

## IDA'S APPROACH FOR ALLOCATING RESOURCES TO POST-CONFLICT COUNTRIES

### I. INTRODUCTION

1. Assisting post-conflict countries<sup>1/</sup> as they begin the process of recovery poses a special challenge for IDA. The effectiveness of IDA's response in these cases depends on ensuring the right timing, volume and composition of assistance. Over the past year IDA management has developed and tested a new methodology that seeks to provide staff and management with a more systematic basis for calibrating IDA's response to the different phases of the post-conflict period. While this methodology sharpens the focus on performance — in line with the stronger emphasis on performance in all IDA countries — it also emphasizes the need for judgment to take account of the complexities and heterogeneity of post-conflict situations. This attachment outlines the key features of the methodology and incorporates comments made by Deputies when they discussed the initial proposal<sup>2/</sup> at the IDA meeting in Addis Ababa in June 2001.

### II. OVERVIEW OF PROCEDURE

2. The new allocation procedure for post-conflict countries encompasses the entire transition period and comprises three distinct steps. Figure 1 provides an indicative illustration of how the proposed new methodology would work. Before the end of the conflict, allocations tend to be low or non-existent. After the decision to engage has been made, the eligibility of the country for exceptional allocations is evaluated (Step I). If considered eligible, the country's needs and circumstances are assessed along with the prospects that IDA resources will have a positive impact on the recovery process. This assessment forms the basis for deciding the appropriate size of the initial one-year allocation (Step II) and is a key component of the effort to formulate a Transitional Support Strategy (TSS) which sets out IDA's assistance program for the immediate post-conflict period.<sup>3/</sup>

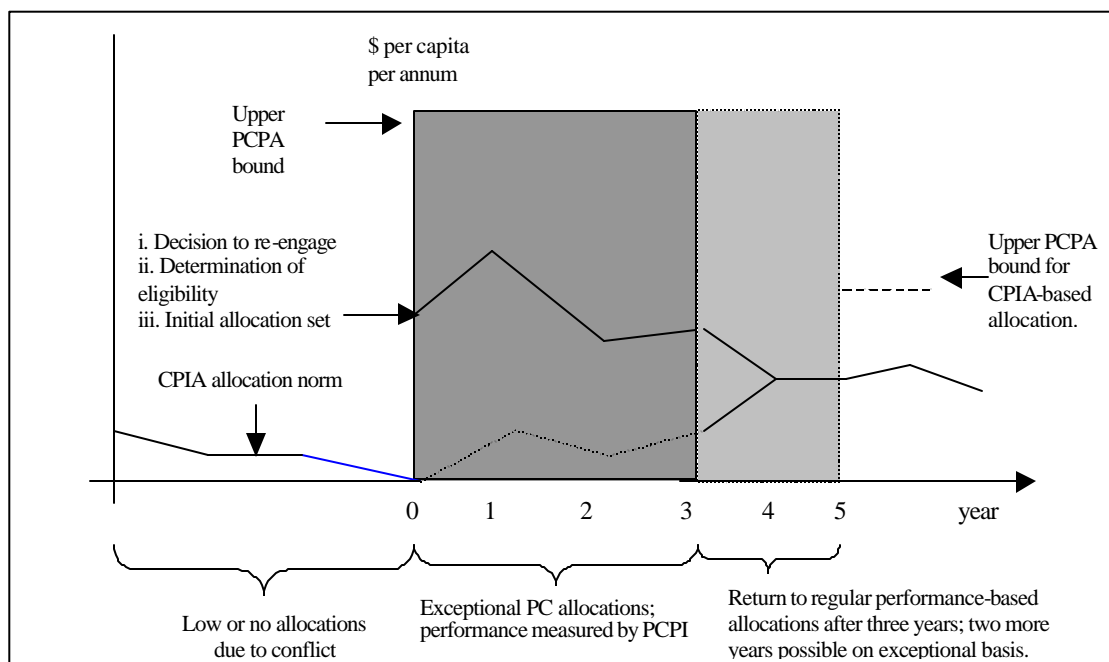
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<sup>1/</sup> For the purpose of this note, the term "post-conflict country" refers to IDA countries emerging from of violent and protracted conflict.

<sup>2/</sup> "Adapting IDA's Performance-Based Allocations to Post-Conflict Countries" IDA Technical Paper, May 2001.

<sup>3/</sup> See OP 2.30 "Development Cooperation and Conflict". The TSS would be in place for a period of up to 24 months and may be renewed for additional periods with the endorsement of the Executive Directors, until such time as a full, participatory Country Assistance Strategy (CAS) can be developed.

