and violence. Across the globe, these "fragile states" account for over 500 million people, half of whom live on less than one dollar a day. There is growing concern about the ability of these countries to achieve the Millennium Development Goals (MDGs), and about the "spillover effects" they may have on neighboring countries. The Bank currently recognizes 33 fragile and conflict-affected states (FCS), 18 of which are located in the Bank's Africa Region (see Annex A). The Bank's official definition of a fragile state sounds bland, almost benign: having a CPIA rating of 3.2 or less, or a UN peace-building/peace-keeping mission during the past three years. For countries affected by violent conflict, however, the realities on the ground may be anything but bland and benign.

The Causes and Consequences of Fragility

One of the most common direct causes of fragility is severe internal conflict and its aftermath. For example, of the 18 fragile states in the Africa Region, 12 have had UN peace-building/peace-keeping missions within the past three years. Internal conflicts are often associated with the availability of natural resources, such as oil, diamonds, and timber. In other cases, deep social, ethnic, or religious divisions have been exacerbated by predatory leadership in or outside the country. The most ubiquitous characteristic, however, is simply poor governance—that is, weak or absent basic institutions. In countries with stronger governance, the institutions of the state and of society are sufficiently resilient that they can respond effectively to stress from political, social, economic, or natural causes. However, countries with weak institutions are especially prone to repeated cycles of conflict and violence: they are simply not capable of establishing and sustaining the balance of power among competing interests that is necessary for peace and political stability.

Effects of Violence. When competing interests take up arms, the consequences for those caught in the middle can be horrendous. Civilians, including women and children, often bear the brunt of such violence, as marauding bands of militia (government and rebels) may sustain themselves by looting and destroying villages in their path.[2] Civil wars are the antithesis of development—they shatter lives and livelihoods, destroy the country's physical and institutional infrastructure, create hordes of refugees and internally displaced people, and generate hatred and mistrust among communities and ethnic groups. For those reasons, peace-building is never easy. A lasting peace may take a generation or more to achieve—if all goes well.

Corruption and Poor Governance. In fragile states, where governance is (by definition) poor, corruption may be both a cause and a consequence of armed conflict. War itself provides the need and the opportunity to loot natural resources and to develop criminal networks trafficking in arms, drugs, and people. After the conflict, widespread corruption has negative consequences for growth and poverty reduction and is likely to generate resentment and frustration among the disadvantaged, sowing the seeds of future conflict.

Challenges for Borrowers and for the Bank

Conflict-affected states face a twofold challenge: first, to settle the conflict (peace-building); and second, to strengthen (or build) the institutions needed for the state to carry out its basic functions (state-building). In this context, corruption cannot be ignored. The challenge for the international community, including donors such as the Bank, is how to support both peace-building and state-building and get on with the development process. They also need to figure out what exactly to do about corruption—in its many forms and manifestations—at the country, sector, and project levels.

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[2] See, for example, Ishmael Beah, *A Long Way Gone: Memoirs of a Boy Soldier* (New York: Farrar, Straus and Giroux, 2007).

Purpose of this Paper. This note provides principles-based advice and guidance to task teams working at the sector and project levels on FCS countries in Africa. It aims to provide a common conceptual framework for understanding the challenges and opportunities they face in project design, implementation, and supervision; highlight key lessons learned and good practice examples from others working in this area; and suggest some topics where further work is needed to understand and mitigate key operational risks.

Overview: GAC in the Project Cycle

Under the 2007 GAC Strategy, the Bank has not introduced any new policies or procedures for mainstreaming GAC concerns in project lending: the intention is simply to improve development outcomes by focusing more effectively on governance and corruption issues in project design, preparation, implementation, and evaluation. The standards for doing so are situational, reflecting the GAC priorities and potential entry points identified in the Country Assistance Strategy (CAS), constraints and opportunities in the relevant sector, resources available to the task team, the priority of the sector for growth and poverty reduction, and the prospects for achieving the project's development objectives—taking into account the risks and vulnerability assessment and proposals for risk mitigation. In FCS countries, however, dealing with governance and corruption issues is both more important and more difficult than in more normal countries. For that reason, the "TAP" principles of good governance—**t**ransparency, **a**ccountability, and **p**articipation—are especially important for task teams to bear in mind throughout the project cycle.[3]

From Project Concept Note to Board Approval

The Project Concept Note. At a minimum, the Project Concept Note (PCN) should reflect the Bank's experience with GAC issues in the sector, including the results of any investigations by the Bank's Department of Institutional Integrity (INT) and the government's track record in dealing with identified GAC issues. The PCN should also capture the results of the task team's effort to assess risks under the ORAF and proposed actions to reduce or mitigate those risks. Tools for assessing risk may include value chain analysis, political economy analysis, institutional capacity assessments, and social assessments (see Chapter III). Risk mitigation tools include a variety of supply-side and demand-side approaches that generally build on the TAP principles. The PCN is used to confirm the project's risk rating and thus determine the level of management review and resources it will receive.

Project Design and Preparation. During project preparation, attention focuses primarily on engaging with project stakeholders, both to refine the risk assessment and to clarify the feasibility of potential measures to deal with critical project risks and vulnerabilities—including GAC risks to project funds and to the achievement of the project's development objectives. In FCS countries, where governance is often poor and corruption risks are often high, there should be no illusion that governance will improve dramatically or that corruption will be eliminated. Instead, the intention should be to find practical and realistic actions that will improve development outcomes in a meaningful way, taking progressive steps in the right direction over time. In addition to paying close attention to governance and corruption issues, task teams working on projects in FCS countries should do the following:

- Include, as part of project preparation, a communications strategy that frames GAC issues in a constructive way, seeks to take into account the concerns and perspectives of all

[3] *Dealing with Governance and Corruption Risks in Project Lending: Emerging Good Practices* (OPCS, World Bank, 2009).

stakeholders involved, enhances the understanding of constraints and opportunities, and strengthens the project's incentives for improving governance and reducing corruption.

- Focus on binding constraints. In FCS countries, constraints are likely to include severe weaknesses in institutional capacity; thus the project design should include an explicit strategy and action plan for institutional strengthening, as well as explicit, measurable indicators of progress.
- Wherever possible, include arrangements for the constructive engagement of civil society in project planning, design, implementation, and oversight, both to complement supply-side mitigation measures and to enhance the demand for transparency and accountability.
- Build in effective arrangements for project oversight (including provisions for monitoring and evaluation), especially for decentralized projects operating in remote areas, reflecting any constraints security concerns may impose on direct Bank oversight.

Appraisal to Board Approval. During project appraisal, task teams should focus especially carefully on the realism of their assumptions about the achievement of development objectives. The estimated pace of project implementation should take capacity weaknesses into account and should be consistent with actual experience under similar conditions. Task teams should also give special attention to the project's readiness for implementation, including the availability of operating manuals, record-keeping systems, and competent staff. In FCS projects, if it is necessary to contract out some of this work, there should also be a parallel plan and schedule for strengthening country systems.

From Board Approval to Project Completion

Effectiveness to Project Launch. Once the project is effective, the central challenge lies in getting it up and running. One of the key lessons of INT investigations is the correlation between poor record-keeping and indications of fraud and corruption. Good record-keeping makes it possible to audit procurement processes and financial transactions, while poor records may be impossible to audit satisfactorily. Before project launch, therefore, it is critical to double-check that systems and procedures, and the staff to operate them, are in place. This readiness review should include plans for monitoring and evaluation (M&E) of results.

Project Launch to Midterm Review. For projects in FCS countries, supervision efforts by Bank task teams should be "front-loaded." The evidence is clear that successful projects involve higher than normal investments in implementation support, especially during the first two years of the project's life. This reality should be flagged in the PCN and confirmed during subsequent management reviews. In addition, given the possibility of sudden changes in political stability or of security concerns, it may be necessary to conduct regular "risk scans" to determine whether changes in the project's enabling environment warrant a reassessment of project risks. If the project is not moving as expected, or changes in circumstances make it unlikely the project will succeed, action should be taken sooner rather than later. Specifically, it may be necessary or appropriate to restructure the project even before the midterm review.

Midterm Review to Project Completion. Many of the same issues will continue throughout the life of the project. During the midterm review, task teams should pay special attention to how well the risk mitigation measures in the project are working—especially those related to governance and corruption concerns. If pilot initiatives were included in the project, successful initiatives should be scaled up; those that have not proven successful should either be fixed or dropped in favor of an alternative initiative.

Project Evaluation. For FCS projects, especially those where results are important as part of delivering on the "peace dividend" and where a results-oriented approach to capacity building

was adopted, M&E is critical for the achievement of project objectives. Project indicators should, of course, include both physical outcomes and capacity-building results. Where normal M&E systems are lacking, it may be possible to engage with civil society in carrying out "participatory" M&E. In that context, client perceptions of the performance of service providers can be very useful. Impact evaluations may also be appropriate, if they were built into the project at the design stage, and if baseline data were collected both from communities expected to benefit from project interventions and from "control groups." Whether project interventions succeeded or failed, lessons learned should be captured and shared with others for the benefit of future project design, preparation, implementation, and evaluation.

II. The Country Context

…a fragile situation will be one in which the fundamental processes, institutions, and guarantees that preserve the identity of society, the basic operations of the state, essential public goods and public services, and the day-to-day security of citizens in their property and persons, cannot be relied upon.[4]

Understanding Realities on the Ground

A fundamental premise of the Bank's strategy for improving governance and reducing corruption is that assistance strategies must be more effectively tailored to country conditions. For example, emerging good practice suggests the virtue of political economy analysis as a prerequisite to the design of policy and institutional reforms: the expectation is that a better understanding of the underlying political realities will provide a more realistic assessment of what reforms—if any—may be possible. A corresponding stakeholder analysis and a mapping of "winners and losers" can help to identify possible champions of reform and potential "entry points," all of which would then feature in the design of the proposed reform program and the strategy for its implementation.

Country Context in FCS. While an understanding of the country context is important in any country, it is absolutely critical in FCS. In these countries—although their political structures vary, and some governments may be politically powerful—governance is generally weak and public sector institutions are dysfunctional, corruption is often rampant, and development outcomes are poor. Both civil society and the private sector are also likely to be underdeveloped. The security situation may involve substantial risk and uncertainty, not just during the ongoing conflict, but also during the early period of a cease-fire agreement and, indeed, well into the post-conflict period. Roughly half of all countries that have endured a civil war revert to conflict within a decade. Tailoring Bank assistance to FCS in Africa requires a thorough understanding of three things: (a) the underlying causes of their fragility and conflict; (b) the various political and governance structures that may emerge under those conditions; and (c) the potential impact of both of those factors on the prospects for peace and for developing a capable and accountable state, achieving sustainable growth and development, and dealing with the unavoidable issue of corruption.

The Causes of Fragility and Conflict: Gaps, Traps, and Foreign Aid

There is a growing volume of literature on the causes and consequences of fragility and conflict, and an emerging consensus on many of the key drivers affecting FCS:[5] poverty, slow or negative growth, natural resources, weak institutions, low expectations, ongoing or recent violence, and ethnic diversity. Most of these factors are referred to as *gaps* or *traps*—low-level equilibriums for which there is no quick or easy solution. Understanding these underlying causes, however, is essential for developing viable solutions.

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[4] Michael Johnston, *First, Do No Harm – Then, Build Trust: Anti-Corruption Strategies in Fragile Situations*. Background paper for WDR 2011 (Washington: World Bank, 2010).

[5] See Selected Bibliography for a sample of the literature.

The Poverty and Growth Trap. Research shows clearly the correlation between poverty and fragility. In some ways, this reflects the classic "chicken or egg" issue: the lack of public and private sector resources limits the development of human and physical capital, which, in turn, limits the growth of jobs and income, which, in turn, limits the availability of resources for development. The assumption that increased flows of foreign aid could resolve this low-level equilibrium has not held up. More recently, the need for improved governance has come to the fore as an element in the effectiveness with which aid is used. More important, however, is the causal relationship that has been established between low levels of income and civil war.[6] In general, poor is dangerous. The rate of growth also matters: a positive growth rate helps, while stagnant or declining incomes increases the risk of conflict. (The implication for peace-building strategies is clear: if growth helps prevent conflict, then economic development becomes the exit strategy for post-conflict support by donors.)

The Natural Resources "Curse." Dependence on natural resources may also increase the risk of fragility and conflict. Over the past 30 years, the literature on this issue has found that with few exceptions, countries that depend mainly on natural resources suffer from a combination of slower growth and development and increased potential for conflict. An early assumption was that economies that were heavily dependent on the export of agricultural commodities (e.g., palm oil or cotton) would be hurt by a long-term decline in market prices. The same seems to be true, however, for countries that benefitted from the discovery of oil, diamonds, and other minerals—these resource-rich countries have demonstrated lower rates of growth, on average, than those that were not so "fortunate." The explanation here is that the large inflow of wealth causes a spike in the exchange rate, weakening the growth prospects for other tradable sectors, so the entire economy (and especially the public sector) remains vulnerable to market volatility and sometimes dramatic changes in commodity prices.

Weakened Governance. Sudden large inflows of wealth can also weaken governance and increase the risks of conflict. In the absence of transparency, checks and balances, and rule of law, those in charge of the government can divert to their own accounts enormous sums of money from the sale of valuable national assets. At the same time, the revenues that actually accrue to the national budget reduce the state's dependence on domestic sources of revenue, leading to the "expectations trap" described below. Over time, however, the level of corruption and the discrepancy between the lifestyle of the governing elite and the lot of the mostly poor citizens increases the potential for conflict. The resources themselves, therefore, may become a "honey pot" for various political factions to fight over and/or a source of funding for rebel militias.[7] There are, of course, exceptions to every rule. Some countries have managed to avoid the resource curse, using their natural resources for the benefit of the national economy, including more rapid growth and development and diversification toward resource processing and manufacturing.

The Capacity Gap. By definition, fragile states suffer from a lack of capacity in various functions and dimensions. The capacity gap presents challenges for both the government and the donors that attempt to help in overcoming it. This is especially true in post-conflict situations, where a common assumption is that everything has been destroyed in the war. In reality, while much of the physical infrastructure may be gone, it is not necessarily true that the human resources of the previous institution could not be reassembled; the organizational structure, rules, procedures, and business processes may live on in their collective memory. Therefore, it is important to work through whatever remnants of government structures may still exist or can be rehabilitated,

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[6] For example, Paul Collier, *Wars, Guns, and Votes: Democracy in Dangerous Places* (New York: HarperCollins, 2009).

[7] Certain "lootable" commodities, such as gemstones and drugs, do not appear to increase the risk of conflict but do tend to lengthen their duration.

rather than setting up a new and parallel system for the delivery of public goods and services. Equally important, however, is the need to have realistic expectations about how long it will take—decades, not years—to build a capable and accountable public sector in an FCS. Overburdening new institutions may lead to their demise.

The Expectations Trap. Research suggests that states that are required to seek public sector revenue primarily by taxing their citizens are likely to be more responsive and accountable than those that have alternative sources of income, such as exportable natural resources. This phenomenon is said to result from the evolution of a social compact between citizens and their government regarding their respective rights and responsibilities: "If you're going to tax us, you're going to have to deliver a reasonable level of pubic goods and services." Indeed, some argue that the absence of accountability by governments is often driven by the lack of incentives. They cite access to unearned resource rents (such as oil revenue), and income from criminal activities (such as the illegal trade in arms and drugs), together with privacy rules for overseas bank accounts and an absence of effective controls on money laundering, as critical underlying causes of state fragility.[8] One outcome of such a lack of incentives is a social compact of minimal expectations on both sides—basically, "We won't bother you, and we don't expect you to bother us." This low-level equilibrium, the "expectations trap," is common among FCS.