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



3. Subsequent allocations are then be made at annual intervals on the basis of performance and with country-specific adjustments as required by specific circumstances (Step III). Performance is measured by a set of Post-Conflict Progress Indicators (PCPI). A country will normally be expected to return to IDA’s regular (CPIA-based) allocation process within three years. Given the level of destruction and dislocation that some countries have experienced, it may in some cases be necessary to extend exceptional treatment for one, or at most two additional years. The next sections provides details on each of these steps.

### Step I. Determining Eligibility

4. The primary objectives for IDA’s re-engagement in a post-conflict country are to facilitate the transition to sustainable peace after hostilities have ceased and to support the resumption of economic and social development. The decision to engage in a country affected by conflict is based on an assessment made by Bank staff and management, and will always be made in consultation with other international partners, including UN agencies and other multilateral organizations, bilateral donors and regional institutions as appropriate. The significance of a particular re-engagement opportunity will be set out in a TSS, as provided for in the Bank’s operational policy on “*Development Cooperation and Conflict*”.<sup>4/</sup> The process of ascertaining if a country qualifies for exceptional IDA allocations, and the size of this allocation, will be an important part of the preparation of the TSS.

<sup>4/</sup> Or in a CAS if appropriate.

5. After the decision on initial engagement has been made, staff evaluate the country's eligibility for access to exceptional post-conflict IDA allocations.<sup>5/</sup> This access needs to be properly ring-fenced with eligibility criteria so that perennial poor performers with some record of conflict can be distinguished from countries that are making a determined effort to emerge from a protracted and highly destructive conflict. Eligible candidates are defined as: (i) a country that has suffered from a severe and long-lasting conflict which has led to the inactivity of the borrower for an extended period, or at least a substantial decline in the level of external assistance, including from IDA; (ii) a country that has experienced a short but highly intensive conflict leading to a disruption of IDA involvement; and (iii) a newly sovereign state that has emerged through the violent break-up of a former sovereign entity.

6. The intensity of the conflict has a direct bearing on the degree to which exceptional assistance is needed for reconstruction efforts. The three key dimensions of conflict intensity are: (i) the extent of human casualties directly or indirectly caused by the conflict; (ii) the proportion of the population that is either internally displaced, or in exile; and (iii) the extent of physical destruction, e.g., isolated, local, regional etc. Generally it is expected that eligible countries will be those that have experienced highly intensive conflicts as measured across one or more of these three dimensions. Given the frequent lack of good data in post-conflict situations, the evaluation will rely mainly on qualitative judgment to assess conflict intensity in each dimension, supplemented by quantitative evidence where available.

## **Step II. Determining the Initial Allocation**

7. Once the decision to engage has been made and country eligibility has been affirmed, staff initiate a consultative process to find the best possible match between the size of the initial allocation and country needs and circumstances, and the prospects for strong performance on a social and economic recovery program. The key input into this process is an assessment of four sets of issues that could have a bearing on the size of the initial allocation: (i) the prospects of peace; (ii) country needs, capacity and resources; (iii) government commitment to sustainable development; and (iv) moral hazard considerations. The lack of a recent performance track record and other reliable information that often characterize the immediate post-conflict period necessitates that the assessment be based mainly on qualitative judgments, though supplemented with quantitative data where available. An indicative list of 10 sets of questions has been developed to guide the assessment (see Attachment 1) which should be summarized in the TSS.

8. Given the acute need for resources typically faced by countries devastated by conflict, it is expected that most eligible countries will need an allocation that exceeds what they would qualify for based on their regular IDA performance rating. Based on previous experience it is expected that allocations will in most cases range from \$10 to

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<sup>5/</sup> Since countries may re-activate at any point during the year, the allocations are not tied to the fiscal year cycle.

\$15 per capita per year. By comparison, the average allocation per capita per annum to all IDA-only countries is approximately \$7.5. While this range is in line with the per capita levels that have been seen as necessary in recent post-conflict cases, it is important to note that most past cases have been countries with relatively small populations. More populous countries may face special difficulties in rapidly absorbing high per capita levels of aid. To avoid over-allocating scarce IDA resources, special attention should therefore be given to assessing the absorptive capacity of countries with large populations. Higher allocations could be considered if warranted by special circumstances, e.g., in cases where the conflict has been extremely destructive, but where the government's capacity to implement a comprehensive recovery program has remained strong.<sup>6/</sup>