Global Action. Fortunately, the global community has begun to correct some of these incentives loopholes—for example, through the introduction of the Kimberley Process Certification System to register gems in the diamond industry; the Extractive Industries Transparency Initiative and the parallel "Publish What You Pay" initiative; certification programs for sustainable logging; the Stolen Assets Recovery Initiative; anticorruption conventions in OECD countries that have made corrupt payments by firms to foreign officials illegal; and financial sector reforms that have strengthened anti-money-laundering laws. Important as these efforts are, they will not be sufficient. And there is one other frequently cited factor that contributes to the lack of incentives for governments to look to their own citizens for taxable revenue, and to focus on the growth of the economy as the solution to the need for increased public sector revenue: the availability of large flows of foreign aid, amounting in many poor countries to 50% or more of their budget. (We will return to this factor when we discuss the role of the donor community in FCS.)

The Conflict Trap. We have noted that a number of factors contribute to the risks of conflict. At one end of the spectrum are countries trapped in a low-income, low-growth equilibrium in which development has passed them by. The solution is to help these countries break out of that trap and diversify the economy beyond the export of basic commodities. Strengthening governance and accountability mechanisms may offer a way forward. (If that were easy, however, it might have happened by now.) At the other end of the spectrum are countries that are currently in conflict. The solutions here are beyond the mandate and competence of the Bank, although there is increasing recognition of the importance of incorporating some of the Bank's knowledge and experience in the design of peace accords. In the middle range are post-conflict countries, which present three key challenges: building a sustainable peace, creating competent and responsive public sector institutions, and dealing with the corruption issue. These challenges are the subject of most of the rest of this note.

Dealing with Diversity. Ethnic diversity compounds the challenges of development in low-income countries, and increases the risk of conflict. Especially in a subsistence-based economy, economic survival may depend on maintaining one's association within a group of people for whom collective action is the norm. It begins with the family, especially important in the Afri-

[8] See, for example, Mick Moore, *An Upside Down View of Governance* (Institute of Development Studies, UK, 2010).

can context, and encompasses clans and associations of clans, generally with a shared culture and location. Studies show clearly that trust is highest within the group and lower across groups. Mutual and shared obligations sustain group identity and avoid the problem of "free riders." While this strong group affinity has substantial benefits for its members, the existence of numerous ethnic groups, each with powerful loyalties, complicates the achievement of political equity—especially in electoral competition, with a "winner takes all" outcome. In the absence of constraints on the use of power and protection for the rights of minority groups, great mischief is possible, and ethnic groups not aligned with the leader may be seriously disadvantaged.

National Identity. One answer is to develop a cultural identity with the larger group of citizens that supersedes local and clan identities—a sense of being, first and foremost, a member of the national polity. With few exceptions (Botswana, for one), this challenge remains unresolved for many of the countries of Africa. And worse, in some countries, ethnic conflict has left scars that may take a very long time to heal. The issue of diversity, which is fundamental to nation-building, is something that only individual countries can resolve, and one that requires extraordinary political leadership. At the same time, support from the donor community must be informed by and sensitive to the diversity challenge. At a minimum, program initiatives should avoid exacerbating ethnic tensions—for example, in the targeting of project beneficiaries, or the design of basic education curriculum.

Political Structures: Typologies of Leadership and Governance

No two FCS are alike. Nonetheless, it may be helpful to an understanding of the political context in such countries to consider certain relatively classic leadership and governance situations. One model that has been suggested involves four typologies:[9]

- Oligarchs and Clans
- Official Mogul
- Elite Cartels
- Influence Markets

The first two of these, Oligarchs and Clans and Official Mogul, are more typical of fragile states, especially those that have gone through a major political transition. The third, Elite Cartels, represents somewhat of a "halfway house" in the direction of Influence Markets, or the more democratic, market-driven political situations such as those that prevail in many of the developed countries of Europe and North America. Our focus here is on the first three.

- ***Oligarchs and Clans.*** This model involves ongoing conflict among competing groups, each dominated by a strong leader, and none of which has a monopoly on power that would allow him to consolidate his gains and secure his group's assets. The corresponding political conditions are highly unsettled and prone to unpredictable bouts of violence. In the absence of strong state institutions and the rule of law, crime and corruption flourish. Economic conditions reflect the climate of pervasive insecurity, with predictable effects on private sector investment, employment, and incomes.
- ***Official Mogul.*** This model involves a single powerful leader who has managed (most often with the help of the army) to consolidate his control over the functions of the state. In this model, much depends on the personality and inclinations of the mogul himself. He may be an enlightened leader who cares about his people and their welfare; or he may be entirely

[9] Michael Johnston, *First, Do No Harm – Then, Build Trust: Anti-Corruption Strategies in Fragile Situations, op. cit.*

venal and simply take advantage of his circumstances to enrich himself, his family, and his "entourage" by plundering the country's wealth. The corresponding political conditions may be stable and predictable, but they are distinctly undemocratic. In the absence of checks and balances, even the more enlightened leader may see fit to treat the public purse as his own and to divert a sizable portion of the country's wealth into Swiss bank accounts and expensive properties in Europe and elsewhere. The prevailing economic conditions will depend on the extent to which the leader cares about his people. The prospects for strong, private-sector-led growth and market liberalization are generally not very good. However, with at least a modicum of economic growth and a reasonable level of public services—or a well-equipped and loyal militia—such regimes can last a surprisingly long time.

- ***Elite Cartel.*** This model involves a tacit political agreement among a few select groups to share the spoils of high-level corruption among themselves. The corresponding political conditions are relatively stable, as each of the parties involved has a strong interest in maintaining the status quo. Given the relatively weak state institutions, the parties are generally safe from prosecution and are thus able to consolidate and sustain their gains. Political democratization may occur, with the elites using their wealth to maintain their influence over politics and the apparatus of the state. Economic conditions may benefit from market liberalization, with the constraints imposed by the interests of the cartel limited to certain key sectors. Over time, with a growing middle class and continued democratization, this model may evolve into the Market Influence model. In that sense it represents what some might call a "best fit" rather than a "best practice" model for emerging from fragile situations.

FCS Status. It is also important to consider where a country is, and where it may be headed, in terms of its prospects for maintaining peace, security, political stability, and socioeconomic development. The FCS Unit in OPCS has defined four categories to characterize the status of CFS countries:

- Deteriorating governance conditions
- Prolonged political crisis
- Post-conflict transitions
- Gradual improvers

Combining these categories with the typologies of leadership suggests the wide variety of situations that may arise, and thus the need for the Bank's response to be driven by the realities of actual conditions on the ground. In some situations the Bank can do little or nothing because of deteriorating security conditions or a prolonged political crisis. Perhaps the greatest challenge arises when a peace accord has been reached and the international community, including the Bank, comes together in a joint effort to support the country during the post-conflict period. The following sections summarize some of the key challenges involved in that process.

Peace-building: The Essential Elements

True peace is far more than the absence of conflict. The peace process gets the competing interests to the bargaining table, but that is only the start of the process. Other elements include the need to establish political stability, restore security, establish justice and reconcile past grievances, and achieve some kind of a "peace dividend."

The Peace Process: From Conflict to Accord. When competing interests are not resolved by a clear winner on the battlefield, the resolution of the conflict needs to involve compromise and accommodation. In effect, the leaders of militias that may have caused untold bloodshed and trauma, and financed their efforts through corruption and criminal activity, may now be invited

to become part of a new governing coalition. In addition, the followers of those leaders need to share in the benefits through the assignment of various government ministries, which are then staffed by those loyal to the respective leaders—and not surprisingly, such regimes generally suffer from governance challenges. While such a situation is not an ideal outcome, achieving peace is absolutely essential for socioeconomic development; there really is no viable alternative. Going a step further, the need for political stability trumps both state-building and socioeconomic development whenever conflicting priorities between these competing objectives may arise.

Security: Establishing a Monopoly on Violence. Assuring personal security for citizens and their property is the ultimate public good. To achieve it, the government must develop a monopoly on the ability to conduct war in the country. In post-conflict situations, where various militias have been operating, the starting point should be to demilitarize and demobilize the combatants and help them reintegrate into society. To sustain that monopoly and prevent future outbreaks, it is necessary to make it more difficult for rebels to obtain arms. In the short term, it may be possible to rely on UN or regional peace-keeping forces, but over time it may also be necessary to strengthen the government's own military capacity.

Justice and Reconciliation. Going forward, securing persons and their property from arbitrary interference by government or powerful elites requires the establishment of the rule of law. Developing the competence and legitimacy of police, courts, and prison systems is one of the greatest challenges the FCS face, and one that takes a great deal of time and effort to achieve. As part of the peace-building process, however, there may be a more immediate need for justice: the reconciliation of past grievances among the affected population. Peace and reconciliation efforts have had some success in Africa; but failure to deal effectively with those grievances increases the already high risk of reverting to conflict.

The Peace Dividend. When peace finally arrives, expectations for immediate change—for "a new deal"—may be unrealistically high and probably will not be fully met. However, the post-conflict situation may indeed be a window of opportunity for reform. At a minimum, the restoration of security and progress on justice and reconciliation allow the donor community to support the transition from emergency relief and humanitarian aid to reconstruction and development. Indeed, the real peace dividend (hopefully) will be the rapid restoration of basic public goods and services and the creation of new opportunities for employment and the growth of incomes.

State-building: Delivering Services, Creating Trust

To secure the peace and to meet the expectations of the people requires creating resilient institutions that are able to carry out the essential functions of government: political, security, and rule-of-law functions; managing public finances; delivering basic services; and supporting socioeconomic development. Depending on the circumstances, however, it may first be necessary to focus on nation-building. And, in parallel with building capacity in the public sector, it is also important to achieve a better balance among the state, the private sector, and civil society. This section discusses some of the key challenges involved in building a capable and accountable state.

Nation-building: Shared Identity, Mutual Sacrifice, and Tolerance. One of the legacies of the colonial period in Africa was the formation of states whose citizens had not previously enjoyed a shared national identity. Shared identity is a political construction, not something that arises on its own. Where there is ethnic or religious diversity, mutual respect and tolerance are also needed. Experience suggests that strong leadership is required to overcome the natural barriers to the development of a national identity, and that a national identity can best be fostered though national education and awareness programs, including the development of a basic education

curriculum that includes a common language and stresses shared national values—such as tolerance and respect for others.

Need for Trust. This effort is especially important following conflict that had its roots in ethnic differences. The reason is simple: creating public goods, such as security, accountability, and rule of law, requires a combination of public spirit, mutual sacrifice, and collective action. These behaviors are possible only where there is a basic level of trust—trust in government and trust in others, both of which may be in short supply in the aftermath of violence. For example, the accountability of political leadership requires that politicians be judged on their performance and that there be consequences for poor performance. If political parties and election campaigns are based entirely on ethnic affiliation, however, then what matters is not how well the politicians have performed, but simply which party they belong to. Therefore, political reforms should ideally include rules and procedures to ensure that political parties and electoral processes do not exacerbate the ethnic divide.

Creating Trust through Delivery of Basic Services. Research indicates that trust comes primarily through improvements in social well-being, which themselves arise from three key elements: the protections afforded by security and the rule of law; the availability of basic services; and growing incomes. These same elements also contribute to a sense of optimism about the future, and thus encourage private investment and reverse capital flight. In short, improvements in the delivery of basic services can become part of a new "virtuous circle" of socioeconomic development.

Creating Public Institutions. Creating competent and accountable public institutions is a challenging task, and clearly they cannot all be created at once. One major challenge, discussed further below, involves the trade-off between the immediate objective of restoring basic services as quickly as possible and the longer-term objective of building the capacity of public institutions to plan and manage the delivery of those services competently and responsively. Experience suggests that achieving just two or three significant outcomes during the first year is enough to begin to generate trust—but these outcomes must be visible at the local or community level. And while there may be tensions in working toward political stability, security, and socioeconomic development, progress in these critical areas may also be complementary: for example, reconstructing a critical road and providing secure passage of people and goods from rural areas to urban markets.

A Better Balance: The State, Markets, and Civil Society. Especially in FCS, a capable and accountable state cannot be developed by focusing only on the capacity of public sector institutions. Weaknesses in the capacity of the government to procure goods and services and to contract out various functions, for example, may be exacerbated by corresponding weaknesses in the capacity of the domestic private sector to respond. War destroys not only the physical infrastructure, but also the skills of the workforce. Therefore, an enabling environment for private sector development needs to be complemented by professional and technical training. In the interests of greater public sector accountability, it is equally important to strengthen relations between the state and civil society, especially in the context of service delivery at the local level.

Dealing with Corruption: What (Not) to Do

What NOT to Do. Dealing with governance and corruption issues in FCS is both more important, and more difficult, than in non-FCS. Unfortunately, we seem to know more about what NOT to do in this area. We know that the roots of corruption lie in dysfunctional state institutions—the hallmark of fragile states—and the obvious solution is to strengthen state institutions, focusing on the development of rule of law (police, courts, and prisons) and of oversight agencies (parliaments, audit agencies, and specialized anticorruption agencies). Unfortunately, we also know that (a) it

will be decades before these institutions are fully effective; and (b) a rules-based, frontal attack on corruption, in the absence of rule of law and effective oversight institutions, will fail and may even backfire, destabilizing political and security conditions. At best, false expectations will be raised and subsequently dashed, increasing public cynicism and reducing trust; at worst, the effort may be used by those in power against their political opponents, threatening the prospects for peace.

What TO Do. Ignoring corruption in the early post-conflict period, however, is equally dangerous and is as likely to be destabilizing in the medium term. Unchecked, corruption becomes entrenched, and a culture of impunity is embedded in the institutions of state, making it more difficult to root out later. The solution to this dilemma requires a clear understanding of the existing political conditions, and must be defined in terms of the principles of good governance—transparency, accountability, and participation. Experience suggests that a targeted attack on a key element of grand corruption at the national level (e.g., natural resource revenues) is more likely to succeed than a comprehensive attack, and has more credibility than a focus on petty corruption.[10] At the local level, and especially in the context of donor-financed reconstruction and development programs, it should be possible to combine support for the delivery of basic services with an emphasis on the constructive engagement of civil society—building accountability, improving governance, and reducing corruption through a focus on results. In FCS, this is likely to require, among other things, investments in strengthening the capacity of community-based and civil society organizations.

The Role of the International Community

While peace- and state-building are inherently internal processes, the international community can provide helpful support for a range of important activities. For example, in the absence of a stable regime, UN or regional peace-keeping forces can provide the space necessary for resolving conflict and reestablishing security and political stability. International NGOS and bilateral donors can provide emergency relief and critical humanitarian aid for refugees and internally displaced people. The Bank, other international financial institutions (IFIs), and bilateral aid agencies can provide support for reconstruction and for socioeconomic development.

Need for Coordination. The international community has learned much over the past decade about how it can best coordinate its efforts, maximizing positive impact and minimizing unintended harmful effects. The OECD "Principles for Good International Engagement in Fragile States and Situations" (see Annex B), for example, reflect these lessons. The first two principles, "Take context as the starting point" and "Do no harm," arise from some of the more common problems of past aid flows to FCS:

- ***Too much too soon.*** Aid flows that exceed the country's absorptive capacity have the same potential to stimulate corruption as a sudden windfall from oil, diamonds, or other mineral resources.
- ***Too little, too late.*** The failure to get aid moving in the critical early period because of bureaucratic inflexibility leads to lost opportunities to support both peace- and state-building.
- ***Too volatile.*** Although the long-term process of developing capable and accountable state institutions requires both patience and consistency of support, aid flows to FCS—provided in response to early enthusiasm and subsequently decreased because of disappointment with government performance—tend to be even more volatile than those to non-FCS.

[10] See, for example, WDR 2011, Box 8.3, on Liberia's forestry inspection service initiative and Mozambique's customs inspection initiative, both of which have delivered significant results, including improved domestic revenue.

- ***Too fragmented.*** Too many donors support too many (often quite small) projects, overwhelming the limited administrative capacity of the country's fledgling ministries.

Need for Collaboration. Besides better aid coordination, a more collaborative approach to political, security, and development efforts among key external partners would also be helpful. Different partners may have very different motivations—international NGOs may be concerned solely with humanitarian aid, trying to remain independent and "neutral"; regional forces may be concerned with possible "spillover effects" of the conflict; international forces may be concerned primarily with peace-keeping but also with preventing terrorism; and the development partners may be concerned with restoring the economy and achieving the MDGs. Not surprisingly, these motivations may sometimes clash with the motivations of competing national leaders, and there is a risk that international support may be compromised or co-opted by one or more of the political factions.

Applying the Lessons of Experience. The lessons of experience have caused the donor community to rethink past practices, leading to a significant shift in approach to both state-building and the modalities of aid:[11]

- From a primary focus on policy and technical analysis to greater reliance on political economy analysis to better understand the context and the prospects for reform.
- From importing "best practice" (Western) institutional models to focusing on "best fit," allowing form to follow function and adapting the form to less formal mechanisms that work locally.
- From comprehensive public sector reforms to more targeted and catalytic interventions.
- From relying on parallel structures for the delivery of aid projects to working through, or at least with, public institutions in the interests of strengthening their legitimacy and capacity.
- From a primary focus on central government to increased attention to local governments and community-based development, including community-driven development (CDD) projects that may subsequently be scaled up to form national programs.

But while these shifts in approach provide general direction, they fall well short of a detailed road map on how to get to the Promised Land. The rest of this note explores the route (but, obviously, not providing detailed directions), considering the implications of the country context for (a) assessing the risks of Bank-financed investment lending in FCS; (b) mitigating those risks, not just in the design of individual lending operations but more broadly in the design of sectorwide approaches; and (c) providing project oversight during implementation. Throughout this discussion, it is important to remember that every FCS is unique, and thus requires a highly tailored approach by the donor community (see example described in Box 1; see also Annex C for additional examples of country-specific challenges).

[11] For example, Brian Levy and Sahr Kpundeh, eds., *Building State Capacity in Africa: New Approaches, Emerging Lessons* (Washington, D.C.: The World Bank, 2004); Ashraf Ghani and Clare Lockhart, *Fixing Failed States: A Framework for Rebuilding a Fractured World* (New York: Oxford University Press, 2008); and *Building Peaceful States and Societies—A Practice Paper* (DFID: London, 2010).

Box 1. Addressing the Challenges of Governance and Corruption: The GEMAP Initiative in Liberia

Background. The enormous challenges facing the Government and the donor community in responding to the devastation of Liberia's long civil war set the stage for an unusual approach to public sector governance and the issue of corruption. The Accra Comprehensive Peace Accord of 2003 called for a transitional government that divided public sector ministries, agencies, state-owned enterprises, and the legislature among the three factions–the former government and the two main rebel groups. This arrangement, the National Transitional Government of Liberia (NTGL), was to last for two years, after which elections would be held, with the proviso that none of the members of the transitional government (except for senior advisers) would be eligible to stand for elections at that time. These conditions established strong incentives for the participants to engage in rent-seeking behavior, state capture, and corruption. Not surprisingly, evidence soon mounted that those incentives were, in fact, leading to a major diversion of state assets to private coffers and the mismanagement of natural resources (such as forestry concessions) to the benefit of a few senior officials of the NTGL.

The concern of the donor community was that such behavior represented a serious risk to the sustainability of the peace-building effort because of the harm it was doing to the achievement of a peace dividend in the form of job creation and the expansion of public services. While the UN peace-keeping force was capable of providing security in the near term, it could not stay indefinitely, and there were simply too many young, unemployed, ex-combatants who would be tempted to take up arms again in the absence of income-earning opportunities.

Key Elements of GEMAP. As a result of a strong consensus among the donor community—the UN, ECOWAS, key bilateral donors, and the IFIs—a proposal was developed for a new system of economic governance, the Governance and Economic Management Assistance Program (GEMAP). The objective was to introduce controls that would stop the hemorrhaging of Liberia's financial assets and the pillaging of the country's natural resources. The mechanism of control, referred to as "shared sovereignty," involved the establishment of "co-signing authority," which was to be exercised across public sector agencies and be applicable to the approval of government expenditures and other actions subject to corrupt practices (such as the approval of forestry concessions). The "co-signers" were to be international experts mobilized under the program, along with the corresponding Liberian officials in their agencies.

GEMAP's ultimate objective was the longer-term reform of Liberia's public sector institutions, including enhanced transparency and accountability in the management of public resources. Therefore, the program funded capacity-building and institutional development efforts through a technical working group that reported to the Government's Economic Governance Steering Committee, which included representatives from the international agencies participating in GEMAP. From the beginning, the intention was for GEMAP to be phased out under the new government that was elected in 2007, with progressive transition from a control function to one of support for traditional national ownership of public sector management. The transition occurred, as planned, by 2010.

GEMAP's Performance. While the program was not without its share of teething problems (including delays in the recruitment of international experts), it worked by and large as intended. According to its proponents, GEMAP contributed to the newly elected government's efforts to strengthen governance and reduce corruption. Thus it set the stage for Liberia's subsequent achievement of the HIPC requirements, which led to the largest per-capita write-off of public debt in history. It is important to note, however, that this approach was not consistent with the principles of national ownership and sovereignty, and that it was possible only as a result of a strong consensus and collaborative approach in the donor community.

III. Risk Assessment

Development is a tough business in the best of circumstances. In fragile states it is not only that much harder, but presents a different type of challenge for which our traditional tool kit is ill equipped.[12]

The Bank's New Approach to Risk Management in Project Lending

In July 2010, as part of an overall reform of investment lending, the Bank introduced a new approach to managing project risks—that is, risks to the achievement of the development objectives of a proposed investment operation. The new approach takes a more systematic, holistic, and integrated view, relying on inputs from all of the relevant experts—staff from the country and sector management units, fiduciary staff, and Legal, External Affairs, and INT staff—and a frank and open dialogue that captures the knowledge and experience gained from the Bank's prior and ongoing engagement with the client. The new approach is encapsulated in the ORAF (see Annex D), an integrated and nested risk framework that includes four different levels of risk:

- ***Stakeholder risks:*** relations between the Bank and the borrower, relationships within the donor community, potential issues among direct stakeholders (project beneficiaries and affected communities), and perceptions of domestic and international civil society organizations (CSOs). Project teams need to be aware of these risks and mitigate them wherever possible.
- ***Operating environment risks:*** country risks (the full range of "context" issues noted in the previous section), and institutional risks at the sector level—from commitment to capacity, from policy to accountability, and from corruption to oversight. These are risks that project teams should be aware of, but may not be able to mitigate within the scope of the project.
- ***Implementing agency risks:*** capacity issues—from resource management and human resources to business processes and incentives, and from governance issues (transparency, accountability, and participation) to corruption issues (including their prevalence and the prospects for prevention, detection, and deterrence). These are risks that the project team should attempt to mitigate through the design and implementation of the project.
- ***Project risks:*** risks arising from design complexity, scope and coverage, implementation arrangements, safeguard concerns, and delivery quality. These, too, are risks the project team should attempt to mitigate through project design and implementation.

The Challenges of Risk Management in FCS

As we have noted, risks in FCS are not simply higher than in other low-income countries, they are fundamentally different. Risks to donor funds, for example, are common in low-income countries with poor governance, weak internal controls, and a lack of effective oversight institutions. In FCS, these circumstances may be accompanied by entrenched, conflict-related corruption, including criminal activities such as drug trafficking, while opportunities to tackle corruption

[12] Robert Zoellick, "Securing Development" in *Survival, Global Politics and Strategy*, Volume 50, Number 6, December 2008 – January 2009 (The International Institute for Strategic Studies, London, 2008).

may be constrained by the peace accord and the need for political stability. Similarly, the lack of competent and accountable public institutions poses risks to the achievement of development objectives in many low-income countries. In FCS, senior officials in a coalition government consisting of former rebel leaders may be ill-prepared for the administrative challenges of running a government, while key ministries may be staffed mostly by former combatants who needed a job and were hired regardless of their merit or qualifications.

The Consequences of Failure. These risks are complicated by the interdependence among the political, security, justice, and development spheres, where failure in any one area could lead to the failure of all. Failures in the security area, for example, may prevent the restoration of basic services, the reconstruction of infrastructure, and the creation of income-generating activities—and thus the achievement of a peace dividend. The consequences of failure include the possibility of a resumption of conflict. Even delays in the restoration of critical services—from access to health care to basic trade and commerce—may have catastrophic consequences for civilians who survived the war but remain vulnerable to disease and death from social and economic impoverishment. For this reason, the risks to donor funding and to the achievement of development objectives must be weighed against the consequences of failing to act, or failing to act in a timely manner.

Implications for the Bank's Business Model. As the 2011 World Development Report (WDR)[13] highlighted, meeting the challenges of the FCS will require a paradigm shift in the development community's approach. Among other things, the WDR calls for changes in the procedures of donor agencies to speed up their response time, allow for a longer-term engagement, and better accommodate the nature and scope of the risks inherent in this special group of countries. In response, Bank Management has prepared, and the Bank's Executive Directors have endorsed, a note outlining the actions needed to "operationalize" the key findings and recommendations of the WDR.[14] What this means in practice is that the Bank will need to

- Recognize the trade-offs between the risk of failure and the risk of failure to act;
- Adopt a higher tolerance for risk to both resources and development outcomes; and
- Adjust its expectations about the results that can be achieved in FCS and the time it will take to achieve them.

In implementing this approach, the Bank will need to deal with the aversion to risk that is inherent in its culture. This is generated in part by uncertainty about the extent to which the institution supports and protects managers and staff to whom responsibility and authority for decision-making has been delegated, if risks actually materialize. And because there is such diversity in the range of conditions that may prevail in FCS, it will also be important to develop guidance to help staff respond to those very different scenarios.

The Starting Point: Improved Risk Assessment

Managing risk requires a combination of diagnostic tools for identifying risks, a menu of options for mitigating those risks, and a review process that allows the Bank to satisfy itself that the remaining risks are commensurate with expected development outcomes. For FCS, the starting point must be improved risk assessment, beginning with the quality of political economy analysis and social assessments that incorporate "conflict-sensitive" issues.

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[13] *World Development Report 2011: Conflict, Security and Development* (New York: Oxford University Press, 2011)

[14] *Operationalizing the 2011 World Development Report,* DC2011–0003 (World Bank, April 4, 2011).

Diagnostic Tools and Approaches. The Bank's standard toolkit for assessing risk includes governance assessments, political economy analysis, value chain analysis, institutional capacity assessments, and social assessments. While these tools are entirely relevant to FCS, a number of challenges and opportunities in their application need to be taken into account: how and when they are carried out, what their scope and focus of attention are, and how the results are used.

Collaboration and Timing Issues. In conflict-affected states, time is of the essence in any effort to support the peace process with security arrangements, emergency relief, and initial plans for socioeconomic development. Therefore, every effort should be made to take advantage of whatever analysis already exists. In particularly sensitive areas (e.g., intelligence assessments of the key players and the relationships among various political factions), the Bank may need to rely on others who are better placed to provide that information. When new assessments are required—at the outset, or in response to rapidly changing circumstances—the Bank should collaborate with other key actors in designing and implementing them. Besides the obvious economies of scale, joint assessments minimize the burden on country counterparts from every donor wanting to carry out its own diagnostic work, and they help ensure that the international community and the government remain "on the same page" regarding the results and implications of the assessments.

Scope and Focus of Analysis. In FCS, risk assessment requires more than the standard political economy analysis of the key players, the "rules of the game," and the identification of winners and losers. What is most needed is an assessment of the sources—the underlying causes—of fragility and conflict.[15] These "drivers of stress" should then feature in discussions among all of the international actors, including those engaged more directly in security arrangements and peacebuilding activities, and those in the donor community working on the design of reconstruction and development programs. At a minimum, the design of activities and programs should be informed by the analysis, to avoid adding to the sources of stress.

Using What is There. At the sector level, Bank staff are increasingly using value chain analysis to identify the major points of risk and vulnerability within the sector supply chain, and then applying political economy analysis to "drill down" on the underlying relationships that may constrain or support needed reforms.[16] In FCS, however, value chain analysis may need to focus more on identifying which parts of the sector supply chain still exist, or could be reassembled—in short, an "asset mapping" exercise. Similarly, for social assessments, it may be necessary to focus diagnostic work on mapping social capital, including identifying CSOs and other community institutions. Experience in several African countries suggests how easy it is to underestimate—by a considerable margin—the number of relevant CSOs that may exist. In view of the challenges of reestablishing the capacity for justice and rule of law at the national level, it may be especially important to assess the availability of community-level institutions that have a capacity for dispute resolution.

Using the Results Effectively. Dealing with political instability and a potential for conflict requires strategies that integrate security, justice, and economic concerns, since failure in any one of these areas risks failure in all. Joint efforts may be appropriate in some circumstances; but, at a minimum, strategies in each area should be informed by the perceived risks and opportunities in other areas. Within the donor community, coordination is equally important in dealing with some of the

[15] See, for example, *Strengthening Good Governance for Development Outcomes in Southern Sudan* (Washington, DC: World Bank, 2010).

[16] See the GAC in Projects "How-To Notes: Value Chain Analysis" for a description of the process; for an example, see "The Political Economy of Sanitation," Water and Sanitation Program (Washington, DC: World Bank, 2010).

key risks and trade-offs in development strategies. The desire to achieve immediate results in the delivery of basic services, for example, may require implementation arrangements that seriously impede the development of public sector institutions and simultaneously undercut public perceptions of the government's competence and legitimacy, increasing the risk of a return to conflict. To the extent that diagnostic work can be done jointly—not just among the donors, but with the government—the results are more likely to yield a country-led strategy that takes the major risks into account, is sensitive to local realities, and has the support of all parties concerned. Within the Bank, the results need to be incorporated in the CAS or Interim Strategy Note (ISN) and in the design of Bank interventions at the country, sector, and project levels (see Chapter IV).

Application of the ORAF: Some Common Concerns in FCS

Stakeholder Risks

It has been emphasized that no two FCS are alike in their leadership and governance structure, security and justice concerns, the "state of play" in local politics, and project stakeholders. In some, the peace-building process may result in a borrower that consists of a coalition of previous combatants representing different ethnic or geographic groups, each of which may have different political, social, and economic objectives and priorities. In-depth political economy analysis helps to identify those differences. In addition to these official stakeholders, there may be other groups NOT included in the coalition, either by their own choice or because their past behavior is seen as justifying their exclusion. While such groups would not be considered as "borrower stakeholders," their existence may affect the prospects for peace.

Donor Relations. Donor relations are another area of stakeholder risk, given the sometimes conflicting priorities of regional and bilateral interests, international relief agencies, and other major donors, and the need to avoid overwhelming limited government capacity. One way to deal with coordination issues is by establishing a multidonor trust fund (MDTF). The idea is to agree with the government on a shared development strategy that includes an assessment of funding needs and sector-specific expenditure plans, and then to pool the contributions of all of the donors in a single funding mechanism. This approach has a number of obvious advantages, and some MDTFs have operated with considerable success; but the overall results have been variable. Much depends on the governance provisions, including how funding decisions are made and what rules apply during implementation. In strengthening support for FCS, the Bank is establishing an internal advisory service on MDTFs that will share with Bank staff the lessons on what works and what doesn't.

Direct Stakeholders. Direct stakeholders include project beneficiaries and affected communities. Many post-conflict situations offer an important opportunity to correct past practices of exclusion and inequality of access to basic services. Indeed, the failure to address such grievances increases the risk of a return to conflict. In restoring basic services, therefore, it is important to take into account previously neglected areas of the country, disadvantaged ethnic groups, poor people in general, and women and girls in particular. However, it is also important to bear in mind that sensitivity to the political risks of access and targeting varies among sectors, with health care and water supply and sanitation less sensitive, and education and employment opportunities rather more sensitive.

Operating Environment Risks

The operating environment risks consist of country risks, which were covered in the previous chapter, and institutional risks (sector or cross-sector), including the critical issues of governance,

capacity, and fraud and corruption. Common institutional risks in FCS include severe weaknesses in the following:

- ***Policy formulation***—deciding what services to offer, to which beneficiaries, through which channels (government providers or contracted out), and according to what standards.
- ***Accountability and oversight***—monitoring sector outcomes, providing incentives for good performance, and holding service providers accountable for results.
- ***Sector-level institutional capacity***—from operating rules to "culture," from staffing to leadership, and from systems to skills.
- ***Control of corruption***—particularly in the procurement process, but also in accounting and auditing systems, often compounded by a culture of impunity derived from political factors, combined with a lack of effective oversight institutions at the country level.

As has been noted, Bank project teams should be aware of these issues, but they may not be able to mitigate them within their project. Within the donor community, however, and especially in the context of a sectorwide support program, technical assistance and advisory services should target improvements in these areas.

Implementing Agency Risks

The issues of governance, capacity, and corruption are likely to arise at the implementing agency level as well, and Bank project teams are expected to incorporate these risks in project design. Experience suggests three important points for donors attempting institutional reform.

- Start with "what's there now": it is better to build on the remnants of previous institutions than to try to create a new institution from scratch. The former employees, with their culture and their business processes, may have been part of the problem in the past, but they have at least a sense of how to function as an agency in the specific country context.
- Do not try to impose "best practice" institutional models from the West. These may prove to be more confusing and thus unworkable for managers and staff alike.
- It is important to recognize political realities and other constraints to institutional reform and capacity building in FCS: moving to meritocracy in public sector employment and performance incentives, for example, simply isn't likely if the staff consist primarily of former combatants who cannot be terminated. Project teams need to understand that results may be more modest and may take longer to achieve than might reasonably be expected in non-FCS.

Project Risks

In FCS, the two most important project risks have to do with project design and the quality of service delivery. A common design risk involves overestimating the government's implementation capacity. Overburdening an institution risks damaging the morale of staff who cannot live up to unrealistic expectations. Alternatively, developing a parallel system for project implementation (a project management unit, or PMU) that offers salaries far above civil service rates comes at the expense of public sector capacity development. Even if highly paid advisers and consultants are integrated within the bureaucracy, the corresponding wage bill may not be sustainable if donor funding is withdrawn. Restoring service delivery is a critical part of the peace dividend, and a parallel objective is to enhance citizens' trust in government and thereby increase the legitimacy of the state. The challenge here is to provide incentives for improved service delivery, combined with M&E and citizen input, to strengthen the "short-route" of social accountability. These challenges will feature prominently in the discussion of risk mitigation measures in the next chapter.

IV. Risk Mitigation

The key to making progress in the short to medium term may not be direct external intervention to orchestrate and support rules-based reform, but more indirect strategies to shift or influence the incentives and interests of local actors.[17]

Toward a New Paradigm for Helping FCS

There is growing recognition of the need for the Bank to do more to help FCS. It is reflected in the IDA16 agreements and highlighted in the 2011 Africa Regional Strategy.[18] At the same time, the 2011 WDR calls for a paradigm shift in the donor community's approach, building on the lessons learned over the past two decades about the challenges of peace-building and state-building under conditions of fragility and conflict. As the previous chapter noted, an important element of the new paradigm is the need to obtain a clear and detailed understanding of the country context, including political realities on the ground and the drivers of stress, and to reflect this understanding in the formulation of country assistance strategies. At the sector and project level, it will require the design of interventions that better accommodate the nature and scope of the risks inherent in this group of countries, especially in the areas of governance reform, capacity building, and corruption.

TAP Principles. The Bank's approach to mitigating governance and corruption risks at the project level rests on the three TAP principles. Mitigation measures generally apply to either the supply side or the demand side of good governance. *Supply side* refers to things the government can do to strengthen internal efficiency and effectiveness in the delivery of public goods and services, while *demand side* refers to initiatives that support the constructive engagement of citizens—especially project beneficiaries and affected communities—in improving development outcomes. Within these two broad categories, Bank task teams are expected to tailor the tools and approaches they use to the specific governance and corruption risks of their sector and project, and to the unique circumstances of the country.

Supply and Demand Sides in FCS. In FCS, however, it may not be possible to rely on the normal supply-side controls in areas such as budget planning, expenditure management, procurement, accounting, and auditing—which may be extremely weak or nonexistent. These challenges may be compounded by a weak and uncompetitive private sector that is especially vulnerable to requests for bribes and kickbacks. Similarly, on the demand side, civil society may be fragmented and may lack effective voice, and social cohesion even at the community level may have been destroyed by conflict. Therefore, mitigation efforts need to focus first on building capacity: creating a capable and accountable public sector, a vibrant and competitive private sector, and a more resilient and cohesive civil society.

[17] Mick Moore, *An Upside-down View of Governance, op. cit.*

[18] Africa Regional Strategy (Africa Region, World Bank, 2011).

What and How. Thus *what* needs to be done is reasonably clear. What is less clear is *how* to do it. This section describes the nature of the key challenges, the principles and approaches that should be followed, and emerging good practices in the successful mitigation of common GAC risks in Bank-funded development projects in FCS.

Between a Rock and a Hard Place: Managing Difficult Trade-offs

For both donors and FCS governments, a major challenge is figuring out how to deal with some inherently difficult but unavoidable trade-offs, especially in post-conflict situations. These include the linkages and dependencies among the security, political stability, justice, and socioeconomic development spheres. An additional set of linkages and trade-offs apply within the socioeconomic development sphere and arise from competing, sometimes conflicting, objectives:

- ***Short-term versus long-term objectives.*** When everything needs to be done, but cannot be done at once, the tasks that seem the most "time urgent" may take precedence over tasks that are at least as important for solving longer-term, more fundamental problems.
- ***Protecting donor funds versus the need for immediate action.*** Donors, which are accountable to "home constituencies," are understandably reluctant to take short-cuts in their normal policies and procedures, especially in the context of weak fiduciary controls in the recipient government's public sector; but failure to streamline and speed up risks causing inordinate delays in desperately needed support.
- ***Service delivery versus capacity building.*** The urgent need to get basic services restored, for humanitarian reasons and as a critical element of the peace dividend, requires immediate results, but achieving those results quickly may come at the expense of both building public sector capacity and enhancing the perceived legitimacy of the government.
- ***The demand for immediate and visible outputs versus longer-term development outcomes.*** Donors and political leaders alike have a strong preference for quick wins and for obvious achievements (e.g., schools built and teachers trained), which may come at the expense of attention to less visible but equally important longer-term results (e.g., learning outcomes).
- ***Unfulfilled expectations versus the need for long-term support.*** As noted earlier, donor aid to FCS has been even more volatile than aid to non-FCS countries, with early enthusiasm followed by subsequent frustration and a reduction of aid flows; however, public sector capacity building requires a long-term engagement, consistent support, and considerable patience.

The Central Dilemma: Aid Modalities. In the past, it has been common for donors, including the Bank, to establish separate implementation arrangements for their projects. These PMUs are considered necessary to achieve timely results and protect the donor's funds in the face of weak public sector capacity and a propensity for corruption. They carry the donor's flag and hire the best local talent at salaries well above public sector wage rates, leaving the corresponding public sector agencies bereft of resources and competent staff and thus destined to remain weak and unaccountable. This situation may be exacerbated in FCS by the legacies of war and the resultant political solutions. Under the Bank's new paradigm, task teams are expected to adapt the modalities of aid to balance the need to improve service delivery with the need to develop capable and accountable institutions. In doing so, the two most important factors to consider are (a) the current capacity of the relevant institutions, and (b) the government's commitment to reform how these institutions operate—especially with respect to governance and corruption issues.

The Importance of Political Will. Unless the government is committed to the needed reforms, they will fail. Optimism is a necessary element of development work, especially in FCS, but wishful thinking and naiveté in this area lead to wasted resources and may even do harm. In

considering the options, therefore, project task teams need to combine the results of their asset mapping and institutional assessments with the results of the political economy analysis. Experience in FCS over the past two decades suggests a number of important lessons for Bank task teams trying to achieve the right balance between service delivery and capacity building (these lessons are summarized in Table 1).

- ***Avoid parallel systems for service delivery through PMUs.*** If there is a reasonable commitment to reform, start with what is there now and build on it. Work toward a merit-based system of civil service recruitment and performance management; develop skills in the core functions of project management, accounting, and procurement; and encourage a change in organizational culture in the direction of client service orientation, performance monitoring, and results.
- ***Where capacity is weak, "buy" capacity through contracting out.*** Temporary arrangements that rely on outside contractors can restore and expand services and improve the credibility and legitimacy of government, but they need to include explicit plans for handing those functions back to the government in a clearly defined timeframe. To avoid a conflict of interest, firms hired for service delivery should focus exclusively on that function; other firms should be hired in parallel to provide capacity-building support to the relevant government agency.
- ***Where the political will for reform is weak, "ring-fencing" may be appropriate.*** In sectors where Bank support for growth and poverty reduction is important but governance and corruption issues appear intractable, the preferred option may simply involve stringent controls on the use of Bank funds and focused attention to whether or not the desired results are being achieved, with no significant contribution to capacity building in the project design.
- ***In some cases, it may seem desirable to go around the government and engage directly with NGOs and with local actors (communities and local traditional leaders) to restore much-needed basic services.*** As tempting as this approach may be, however, experience suggests that whatever temporary outcomes may be achieved are likely to be more costly and less sustainable than what might be achieved by using existing local capacity.

Trade-offs. Working through governments, or at least with governments, in the interests of longer-term capacity building may be the preferred modality, but that does not mean it is always successful. And, in the short term, service delivery simply may not meet the needs and expectations of civil society. That is the nature of the trade-off, and thus it represents one of the more serious unresolved issues for the donor community. Meanwhile, Bank task teams face the challenge of designing project interventions that will maximize the prospects for achieving the desired results while mitigating the risks of failure.

Table 1. Modality Options for Donor Support

Institutional capacity	Moderate to strong will	Weak to nonexistent will
Modest	Go through government, but with systematic attention to capacity building and reform.	Ring-fence projects, with special attention to fiduciary controls and M&E.
Little or none	Go with government: rely on "contracting out," but include transition/handover plans and a clear exit strategy.	Go around government: engage with NGOs and local actors until prospects for reform improve.

From Risk Assessment to Mitigation: "Smart Project Design"

"Smart project design"—a good-practice approach to incorporating identified governance, capacity, and corruption risks into the design of Bank-financed investment projects—has six key elements:

- Pursue sector-level governance, capacity, and corruption issues in parallel through both project and non-project activities.
- In project design, focus on the binding constraints to achieving desired development outcomes, and mitigate governance and corruption risks through the TAP principles.
- Strengthen internal controls and accountability mechanisms using supply-side tools.
- Strengthen external accountability through constructive engagement with civil society.
- Build effective project oversight mechanisms into the project at the design stage.
- Develop a communications program to reinforce the project's risk mitigation measures.

Parallel Tracks. Once the task team has identified the key risks to development objectives at the sector level, it can consider which of them can be tackled through the proposed lending operation, and which might best be pursued through a parallel track involving non-project activities. Policy reforms, for example, might be pursued through diagnostic studies combined with a joint donor/government policy dialogue, while institutional capacity building might involve technical assistance support for civil service reform. Non-project initiatives should be coordinated with other donors to minimize the burden on the government, and they need not be carried out by the Bank.

Results-based Project Design. Value chain and political economy analysis help to identify the binding constraints to the achievement of sector development objectives, including capacity constraints and governance and corruption issues. A focus on results requires both a clearly articulated results framework and measurable indicators of progress. Mitigation measures should focus on strengthening transparency, accountability, and participation at critical points in the supply chain. With the focus on results, the idea is to combine capacity-building support for the delivery of basic services with an emphasis on constructive engagement with civil society—building more accountable public sector institutions, improving governance, and reducing corruption.

Strengthening Internal Accountability. Government systems of internal control are intended to ensure that budget funds are used for the intended purposes, that internal business processes are efficient and effective, and that planned outcomes are actually achieved. Wherever possible, Bank projects should rely on existing country systems. In FCS, as noted earlier, this may not be advisable, at least not without establishing some additional controls first. Thus a parallel track may be required. To get donor funding started, it may be necessary to contract out both basic accounting and auditing and management of the procurement process; but a separate effort should be made to develop government capacity through technical assistance. Support for the development of country systems should include initiatives to enhance internal accountability. Good practices in this area include improved public access to information (e.g., through radio and public sector websites); more transparent procurement processes (e.g., e-procurement); use of special audits (e.g., technical and/or value-for-money audits); and the establishment of complaints-handing mechanisms that increase the chances of detecting fraud and corruption. Newer technologies (ICT tools and approaches) may offer important opportunities to improve governance and reduce corruption by strengthening internal accountability.

Strengthening External Accountability. When internal accountability mechanisms are weak, the constructive engagement of project beneficiaries and affected communities can help improve

development outcomes. Experience demonstrates clearly the importance of community participation in the design and implementation of development projects at the village level. CDD projects may be especially well suited to the restoration of basic services in FCS. More broadly, the engagement of civil society through a variety of demand-side tools and approaches can help to reform the accountability relationship between service providers and their customers. Good practices in this area include participatory planning and budgeting exercises; public expenditure tracking surveys; consumer satisfaction surveys; community scorecards; village councils for the management of CDD projects; and stronger parental involvement in schools management. Here also, ICT tools can help strengthen external accountability—and results.

Effective Oversight Mechanisms. The Bank is shifting the focus of project supervision from overseeing the borrower's compliance with Bank policies and procedures to providing implementation support, including hands-on support for capacity building. This change has important implications for the design of investment projects, especially in FCS. For large-scale, centrally managed projects in countries where governance is good and corruption risks are low, the Bank itself may be able to provide effective oversight of procurement and contract management during project implementation. But where governance is poor and corruption risks are high, as in most FCS, alternative arrangements are needed—perhaps independent procurement advisers and special audit arrangements. For subnational projects, however, and especially for CDD-type projects operating in hundreds (or even thousands) of villages, other arrangements are definitely required. In some countries, a strong network of local NGOs has been able to provide effective project oversight. Where security arrangements make it unsafe for Bank staff to travel, local consultants can use ICT tools (such as GPS-enabled digital cameras and spatial mapping software) to provide real-time, on-the-ground verification of results. However, these kinds of arrangements need to be built into the project at the design stage and their costs included in the project financing plan. (Issues concerning task teams' ability to provide hands-on support for capacity building as a part of project supervision are discussed further in Chapter V.)

The Importance of Communications. As noted earlier, it may not be possible to tackle governance and corruption issues head-on in some FCS. Instead, the strategy must rely on indirect approaches that focus on shifting the incentives for players at the local level—both service providers and members of the affected community. At the same time, however, "signaling" is an important element of managing expectations—including clarity about the changes expected in various accountability relationships and in the results that are expected from project interventions. Within government agencies, leadership is critical: champions of reform can play a vital role in changing both management systems and the behavior of individuals on the front line of service delivery. Communications within organizations, therefore, are also important. These factors should be included in a communications strategy and action plan as part of project design and implementation.

Instruments, Tools, and Approaches: Some Emerging Good Practices

The Bank offers several financing instruments, each of which has a role to play in the FCS in Africa. Increasingly, Bank projects are combining the TAP principles with enhanced incentives for local players to strengthen service delivery at the community level and, in the process, improve governance, build capacity, and reduce corruption.

Bank Lending Instruments. The Bank offers three financing instruments: development policy lending, investment or project lending, and Program-for-Results or results-based lending.

- ***Development policy lending*** can stimulate important public sector reforms and provide much-needed budget support.[19] In FCS, these operations go primarily to pay the salary of government workers and thus may be less prone to corruption than investment operations involving large-scale public procurement—assuming that arrangements are in place to deal with ghost workers and that payment procedures are reasonably efficient and transparent.
- ***Investment lending*** has focused on CDD-type projects (single- and multiple-sector), social funds, conditional cash transfers, and emergency (in-kind and cash) social protection projects, along with more traditional sector investment projects in health, education, water supply and sanitation, energy, and transportation.
- ***Program-for-Results lending*** is beginning to expand in FCS, including in Sub-Saharan Africa, with some success; but further work is required to clarify the enabling conditions needed for wider adoption.

CDD-type Projects. The potential impacts of CDD-type projects in FCS help to explain the important role they play in many of the Bank's country assistance programs.[20] These impacts include the following:

- ***Economic and social welfare impacts.*** Investments in the delivery of basic services and local infrastructure, together with local jobs creation, help to deliver on the peace dividend.
- ***Development of social capital.*** Community participation in project selection decisions and in oversight of implementation can help to restore social cohesion and collective action.
- ***Strengthening local governments/service providers.*** If local government authorities are associated with project design and implementation, they can become more responsive to local needs while enhancing their legitimacy and (re)building the trust of civil society.

CDD projects are not, however, a panacea. Although they generally achieve important socioeconomic impacts in a cost-effective way, evidence that investments in public assets are better maintained under CDD projects is weak. Communities' coming together for collective action in support of project objectives (a vital element for success in conflict-affected areas) does not necessarily extend to actions beyond the scope of the project. And local governments and service providers do not automatically become more responsive and accountable; this may take a number of years to achieve. It is also important that these village-level projects be seen as part of a broader development strategy that encompasses both larger-scale regional and national investment programs and policy reforms needed to support private sector development and the growth of jobs and income.

Emergency Aid and Social Protection Projects. Social safety nets can play a critical role in FCS. They may involve food aid, conditional cash transfers, and public works programs. They are generally targeted to the most vulnerable groups—from refugees and internally displaced persons to widows and orphans—but may also support the reintegration of former combatants and employment opportunities for disadvantaged youth. Often carried out through CDD or social fund arrangements, they aim to create or preserve both public and private assets in the interest of poverty reduction and economic growth. In Sub-Saharan Africa, public works programs have been carried out in Côte d'Ivoire, Burundi, Angola, Eritrea, Liberia, and Sudan; emergency programs in response to food crises have been implemented in Liberia, Sierra Leone, and Guinea Bissau; and cash assistance programs linked to demobilization efforts have been implemented in Eritrea, Somalia, and Burundi.

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[19] For example, *Common Approach Paper on Budget Support Operations in FCS* (2010), a collaborative work between the World Bank and the African Development Bank, with input from the EU and the IMF

[20] For example, WDR 2011 Background Papers, *CDD in Post-Conflict and Conflict-Affected Areas: Experiences from East Asia* (Washington, DC; World Bank).

"Results-based" Lending. Results-based lending links project disbursements to the delivery of specific outputs or outcomes, rather than to the cost of inputs. The Bank and other donors have been exploring this approach for some years, with generally encouraging results.[21] Program-for-Results is a lending instrument specifically tailored to results-based operations. It can be used even where internal controls and accountability mechanisms are not robust, as in most FCS. Disbursing only for actual results gives both regulators and service providers powerful incentives to organize and operate service delivery processes so as to achieve the desired results. In addition to improved service delivery, therefore, results-based lending can help to improve governance and reduce corruption. However, if such lending is to be successful, governments and donors need to agree on appropriate indicators for outputs and/or outcomes and to put in place both effective systems for monitoring and reporting on results and an independent verification process. While there has been some experience with results-based lending in Africa (including health sector projects in Burundi, Cameroon, DRC, and Rwanda), more work will be required to define the enabling environment and conditions for success, including the capacity of either government service providers or contractors to actually deliver the desired results. Given the potential benefits of stronger incentives for service providers to be accountable for results, however, it is clearly an approach worth pursuing.

Emerging good practices. Among the growing number of good practice examples of project design in FCS in Africa, the following two illustrate successful risk mitigation.[22]

- ***The Protection of Basic Services Project in Ethiopia.*** This social protection project, launched in 2005, was designed to reach 5 million chronically food-insecure people in rural Ethiopia. Identified risks included applying the targeting criteria equitably, maintaining the integrity of project resources through multiple administrative tiers, and preventing the capture of benefits at the local level. Mitigation measures successfully incorporated the TAP principles, with strong citizen engagement in targeting beneficiaries and in planning public works; transparency measures and a communication strategy to inform beneficiaries of their rights; complaints-handling mechanisms to hold decision-makers accountable; and mechanisms to improve project performance (roving procurement and financial auditors and a complete annual audit of the entire program). Impact evaluations found that the program significantly improved household food security, beneficiaries expanded their use of social services, resources were used efficiently and effectively, and there were few reports of resources being manipulated for personal ends or special interests. Satisfaction levels are high.
- ***The Malawi Social Action Fund Project.*** This CDD-type project, launched in 1996, was designed to improve livelihoods in poor communities through public works and safety net activities. Initiated in a context of widespread and persistent corruption, the project included a variety of mechanisms to prevent, detect, and deter fraud and corruption: strengthened fiduciary controls, transparency measures to ensure public access to project plans and results, a code of ethics, complaints-handling mechanisms, enforcement (through the Anti-Corruption Bureau), and demand-side tools (a citizens' report card). Anecdotal evidence and research findings confirm that project funds are reaching the communities and that the projects have lower unit costs than many other programs and encounter less political capture and corruption.

[21] For example, in 2003 DFID and the Bank established GPOBA (Global Partnership for Output-based Aid) as a multidonor trust fund designed to fund, demonstrate, and document experience in infrastructure and social services for the poor. Sector focus includes energy, water and sanitation, telecommunications, and health.

[22] GAC in Projects Publications, 2010, "Assessing Results in Projects," Case Studies 3 and 5.

Innovations in the Use of ICT. New technology offers exciting possibilities for innovation in service delivery, improving governance and reducing corruption. While in Africa there are only about 2 fixed telephone lines per 100 inhabitants, and fewer than 10 Internet users per 100, mobile cellular subscriptions have reached over 40 per 100, and are growing rapidly. This revolution in communications and access to information is already having a profound effect on government and business, and on political and social affairs.[23] Benefits of broad access to mobile phones include the ability to communicate instantly with large numbers of people and to collect and distribute important information quickly and easily. Much of the motivation for the spread of mobile phone technology and applications development involves private sector profits. Related social benefits include access to financial services, access to market information for small-scale producers, improved delivery of basic health services, and greater transparency and efficiency in public sector management. The following examples illustrate the range of possible applications:

- In Kenya, M-PESA allows 25% of the population to make payments using mobile phones.
- Under a Government-sponsored e-Government and ICT application project in Rwanda, TRACNet provides mobile phones for health care workers in the field to report data on AIDs patients and their treatment, access lab results, and report drug shortages.
- Textuality, another mobile phone application, runs several health-care-related programs—including Stop Stock-outs and Pill Check—designed to improve local medicine inventories.
- FrontlineSMS, a free, open-source software application, allows communications with large groups of people via text messaging.
- Episurveyor, also a free, open-source application, allows surveys to be conducted via mobile phone, with data uploaded to a central database.
- Computer-based GIS information systems can collect, store, model, and analyze geo-spatial data. These applications are being used in Afghanistan to track and report on project developments in the field. (GIS-enabled mobile phone cameras are used to verify results on the ground, and site photos are incorporated into project maps at headquarters.).
- In Afghanistan, M-PAISA is used to pay the salaries of the Afghan National Police, and the amounts received are about one-third higher.
- A nationwide CDD project in Indonesia (KDP) uses a comprehensive web platform, including SMS-based complaints handling, as well as text broadcasting to project facilitators, village leaders, and NGOs.

Of course, new technology is not a panacea, and its introduction and use must be carefully managed. Applications intended to improve service delivery, enhance governance, or reduce corruption are unlikely to succeed unless they are anchored in corresponding institutional reforms. In the context of all of the logistical challenges of operating in FCS, however, Bank task teams would be remiss if they did not at least consider the potential of ICT to enhance service delivery and mitigate project risks, thereby improving development outcomes.

Demand for Good Governance (DFGG). In recent years, to strengthen the demand for good governance, the Africa Region has launched a number of initiatives to empower civil society (see Box 2).

[23] For example, Steven Livingston, *Africa's Evolving Info-systems: A Pathway to Stability and Development* (Washington, DC: Africa Center for Strategic Studies, 2011).

Box 2. World Bank-funded Programs on DFGG in AFR

A partial stocktaking in the Africa Region found at least 96 examples of ongoing or planned DFGG initiatives, with a number of countries now experimenting with more comprehensive approaches to DFGG.

Almost two-thirds (64%) of the initiatives were linked directly with Bank-funded operations (third-party monitoring, citizen scorecards, budget tracking) and frequently included direct IDA funding from clients. Just over one-third (36%) were aimed at financing independent activities primarily focused on developing a long-term enabling environment through capacity support to CSOs, access-to-information laws, judicial reform, media support, and the creation of networks. IDA support was primarily directed to engaging citizens in monitoring government services and improving transparency and voice around budget management, mainly at the local government level.

Some early innovators have mainstreamed DFGG principles into operations in a significant proportion of the portfolio, thereby initiating a process of scaling up within or across sectors (most notably in several operations in Ethiopia and in mining governance, health, and private sector operations in Madagascar), offering the promise of broader impact on development outcomes. This trend is growing as—under the general umbrella of the GAC Strategy and with competitively awarded funding from the Governance Partnership Facility—several other AFR country teams (Burkina Faso, Kenya, DRC, Ghana, Zambia) have initiated efforts to promote DFGG more systematically across the portfolio.

Given the importance of civic oversight as resources are decentralized and extractive industry investment grows, and to ensure responsive service delivery, DFGG is increasing in prominence in human development operations (Kenya, Ethiopia), urban operations (Mozambique, Accra, Ghana scorecards on urban service, Tanzania), and operational pilots empowering citizens to monitor extractive industry revenues at the local level (Niger Delta, Madagascar, and Ghana).

The Region is also applying DFGG principles to its own processes. AFR is actively promoting the external ISR-Plus initiative, which is linked to the Bank's new Access to Information policy, to enhance the Bank's engagement with civil society and maximize the impact of its feedback on project performance as a way to improve project implementation. Monitoring is also being strengthened through the "contract watch" exercise, a coalition-building and peer learning effort undertaken in partnership with WBI to facilitate multistakeholder contract monitoring, including in procurement and extractive industries.

Other DFGG initiatives in Africa include support to practitioner networks such as the Affiliated Network for Social Accountability (ANSA), which was founded by the World Bank (WBI) and the Human Sciences Research Council.

Source: Empowering Citizens to Hold their Governments Accountable: An AFR Strategy to Support Demand for Good Governance, World Bank, April 2011. See also Mary McNeil and Carmen Malena, eds., *Demanding Good Governance: Lessons from Social Accountability Initiatives in Africa* (Washington, DC: World Bank, 2010).

V. Implementation Support and Bank Supervision

Securing development in fragile states will have the qualities of a venture fund: performance will vary. We shouldn't retreat from risk, but mitigate and manage risk to the full extent possible in the clear knowledge that some projects will fail, but that without innovative and flexible approaches, none will succeed.[24]

Shifting the Culture: From Compliance to Support

A fundamental principle of Bank lending is that borrowers are responsible for the proper use of Bank funds, including compliance with its procurement and financial management requirements. The Bank also has a responsibility to its shareholders to ensure that loan proceeds are used for the intended purposes. For that reason, Bank task teams have traditionally focused much of their supervision attention on the compliance aspects of project activities. And, because delays commonly arise from the challenges borrowers face in complying with the Bank's procurement rules, supervision missions are often requested to focus on getting project disbursements moving, especially in the first year or two after project approval. In most cases, task teams also conduct field visits to project sites to check on how things are going "on the ground." As this note has made clear, project supervision in FCS faces a variety of special challenges: poor governance, weak institutions, and high corruption risks may be compounded by security concerns that prevent Bank staff from visiting project sites. At the same time, Bank-funded projects in FCS often require special attention during implementation to deal with the competing objectives of expanding service delivery and building institutional capacity. Even if service delivery is contracted out in the near term, the government agency responsible for the sector will need to develop the capacity to manage the contractors—including the policymaking and regulatory functions and the systems for monitoring and evaluating the performance of the service providers. If the service delivery component is to be carried out by a government implementing agency, then additional challenges of capacity building arise, including improvements to management systems and processes, investments in staff training and development, and changes in the accountability relationship between the agency and the people it serves. All this means that a different approach is required to meet the Bank's need for assurance regarding both compliance issues and the status of project implementation.

Change in Supervision Culture. As part of an effort to rethink investment lending policies and practices, the Bank is working to shift the attention of project supervision from a primary focus on compliance issues to one of partnership with government counterparts in overcoming the challenges of implementation, including providing hands-on support for capacity building. This requires a substantial change in the Bank's supervision culture. It also requires new approaches

[24] Robert Zoellick, "Securing Development" in *Survival, Global Politics and Strategy*, Volume 50, Number 6, December 2008–January 2009 (The International Institute for Strategic Studies, London, 2008).

to project design and greater flexibility and innovation during project implementation, implying more of a continuum between project design and implementation, with real-time adjustments to emerging challenges. Changes are also required in how the Bank organizes, manages, and funds project supervision. Recent reviews suggest the need for more focused attention and support from Regional, sector, and country managers; better training and guidance for task team members and leaders; greater delegation of responsibility and authority to field-based staff; and significant additional funding—especially for FCS in the Africa Region.

The Starting Point: Better Project Design

Changing the focus of Bank supervision must start with better project design. The idea is to reduce the amount of time and attention task teams must devote to compliance issues, disbursement delays, and direct project monitoring, while maximizing the project's prospects for both service delivery and capacity building. Specific suggestions for improving project design:

- Recognize the weaknesses of existing capacity: keep project design simple and disbursement projections in line with actual experience under similar conditions.
- Overcome weak procurement and financial management capacity by using "dual key" staffing arrangements (expatriate advisers sitting alongside their government counterparts); or contract out, as appropriate, while strengthening the capacity of country systems.
- Include in project design a clearly defined strategy and action plan for building capacity.
- Strengthen the results framework, both the results chain and the specification of indicators.
- Include indicators for both service delivery and capacity development.
- Base the M&E system on local realities: contract out, as needed, and use opinion surveys to collect data on perceptions of government performance and results.
- Secure commitment of agency management and staff through consultations on the design and measurement of performance indicators, and on how they will be used.
- Consider ways to engage with civil society to strengthen external accountability relationships.
- Where feasible and appropriate, strengthen supply-side incentives for improvements in service delivery through a "pay for performance" component, and/or demand-side incentives for the uptake of services through a targeted conditional cash transfer component.

Hands-on Approach. Once implementation begins, Bank support for capacity building requires a more direct and hands-on approach than traditional supervision efforts. One implication is the need to have key Bank staff available for both regular and "as needed" consultation. Equally important is the strategy for capacity building that is built into project design—and it is especially critical where the modality of assistance involves going *through* government, since progress in service delivery is then tied directly to progress in capacity building. A recent study of the Bank's experience with capacity building recommends a "results-oriented approach to learning" as the key to success.[25]

Toward a Learning-by-Doing Approach to Capacity Building

Experience suggests that capacity development is driven by learning—by how knowledge and information are applied to enhance both local ownership and organizational efficiency and effectiveness. A good capacity-development process begins with defining the desired results,

[25] *The Capacity Development Results Framework: A Strategic and Results-Oriented Approach to Learning for Capacity Development* (World Bank Institute, 2009).

including specifying measurable indicators of progress. M&E data are then used to evaluate progress, enhance accountability for results, guide midcourse corrections, and inform both sector policy and the design of future programs. All this assumes, of course, that the organization's leaders are committed to improved performance, that line managers and staff have (or can acquire) the necessary skills and experience, and that the right incentives are in place to motivate performance. In FCS, therefore, success is not exactly guaranteed. However, the concepts are still relevant, if there is sufficient commitment to change within the organization, and if the Bank is flexible enough to support a muddling-through, learning-by-doing approach to project implementation.

Monitoring and Evaluation. A recent evaluation of the Bank's lending portfolio, which included a sample of projects in FCS, suggests that some progress has already been achieved in strengthening results frameworks and in putting in place the mechanisms for M&E.[26] It also notes, however, that governments are rather less successful at producing and using the data. This may indicate a lack of interest in the data, or it may be that the project authorities do not see the data that are generated as useful. It is important, therefore, for the Bank task team and its counterparts in the government to have a clear and shared understanding of what data should be collected and why. Results-based M&E is a powerful tool for achieving results, improving organizational efficiency and effectiveness, and, especially for implementing agencies in FCS, winning public support (see Box 3).

Establishing an M&E System. Monitoring is a continuous process that tracks the progress of project implementation, while evaluation compares what is actually happening with what was expected to happen. Establishing an effective (in-house) M&E system requires commitment and leadership from the top of the organization, and it takes time and resources.[27] The incremental cost depends on the availability of data from existing management information systems, which, in most government agencies, focus primarily on inputs; information on outputs, and especially on outcomes, is less likely to be available. In FCS, of course, no relevant information may be available, and it may be necessary to rely primarily on outside contractors to collect it. For obvious reasons, data should be as simple and easy to collect as possible, consistent with the specification of the indicators included in the results framework during project design.

Box 3. The Power of Measuring Results

- If you do not measure results, you cannot tell success from failure.
- If you cannot see success, you cannot reward it.
- If you cannot reward success, you are probably rewarding failure.
- If you cannot see success, you cannot learn from it.
- If you cannot recognize failure, you cannot correct it.
- If you can demonstrate results, you can win public support.

Source: World Bank, 2004, *Ten Steps to a Results-Based Monitoring and Evaluation System* (p. 11).

[26] Second Quality Assessment of the Lending Portfolio (QALP-2), Quality Assurance Group (World Bank, April 2009).

[27] *Key Steps in Designing and Implementing a Monitoring and Evaluation Process for Individual Country Service Agencies,* PREM Notes—Special Series on the Nuts and Bolts of M&E Systems (World Bank, 2010).

From M&E to Impact Evaluation. Impact evaluation goes deeper than M&E and focuses on issues of cause and effect, providing information that is vital for comparing the relative impact of different types of interventions. Impact evaluations are important for policy decisions on which interventions are the most cost-effective, which ones should be abandoned, and which should be scaled up.[28] However, they must be built into the project at the design stage so that control groups can be identified and baseline data collected on both control groups and potential project beneficiaries. The use of impact evaluations may be especially important for FCS, where pilot projects may be used to test alternative approaches as a prelude to scaling up.

Portfolio Reviews: Food for Thought

As the WDR 2011 noted, the Bank's business processes are based on the assumptions of basic security, functional institutions, and competitive markets, which do not exist in fragile situations. It is not surprising, therefore, that Bank-funded projects in FCS perform less well than those in non-FCS. This reality has now been recognized in a refinement of the standards for project outcomes: the IBRD portfolio is expected to achieve an 80% rate of satisfactory outcomes, the IDA portfolio 75%, and the FCS portfolio 70%. Recent portfolio reviews provide a rather more somber perspective on the challenges of meeting even that lower standard. They also offer important insights into the changes that may be needed in how the Bank manages, organizes, and funds project supervision in FCS in Africa.

The Second Quality Assessment of the Lending Portfolio (QALP-2). This review focused on four elements of the Bank's portfolio: likelihood of projects meeting their development objectives; quality of project design; implementation progress; and quality of Bank supervision. For the overall portfolio, 80% of projects reviewed were judged likely to meet their development objectives. Key design issues were complexity and readiness for implementation. About one-third of the portfolio was experiencing implementation problems, and the quality of Bank supervision showed a slight decline over QALP-1. For the FCS projects in the sample, however, one-third were not expected to meet their development objectives (a 67% satisfactory rate). The main reasons were a failure to align project design with implementation capacity (only 43% satisfactory, compared with 81% in non-FCS)) and inadequate quality of Bank supervision (about 60% satisfactory). Particularly weak aspects of supervision:

- A lack of candor and realism in implementation progress ratings (overall realism ratings were 51% for FCS projects versus 80% for non-FCS projects).
- Failure to calibrate Bank advice and proposed solutions to reality on the ground.
- Inadequate attention to GAC aspects, despite robust performance at the design stage.
- Insufficient action and attention by country and sector managers.

The Africa Region FCS Portfolio Review. In 2009, AFR conducted a review of its FCS portfolio to understand the root causes of unsatisfactory outcomes and recommend actions to improve portfolio performance. Compared with other Regions, FCS in Africa have lower CPIA scores and considerably lower human development indicators; and there are significant differences among these countries, with deteriorating governance conditions, prolonged political crises, post-conflict transitions, and gradual improvers all represented. The portfolio review generally confirmed IEG and QAG findings on the supervision of FCS projects:

[28] *Impact Evaluation in Practice: A New Guide* (World Bank, 2011).

- Clear differences between good performers and poorer performers on key quality dimensions—including relevance of design, quality of the results frameworks, and risk assessment—especially in the assessment of country capacity and proactive management of implementation issues.
- A significant correlation between successful implementation and the intensity of supervision: "For good performers, Bank inputs during supervision were frequent, timely, well staffed, led by seasoned professionals, assisted by knowledgeable technical and fiduciary staff, and supported by country and sector managers who intervened, especially with governments, when needed."[29]
- Additional correlations between staff skills, experience, and location, and specific aspects of managerial oversight and support.

As part of the portfolio review, an analysis of task team leaders (TTLs) identified several areas of concern, including workload pressures on TTLs who work on several projects in different countries, and the need for even experienced TTLs who are new to the Region to have special support and mentoring until they are up to speed with country conditions. Location matters: the review found a strong correlation between country-based TTLs and satisfactory project performance.[30] There was no discernible difference in performance by grade level of the TTL or in the performance of projects managed by locally recruited versus internationally recruited field-based staff. The review suggested that a "core skills" training program be developed for staff assigned to work on FCS in the Region, and concluded that the following staff skills and experience are especially important:

- Understanding the country context.
- Sensitivity to political economy issues.
- Operating experience in FCS.
- Analytic skills for institutional analysis and capacity building.
- An open mind for candor in risk assessment.
- Ability to design relevant and practical risk mitigation measures.

The review also noted the particular importance of the following "good practice" elements of managerial support:

- Treating operations in FCS differently from those in non-FCS.
- Assigning the right task team—the right size, skills, and budget, matching the country context and the nature and level of project risks.
- Recognizing the need for intensive and frequent support during project implementation.
- Ensuring that some team members are available in the country office or in nearby hubs to provide hands-on mentoring and support to weak government counterparts.
- Providing proactive management support and guidance to help resolve difficult implementation issues.

The Africa Region Review of Supervision Funding. A subsequent review of the FCS portfolio, focused on funding issues, confirmed that money matters: successful FCS projects in AFR spent, on average, 42% more for supervision than unsuccessful projects ($153,000 versus $108,000). Supervision expenditure in the first 1–2 years of implementation, which is especially important for FCS projects, was 36% higher for successful projects ($144,000 versus $106,000). For FCS

[29] *Fragile and Conflict-Affected States Portfolio Review* (Africa Region, AFTQK, World Bank, 2009), p.11.

[30] For AFR as a whole, 84% of projects managed by country office TTLs were rated satisfactory versus only 37% of those managed by Washington-based TTLs. For FCS projects, it was 63% for country office TTLs versus 25% for Washington-based TTLs.

projects in AFR, however, the average expenditure was less than in most other Regions, and less than the average expenditure on non-FCS projects in AFR. To correct these anomalies would require an estimated $4 million.[31]

What More is Needed: The Full Menu

The WDR 2011 lays out a broad agenda for the reform of approaches to FCS at the global and regional levels, and argues for a more coordinated strategy at the country level that will integrate security, justice, and economic concerns. It also calls for a new paradigm for donor support, including adjustments to make business models better reflect the needs and realities of this challenging set of countries. Within the Bank, the FCS unit in OPCS has taken the lead in articulating a strategy for improving operational effectiveness, with a near-term agenda of "quick wins" followed by the development of a more comprehensive strategy for FCS engagement over the longer term. A number of changes will be needed at the institutional level, including revised policies and procedures to enhance and facilitate Bank relations with other key actors at the global and regional levels and to support more effective Bank engagement in the donor community at the country level. While a full discussion of those changes is beyond the scope of this note, some of the key elements of that broader menu relate to the design and implementation of Bank projects.

- ***Improvements in operational policies and procedures***—including revisions to OP 8.00, *Rapid Response to Crises and Emergencies*, to ensure its applicability beyond emergency situations in protracted states of fragility; and clarifications on the use of various diagnostic, planning, and strategy documents (e.g., Post-Crisis Needs Assessments, PRSPs in FCS situations, and conflict sensitivity in CASs/ISNs).
- ***Enhanced guidance to staff***—including rebalancing the Bank's risk and results framework to incorporate the risks of inaction or delayed action, clearer signals to managers and staff on how the institution will deal with risks that actually materialize, and elaborations on the business models that should be applied in the four different categories of FCS situations.
- ***HR reforms***—focused on enhancing the HR policies to attract good and experienced Bank staff to work in FCS country offices, including attention to performance assessment metrics (reflecting more process-oriented activities and fewer/delayed outputs compared with normal assignments), career prospects (including assignments on reentry from field offices), appropriate financial incentives, and personal safety and security.
- ***Staff training and development***—including revamped core skills training for staff new to FCS, development of guidance notes on key aspects of Bank operations in FCS (e.g., the application of fiduciary policies, business models appropriate to different country circumstances); lessons learned in the use of Bank-administered MDTFs, and so on.
- ***Location and delegation of authority***—providing additional support to country office staff in FCS (e.g., the FCS Hub in Nairobi), better guidance on the use of delegated authority (including risk management), and more timely support for cutting through red tape and bureaucratic inertia (e.g., the recently launched OPCS FCS Help Desk).

[31] The review considered whether funds could be shifted within the AFR supervision budget, and concluded that that option would not be wise: the average expenditure for non-FCS projects is probably also inadequate, given the overwhelming proportion of the non-FCS portfolio in IDA countries with notoriously weak implementation capacity. The option of shifting funds within the AFR budget for client services was not considered feasible because of the large number of active borrowers (43) and the high number of country offices (33), many of which are located in relatively high-cost countries. The only alternative, of course, would be an increase in the overall AFR budget, the prospects for which are constrained by the Bank's flat budget environment.

- ***Funding***—including efforts to mobilize grant funds to support work on FCS and raising the issue of inadequate funding levels with the Bank's shareholders.

A Concluding Note. Clearly, much remains to be done. The Bank will continue to learn about what works and what doesn't, through its work on the ground in FCS, its analytic work, and its collaboration with other actors at the global, regional, and country levels. One of its most important challenges will be to share the lessons of experience across the community of practitioners both inside and outside the Bank. The Bank's South/South Knowledge Exchange Program can provide a vehicle for advancing that effort. This note contributes to that same effort. Comments, questions, objections, and suggestions for improvement should be referred to Mr. Sahr Kpundeh, Governance Adviser, AFTOS.

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Annexes

Annex A. Africa Region Fragile States Selected Characteristics

Country	CPIA Score[a]	T.I. Ranking[b]	Doing Business Ranking[c]	Size of Population[d]	GDP/ Capita Income[e]	GDP Growth[f]	Peace-Keeping Force[g]
Angola	2.8	168	169	18.0	1,357	10.4	no
Burundi	3.1	170	176	8.1	111	0.0	yes
CAR	2.6	154	183	4.4	230	–1.1	yes
Chad	2.5	171	178	11.1	251	6.7	yes
Comoros	2.5	154	162	0.6	370	–0.2	yes
DRC	2.7	164	182	64.2	99	2.4	yes
Congo, Rep.	2.8	154	179	3.6	1,214	1.8	no
Côte d'Ivoire	2.8	146	168	20.6	530	–1.6	yes
Eritrea	2.2	123	175	5.0	148	–2.5	no
Guinea	2.8	164	173	9.8	417	1.1	yes
Guinea-Bissau	2.6	154	181	1.6	128	–3.3	yes
Liberia	2.8	87	149	3.8	148	–4.5	yes
São Tome and Principe	2.9	101	180	0.2	NA	NA	no
Sierra Leone	3.2	134	148	5.6	262	6.5	yes
Somalia	NA	178	NA	9.0	NA	NA	yes
Sudan	2.5	172	154	41.3	532	5.2	yes
Togo	2.8	134	165	6.5	245	–0.2	no
Zimbabwe	1.9	134	159	12.5	NA	–5.7	no

[a] World Bank Country Policy and Institutional Assessment
[b] Transparency International's Corruption Perceptions Index: 2010 Results (out of 178 ranked countries)
[c] Doing Business 2010 Report (out of 183 ranked countries)
[d] Africa Development Indicators 2010 (figures for 2008 in millions)
[e] Africa Development Indicators 2010 (in constant 2000 prices, 2008 dollars).
[f] Africa Development Indicators 2010 (average annual growth in %, 2000–2008).
[g] Peace-making or peace-keeping mission in the country in last three years

Annex B. OECD Principles for Good International Engagement in Fragile States and Situations

Preamble

A durable exit from poverty and insecurity for the world's most fragile states will need to be driven by their own leadership and people. International actors can affect outcomes in fragile states in both positive and negative ways. International engagement will not by itself put an end to state fragility, but the adoption of the following shared Principles can help maximize the positive impact of engagement and minimize unintentional harm. The Principles are intended to help international actors foster constructive engagement between national and international stakeholders in countries with problems of weak governance and conflict, and during episodes of temporary fragility in the stronger performing countries. They are designed to support existing dialogue and coordination processes, not to generate new ones. In particular, they aim to complement the partnership commitments set out in the Paris Declaration on Aid Effectiveness. As experience deepens, the Principles will be reviewed periodically and adjusted as necessary.

The long term vision for international engagement in fragile states is to help national reformers to build effective, legitimate, and resilient state institutions, capable of engaging productively with their people to promote sustained development. Realization of this objective requires taking account of, and acting according to, the following principles:

The Basics

Take context as the starting point. It is essential for international actors to understand the specific context in each country, and develop a shared view of the strategic response that is required. It is particularly important to recognize the different constraints of capacity, political will and legitimacy, and the differences between: (i) post-conflict/crisis or political transition situations; (ii) deteriorating governance environments; gradual improvement; and (iv) prolonged crisis or impasse. Sound political analysis is needed to adapt international responses to country and regional context, beyond quantitative indicators of conflict, governance or institutional strength. International actors should mix and sequence their aid instruments according to context, and avoid blue-print approaches.

Do no harm. International interventions can inadvertently create societal divisions and worsen corruption and abuse, if they are not based on strong conflict and governance analysis, and designed with appropriate safeguards. In each case, international decisions to suspend or continue aid-financed activities following serious cases of corruption or human rights violations must be carefully judged for their impact on domestic reform, conflict, poverty and insecurity. Harmonized and graduated responses should be agreed, taking into account overall governance trends and the potential to adjust aid modalities as well as levels of aid. Aid budget cuts in-year should only be considered as a last resort for the most serious situations. Donor countries also have specific responsibilities at home in addressing corruption. In areas such as asset recovery, anti-money laundering measures and banking transparency. Increased transparency concerning transactions between partner governments and companies, often based in OECD countries, in the extractive industries sector is a priority.

The Role of State-Building and Peace-Building

Focus on state-building as the central objective. States are fragile when state structures lack political will and/or capacity to provide basic functions needed for poverty reduction, development and to safeguard the security and human rights of their populations. International engage-

ment will need to be concerted, sustained, and focused on building the relationship between state and society, through engagement in two main areas. Firstly, supporting the legitimacy and accountability of states by addressing issues of democratic governance, human rights, civil society engagement and peace-building. Secondly, strengthening the capability of states to fulfill their core functions is essential in order to reduce poverty. Priority functions include: ensuring security and justice; mobilizing revenue; establishing an enabling environment for basic service delivery, strong economic performance and employment generation. Support to these areas will in turn strengthen citizens' confidence, trust and engagement with state institutions. Civil society has a key role both in demanding good governance and in service delivery.

Prioritize prevention. Action today can reduce fragility, lower the risk of future conflict and other types of crises, and contribute to long-term global development and security. International actors must be prepared to take rapid action where the risk of conflict and instability is highest. A greater emphasis on prevention will also include sharing risk analyses; looking beyond quick-fix solutions to address the root causes of state fragility; strengthening indigenous capacities, especially those of women, to prevent and resolve conflicts; supporting the peace-building capabilities of regional organizations, and undertaking joint missions to consider measures to help avert crises.

Recognize the links between political, security and development objectives. The challenges faced by fragile states are multi-dimensional. The political, security, economic and social spheres are inter-dependent. Importantly, there may be tensions and trade-offs between objectives, particularly in the short-term, which must be addressed when reaching consensus on strategy and priorities. For example, international objectives in some fragile states may need to focus on peace-building in the short-term, to lay the foundations for progress against the MDGs in the longer-term. This underlines the need for international actors to set clear measures of progress in fragile states. Within donor governments, a "whole of government" approach is needed, involving those responsible for security, political and economic affairs, as well as those responsible for development and humanitarian assistance. This should aim for policy coherence and joined-up strategies where possible, while preserving the independence, neutrality and impartiality of humanitarian aid. Partner governments also need to ensure coherence between ministries in the priorities they convey to the international community.

Promote non-discrimination as a basis for inclusive and stable societies. Real or perceived discrimination is associated with fragility and conflict, and can lead to service delivery failures. International interventions in fragile states should consistently promote gender equity, social inclusion and human rights. These are important elements that underpin the relationship between state and citizen, and form part of the long-term strategies to prevent fragility. Measures to promote the voice and participation of women, youth, minorities and other excluded groups should be included in state-building and service delivery strategies from the outset.

The Practicalities

Align with local priorities in different ways in different contexts. Where governments demonstrate political will to foster development, but lack capacity, international actors should seek to align assistance behind government strategies. Where capacity is limited, the use of alternative aid instruments—such as international compacts or multi-donor trust funds—can facilitate shared priorities and responsibility for execution between national and international institutions. Where alignment behind government-led strategies is not possible due to particularly weak governance or violent conflict, international actors should consult with a range of national stakeholders in the partner country, and seek opportunities for partial alignment at the sector or regional level.

Where possible, international actors should seek to avoid activities which undermine national institution-building, such as developing parallel systems without thought to transition mechanisms and long-term capacity development. It is important to identify function systems within existing local institutions, and work to strengthen these.

Agree on practical coordination mechanisms between international actors. This can happen even in the absence of strong government leadership. Where possible, it is important to work together on: upstream analysis; joint assessments; shared strategies; and coordination of political engagement. Practical initiatives can take the form of joint donor offices, an agreed division of labour among donors, delegated co-operation arrangements, multi-donor trust funds and common reporting and financial requirements. Wherever possible, international actors should work jointly with national reformers in government and civil society to develop a shared analysis of challenges and priorities. In the case of countries in transition from conflict or international disengagement, the use of simple integrated tools, such as the transitional results matrix, can help set and monitor realistic priorities.

Act fast…but stay engaged long enough to give success a change. Assistance to fragile states must be flexible enough to take advantage of windows of opportunity and respond to changing conditions on the ground. At the same time, given low capacity and the extent of the challenges facing fragile states, international engagement may need to be of longer-duration than in other low-income countries. Capacity development in core institutions will normally require an engagement of at aleast ten years. Since volatility of engagement (not only aid volumes, but also diplomatic engagement and field presence) is potentially destabilizing for fragile states, international Actors must improve aid predictability in these countries, and ensure mutual consultation and co-ordination prior to any significant changes to aid programming.

Avoid pockets of exclusion. International actors need to address the problem of "aid orphans"—states where there are no significant political barriers to engagement, but few international actors are engaged and aid volumes are low. This also applies to neglected geographical regions within a country, as well as neglected sectors and groups within societies. When international actors make resource allocation decisions about the partner countries and focus areas for their aid programs, they should seek to avoid unintentional exclusionary effects. In this respect, coordination of field presence, determination of aid flows in relation to absorptive capacity and mechanisms to respond to positive developments in these countries, are therefore essential. In some instances, delegated assistance strategies and leadership arrangements among donors may help to address the problem of aid orphans.

These Principles were formally endorsed by ministers and heads of agencies at the Development Assistance Committee's High Level Forum on 3–4 April 2007.

Annex C. Notes from the WDR 2011 Case Studies: Dealing with GAC Issues in FCS Countries

Introduction

As input to the 2011 WDR, a number of background papers were prepared that focus on the nexus between fragility, conflict, governance, and development. They included country-specific case studies covering five very different sets of circumstances: Somalia and the Horn of Africa, Liberia, the Democratic Republic of the Congo (DRC), Mali and its Sahelian Neighbors, and Rwanda (see Selected Bibliography for this paper). These case studies confirm many of the points noted in Chapter II regarding the importance of understanding the country context before developing an appropriate donor assistance strategy. They also reflect the enormous range of conditions that development practitioners may encounter among the set of countries referred to as "fragile and conflict-affected states." The intention here is simply to highlight a few of the more critical elements from these case studies as they relate to the issue of dealing with governance and corruption issues. The interested reader is referred to the individual case studies, which can be found on the Bank's WDR 2011 web page.

Somalia and the Horn of Africa

Conditions in Somalia and the Horn of Africa represent one end of the spectrum of the FCS countries—a place where conditions of extreme poverty, prolonged conflict, and state collapse have persisted for most of the past two decades, with armed conflict generated both from within and outside its boundaries. A dysfunctional and "clannist" multiparty democracy in the initial post-independence period was followed by a coup and the establishment of a socialist government that initially promoted a strong sense of national unity. Somalia's strategic importance during the Cold War resulted in high levels of foreign aid, which allowed the Government to absorb the unemployed into one of the largest standing armies in sub-Saharan Africa, and to engage in "patronage politics" as a way of staying in power.

A disastrous war with Ethiopia in 1977–78 (which Somalia lost) resulted in heavy casualties, refugee crises, and recriminations, to which the Government responded with repression and authoritarianism. Indeed, in the 1980s, Somalia became one of the most repressive and predatory regimes in Africa. Corruption was rampant, and the Government's "divide and rule" approach exacerbated clan divisions. To stay in power, the regime did not hesitate to use lethal force against its own citizens.

By the late 1980s, Somalia was engaged in a civil war. With the waning of the Cold War, foreign donors were able to reduce or suspend the aid programs on which the Government and the military were heavily dependent—leading to a retrenchment of services, and the desertion of military units. At the same time, grievances against the Government led to a proliferation of clan-based liberation movements. By 1991, the Government was driven out of Mogadishu. Unfortunately, the opportunity to broker an accord between the various rival factions was missed, and, instead, armed conflict broke out among the various clans.

The next two years witnessed a disastrous combination of retaliatory attacks among clans, and an "ethnic cleansing" that forced essentially everyone to return to their clan's territorial base for security. One result was that certain clans were able to claim and control the most valuable areas of the country, including Mogadishu and nearby farmlands, at the expense of other clans. At the same time, the development of a "war economy" based on looting shifted the focus of the conflict—in the near term—from grievance to greed. One outcome was widespread famine, with a huge loss of life. With the advent of external humanitarian aid, food aid itself became a primary

commodity (and driver) of the war-based economy. Because of the enormous enmity between clans, no form of political entity was viable outside of those clans. Even within the clans, however, the traditional leadership of clan elders was marginalized by the role of armed warlords who, with the complete collapse of the state, became a law unto themselves.

A short-term intervention by the UN, in the form of a peace operation in 1993–95, temporarily halted the civil war, but was unable to revive a central government or promote national reconciliation. However, this period resulted in a significant inflow of aid funds, helping to create an economic stimulus that led to the rise of commercial interests among some of the militia leaders. Those interests led to a renewed desire for a basic level of political stability and security and ushered in a 10-year period referred to as "governance without government" in Somalia. Supported by a substantial flow of remittances from the 1,000-strong Somali diaspora, this new economy led to a decline in armed conflict as business leaders developed private security forces to protect their assets from looting. Sharia courts were reestablished, clan elders began to reassert some of their authority, and CSOs were able to develop social services, including health clinics and schools.

Renewed interest in peace, security, and social services, however, did not translate into a demand to revive a central government. The repressive, predatory, and lethal central government of the 1980s left individual clans feeling that they would be too vulnerable with a central authority if some other clan were able to gain control of it. Those for whom peace and reconciliation would mean giving up land and other assets seized during periods of looting were likewise disinclined, while those who were making their fortune through illegal means were not keen to see the return of law and order. In short, there were just too many "spoilers" for state-building to have a chance to succeed. In any event, this period of "governance without government" did not last.

In 2006, external factors—the rise of an Islamist movement, the presence in Mogadishu of members of the East Africa al Qaeda organization (and U.S. counterterrorist operations), the establishment of a somewhat problematic "Transitional Federal Government," and a two year occupation of the capital by the Ethiopian military—contributed to a return of conflict and chaos, making today's Somalia one of the most dangerous places on earth.

Potential solutions are not obvious. Experience with the imposition of "security" by external military forces suggests that it will simply give rise to heightened levels of armed resistance. Efforts to restore state institutions—especially in the critically-needed security sector—conflict with experience-based incentives against the emergence of a strong central authority. In short, the country represents the category defined by the OPCS FCS Unit as a "prolonged political crisis," within which the Bank and most other donor agencies are simply not able to function effectively.

Strengthening Economic Governance in Liberia

The case of Liberia represents the other end of the spectrum, a country moving from the FCS Unit's category of "post-conflict transition" to one of "gradual improver." The WDR case study focuses on the rather unique circumstances facing the country in the period 2004–2008, as it emerged from the utter destruction and chaos of a civil war and was faced with the challenges of implementing the 2003 Accra Comprehensive Peace Accord (ACPA). In addition to supporting the establishment of peace among former combatants, the two key challenges facing donors were (a) the need to deal with the severe risk of corruption in the transitional government; and (b) the urgent need to secure a "peace dividend" in the form of both jobs and improved access to public services.

The immediate political conditions leading up to the ACPA included a civil war that pitted Government forces against two main rebel factions. The peace accord provided for a transitional

government that divided public sector ministries, agencies, state-owned enterprises, and the legislature among the three factions. This arrangement, the National Transitional Government of Liberia (NTGL), was to last for two years, after which elections would be held—but with the proviso that none of the members of the transitional government would be eligible to stand for elections at that time. While these conditions were considered a necessary prelude to the subsequent elections, they also established strong incentives for the participants (especially former rebel leaders who needed to provide for their constituencies) for state capture, rent-seeking behavior, and corruption.

On the security side, a UN peace-keeping mission of 25,000 troops (one of the highest troop-to-population ratios ever) provided an unusually credible deterrent to further conflict, creating the space for the consolidation of peace and the potential for state-building and the restoration of public services. Unfortunately, the incentives for corruption soon resulted in mounting evidence of the diversion of the country's natural resources and state assets to private coffers, leading in turn to increasing dissatisfaction among the donor community (and the citizens of Liberia) with the NTGL's performance. Indeed, the very high levels of corruption represented not just a threat to the achievement of an urgently needed peace dividend, but to the very sustainability of the peace effort itself. Too many young, unemployed former combatants would likely return to armed conflict or criminal behavior if not provided with jobs, and the UN peace-keeping mission could not stay on indefinitely.

Taken together, these circumstances led to the development of a unique and highly unusual arrangement within the donor community, and between the donor community and the NTGL. The outcome included both a frontal attack on corruption issues within the public sector ("GEMAP"), and the development of a "jobs for peace" program that combined the engineering skills of the UN's security apparatus with the need for reconstructing the country's road network ("Roads-with-UNMIL"). For further information on the Roads program, the interested reader is referred to the full case study. The balance of this section focuses on GEMAP.

A proposal was developed for a new system of economic governance, the final version of which was called the Governance and Economic Management Assistance Program (GEMAP). The program's objective was to introduce controls that would stop the hemorrhaging of Liberia's financial assets and the mismanagement of its natural resources. Through a six-month process of consultations among the donors, and tough negotiations with the NTGL (including the threat of suspending aid), the objectives and technical details of the program were hammered out. The technical mechanism for improved controls, referred to as "shared sovereignty," involved the establishment of "co-signing authority," which was to be exercised across public sector agencies (the Central Bank and selected ministries and state-owned enterprises). The "co-signers" were to be international experts mobilized under the program, along with the corresponding Liberian officials in their agencies.

While expatriate co-signing authority was the primary control function, applicable to the approval of government expenditures and other actions subject to corrupt practices (such as forestry concessions), the ultimate objective was the longer-term reform of Liberia's public sector institutions, including enhanced transparency and accountability in the management of public resources. The program funded capacity-building and institutional development efforts through a technical working group that reported to the Economic Governance Steering Committee, chaired by the elected President and including ministers and heads of SOEs, as well as the principals of the international agencies participating in GEMAP. The intention, from the beginning, was for this program to be phased out, with progressive transition from a control function to one of support for traditional national ownership of public sector management. This transition did, in fact, occur between 2007 and early 2010, when the program was concluded.

It is important to note that this program would not have been possible under different circumstances, and that its introduction in the Liberia case was inherently contrary to the principles of national ownership and sovereignty. It is not, however, inconsistent with some of the "Principles for Good International Engagement in Fragile States and Situations" elucidated in Annex B– in particular:

- Take context as the starting point, including developing a shared view of the strategic response that is required under different circumstances;
- Focus on state-building as the central objective, including strengthening the capability of states to fulfill their core function;
- Prioritize prevention, including rapid action where the risk of conflict and instability is highest; and
- Recognize the links between political, security, and development objectives, including dealing with the tensions and trade-offs between objectives (particularly in the short term), which must be addressed when reaching consensus on strategy and priorities.

While the GEMAP program thus represents a rather special case of donor collaboration and intervention, there is evidence to suggest that it was worth the risks that were taken. In particular, proponents have noted the contribution that gaining control over public sector resources undoubtedly made to the efforts of the new government, elected in 2007, to strengthen governance and reduce corruption. It thus set the stage for Liberia's successful achievement of the HIPC Completion Point, leading to the largest per capita write-off of public debt in history.

The Democratic Republic of the Congo

It has been argued that the DRC has been in decline since the early 1970s, a proposition that is illustrated by the trend in the country's estimated GDP per capita. Under the former president, who ruled from 1965 to 1997, the Congo experienced a classic case of "resource curse": for a relatively few well-placed individuals, the system provided access to enormous riches, based on rent-seeking and corrupt behavior linked to the country's vast mineral wealth. Public sector governance, however, was nearly nonexistent, and the state was unable to fulfill even its most basic functions effectively—with predicable outcomes for economic growth, the provision of basic social services, and the reduction of poverty. During the Cold War, the donor community had provided considerable support, but this declined rapidly in the early 1990s. Historical factors, including events related to the 1994 genocide in Rwanda and its aftermath, led to the emergence of Congolese rebels who—with support from both Rwanda and Uganda—were finally able to overthrow the president. By that time, most bilateral donors had lost interest, and the international financial institutions (IFIs) were unable to provide assistance to the new government because of the country's huge debts.

In 1998, however, the volatility of the situation resulted in renewed conflict, which engulfed a number of the neighboring states and led to increasing concern among both regional powers and key Western governments. A cease-fire agreement was reached in 1999 and was subsequently reinforced by a UN Mission whose initial mandate was to monitor the implementation of the cease-fire agreement. The cease-fire agreement provided for the division of the Congo into three large pieces, one to be controlled by the Government and the other two by different rebel groups. However, the civil war continued, with five other African states still engaged. However, in 2001, when the President was assassinated and replaced by his son, things began to change.

Internally, the new President moved toward reconciliation, and externally engaged more constructively with the West, including the IFIs. Ultimately, these efforts led to the creation of a transitional government of national unity and, in 2006, to new national elections, supported by a wide range of UN, EU, regional, and Western governments. Following the elections, which were won by the

former President's son, the Government was left with the still-enormous task of trying to create a functional state, including the establishment of a professional and capable security force to secure territorial authority, and an effective administrative capacity to carry out the fundamental functions of the public sector—from fiscal and budget management to the provision of basic social services.

While the level of donor assistance actually increased during the ensuing period, and was generally consistent with the agreed PRSP, donor engagement on basic issues of governance and corruption was distinctly less focused on results than in Liberia. Partly as a consequence of this more "hands-off" approach, many of the most basic issues of both peace-building and security, and state-building and development, remain unresolved.

Mali and its Sahelian Neighbors

The Sahelian countries are among the poorest in the world, and the most conflict-prone. In Mali, local-level conflicts arise from resource-related disputes that are due to population growth, a strained physical environment, and the differing demands on land and water resources of farmers, pastoralists, and others. The large, lightly populated northern region of the country, which is difficult to govern or control, is subject to cross-border conflicts involving illegal trafficking in drugs and weapons, a transnational terrorist activity led by al Qaeda, and a history of armed rebellion by the Tuaregs and northern Arabs. While these "stresses" are typical of FCS, Mali also benefits from a cultural strength that values consensus in the peace-making process and a government that, over the past two decades, has demonstrated a strong democratic tradition and a commitment to effective decentralization of administrative capacity.

In resolving local-level conflict, the country has benefitted from a combination of relatively strong social capital and a cultural propensity for consensus-based solutions. Because population pressures on the environment create a constant source of insecurity and conflict by those engaged in farming, herding, fishing, and firewood harvesting, natural resource disputes are endemic throughout the country. Longer-term resolution of such disputes will require a combination of improved resource management systems and the development of alternative sources of employment and incomes—which will require a stronger administrative capacity than the Government currently possesses.

In the near term, the country will have to continue relying on traditional dispute resolution mechanisms—inter-village "peace committees" comprising leaders from different parts of the community. In some locations, these committees have established resource conventions that clarify the rules, define boundaries, establish protected passages and calendars for the movement of livestock from one area to another, regulate the number of dams that can be created within a given distance on a river, and so on. While not foolproof, these local-level mechanisms for dispute resolution have proven helpful in dealing with the conflict that is inevitable under the country's economic and environmental conditions.

Less amenable to local resolution are the regional grievances and external sources of conflict that have developed in the northern region of Mali. A long-standing set of grievances involves the feelings of neglect and discrimination felt by the Tuaregs and northern Arabs, which have led to periodic rebellions against the Government in Bamako that persist to the present time. This and the other key sources of stress in the north (illegal trafficking in drugs and arms, and the al Qaeda insurgency) arise in part from the inhospitable nature of the climate and topography, and the rather porous borders with the neighboring countries of Algeria, Niger, and Libya, each of which has a sizable Tuareg population.

Effective resolution of the grievances of the Tuaregs is constrained by the lack of military and administrative capacity of the Mali government, which is relatively absent within the large territory

(and small population) of the northern region. As the WDR Background Paper noted, the resolution of the other two issues (illegal trafficking and the al Qaeda presence) will require a concerted and coordinated security effort by all of the regional governments concerned, and will not be easy.

More broadly, the prospects for longer-term peace will depend on the pace of economic growth and the reduction of widespread poverty—which, in turn, will depend on strengthening the Government's administrative capacity and increasing the resources available to local governments and communities for the development of infrastructure and improvements in social services, especially in health and education. Also needed are policies that encourage and support the development of non-rural, non-agricultural sources of income and employment, as well as infrastructure investments that will help to integrate all parts of the country, including the northern region.

Rwanda's Exit from Violence

By any objective measure, Rwanda has made impressive progress in overcoming the massive challenges it faced in the aftermath of its civil war, which culminated in the 1994 genocide and was ended by the military victory of the Tutsi-led Rwandan Patriotic Front (RPF). The current President and leader of the RPA party has charted a path to peace and reconciliation that emphasizes economic progress and a concerted effort to promote a unified national identity. His economic vision involves a structural transformation from a low-income, agriculture-dependent economy to a lower-middle- income economy based on services and knowledge. He has demonstrated his commitment to implementing that vision through firm action against corruption, liberalization of key sectors such as banking and telecommunications, favorable policies for private sector investment (taxes and trade), sound economic management to keep inflation under control, and the reform of land rights. Political stability is maintained by a strong security sector—including military, police, and intelligence services—providing space for healing the ethnic divide between the Tutsi minority and the Hutu majority.

The origins of the ethnic divide in Rwanda have to do with strong feelings of discrimination and exclusion, on both sides, generated by long-standing imbalances in the structure of Rwandan politics. This was exacerbated during the colonial period when the Tutsi minority benefited from almost exclusive access to positions of power and authority and to educational opportunities within the governing apparatus. As a result of a Hutu rebellion in 1959–61, and the establishment of a Hutu regime, the defeated Tutsis experienced the same kind of discrimination and exclusion, and many of them fled into neighboring countries where they lived as refugees for nearly two generations.

These animosities came to a head during the Rwanda civil war in the early 1990s and culminated in the genocide in 1994. Following those horrific events, the RPF, led by and comprising mainly the Tutsi diaspora, won a complete military (and arguably moral) victory. The previous Government, the military, and many of the Hutu civilians fled into what was then eastern Zaire. As a result, the new RPF-sponsored Government did not have to deal with the normal post-civil war challenges of disarmament, demobilization, and reintegration of former combatants. A second major consequence was the avoidance of a coalition government made up of opposing military leaders (like Liberia's transitional government). Instead, the RPF was able to proceed unilaterally to establish the pace, the policies, and the processes of the post-conflict transition. And, because the regional and global political powers did not intervene during the genocide, the major donors have had little influence over the directions taken by the new Rwandan Government.

The new Government's approach to the transition gave priority to security, political stability, and peace-building. Security was established, as noted above, through military, police, and intelligence capacity, and political stability was maintained through constraints on "competition"—and especially on divisive ideologies based on ethnic differences. In fact, any and all references to ethnic identity are outlawed within the public sphere. To deal with the need for justice, and

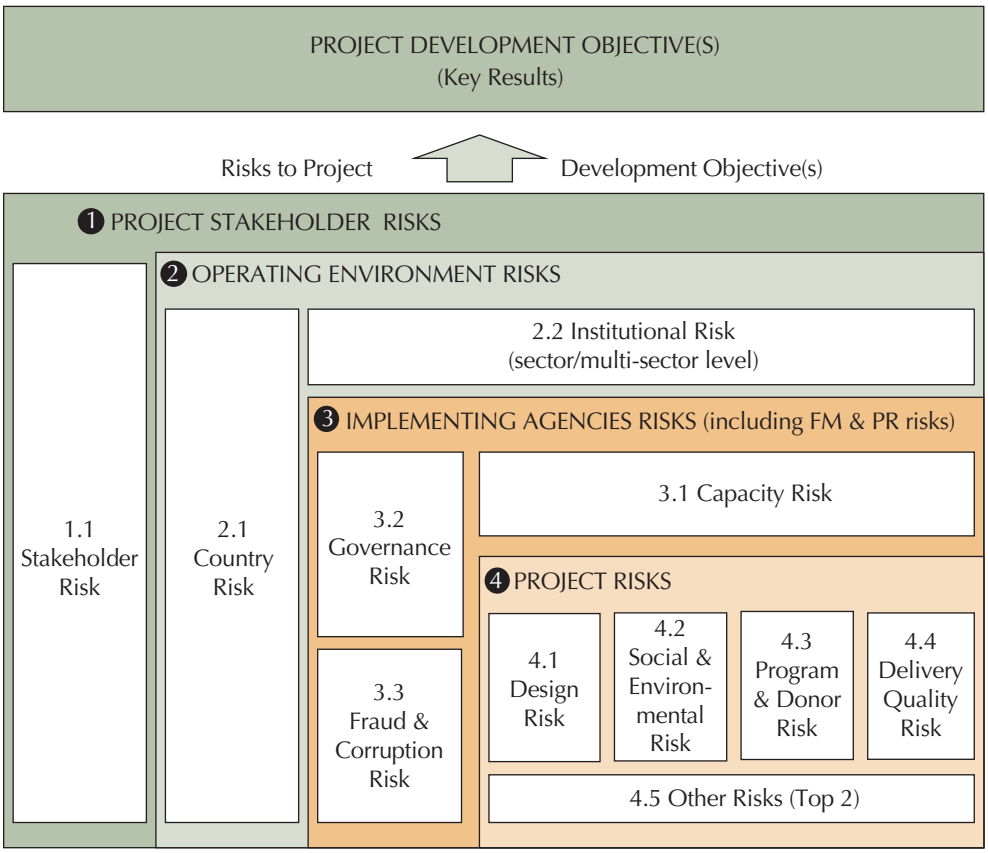
especially the need for reconciliation at the community level between the survivors and the perpetrators of the genocide, the Government relied on traditional/customary institutions—a program called "Gacaca." This was necessary in part because of the large number of civilians who had participated in the atrocities and the shortcomings of the formal justice system (including the dearth of qualified judges). The Gacaca approach was used for all offenders (some 120,000 people) except for those officials and military leaders who were charged with planning and organizing the genocide, who were tried within the formal justice system.

To further the process of reconciliation, a second local/traditional institution was resurrected—the "Ingando," a program of "social reeducation" organized under the National Unity and Reconciliation Commission. The messages of the reeducation fora come from above, but the objective is to establish a "new narrative" to help citizens develop a view of ethnic differences more conducive to a national identity, while mitigating the perceptions of past grievances.

A third initiative in the same direction is called "Umushyikirano"—Rwanda's "National Dialogue." Inaugurated in 2002, this is an annual two-day conference attended by key government officials from different levels, plus members of civil and political society. While this forum has provided an important opportunity for the development of a consensus on important national issues, topics that might be divisive (especially any that might be "ethnically sensitive") are not yet allowed. Indeed, in the interest of peace and political stability, the Government has maintained strong constraints on dissent of almost any kind within the political and civil society spheres.

In sum, peace and security in post-conflict Rwanda have been maintained by a strong military, police, and intelligence capacity, combined with efforts to provide justice at the community level and to deal with historical issues of ethnic grievances and exclusion. The corresponding constraints on the national dialogue, however—including limits on the freedoms of speech and of the press, and on "political competition"—make it all but impossible to assess the extent to which the current minority-led Government's efforts have, in fact, been successful in reducing the ethnic divide. As some observers have commented, this raises the broader issue of what may happen in the future when the strong leadership of the present Government is no longer in place.

Annex D. Operational Risk Assessment Framework (ORAF)



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