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

### **Step III. Determining Subsequent Allocations**

10. Allocation norms for the second and subsequent years are based on systematic performance measurement using a set of indicators specifically tailored to the realities of post-conflict countries. With the exception of the indicators that relate to security and reconciliation, these Post-Conflict Performance Indicators have been adapted from existing CPIA indicators and have been formulated to take account of the lack of reliable information and data that is often a feature of post-conflict contexts (see Attachment 2). As with the CPIA, standards have been set such that a country at any stage of development is able to score well. Furthermore, performance is measured on the basis of the government's record of implementing pro-poor measures. The PCPI rating scale has been narrowed to 2 to 5 because the evaluation covers only a transitional period while the top and bottom ratings 1 and 6 used in the CPIA involve the same rating over an extended period of time. Given the short-term horizon of the new allocation mechanism and the volatility of post-conflict-situations, the PCPI should be updated at least once a year. Where available, the ARPP (the portfolio component of the performance rating) is included with a 20 percent weight to form the Post-Conflict Performance Rating (PCPR).

11. The PCPR is the basis for the calculation of indicative post-conflict allocation norms. These norms, in turn, are the basis for determining assistance levels for the program that is set out in the TSS for each country. The norms will increase or decrease depending on country performance: countries with good performance will be able to maintain or increase their exceptional allocation norms, whereas less strong performers could see a significant decrease. If the initial allocation was already at the high end of the normal allocation range, continued strong performance would be necessary to sustain that

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<sup>6</sup> For post-conflict countries with large and protracted arrears to the Bank, the allocation methodology is also proposed to be used as an input to the determination of the size of pre-arrears clearance IDA grants authorized in the IDA12 Replenishment Agreement.

level for a second year. If the initial allocation was in the medium range, subsequent allocation norms reflecting various performance levels could be represented as shown in Figure 1.

12. The PCPR-scores are translated into indicative allocation norms using guidelines for maximum per capita per annum allocations. The upper bound for countries rated close to 5.0 has been set at \$20, which is significantly higher than the amount that most post-conflict countries would receive under the regular CPIA-based allocation system. For countries rated close to 2.0, the upper bound has been set at \$4.

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

**Attachment 1**

**Table 1. Considerations for the Initial Allocation**

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

**Attachment 2**

**Table 2. Post-Conflict Progress Indicators**

<b>A. Security and Reconciliation</b>	
1. Public Security <ul style="list-style-type: none"> <li>• Effectiveness of civilian policing and efforts to reduce crime</li> <li>• Security for war-affected populations</li> </ul>	These indicators underscore the importance of a sustainable peace in post-conflict countries. They assess the authorities' efforts to reduce the probability of renewed conflict and to provide security to the population. They are measures of actions taken by the government to improve the environment for sustainable peace. For several of these indicators, IDA will need to rely on information provided by UN and bilateral agencies.
2. Reconciliation <ul style="list-style-type: none"> <li>• Government legitimacy</li> <li>• Progress of mediation process</li> <li>• Integration of parties to the conflict</li> </ul>	
3. Demobilization and Disarmament <ul style="list-style-type: none"> <li>• Effectiveness of D&amp;D program</li> <li>• Effectiveness of efforts to integrate ex-combatants</li> </ul>	
<b>B. ECONOMIC RECOVERY</b>	
4. Management of Inflation, External Debt; Adequacy of Budget <ul style="list-style-type: none"> <li>• Composition of budget</li> <li>• Progress on structural reforms and IMF program</li> <li>• Management of fiscal deficit and debt</li> </ul>	This cluster measures the extent to which policies have been implemented to spur economic recovery.
5. Trade policy, Foreign Exchange, and Price Regimes <ul style="list-style-type: none"> <li>• Functioning of customs authorities</li> <li>• Efficiency of foreign exchange regimes</li> </ul>	
6. Management and Sustainability of the Development Program <ul style="list-style-type: none"> <li>• Soundness of reform program</li> <li>• Progress on implementation</li> <li>• Use of participatory processes</li> </ul>	
<b>C. SOCIAL INCLUSION AND SOCIAL SECTOR DEVELOPMENT</b>	
7. Reintegration of Displaced population <ul style="list-style-type: none"> <li>• Government efforts to assist displaced people and returnees.</li> </ul>	This cluster assesses if immediate social needs are addressed and focuses on the distribution of assets, income and services among the groups affected by the conflict, and on government policies to reintegrate the displaced population and its provision of the most crucial services in education and health.
8. Education <ul style="list-style-type: none"> <li>• Efforts to address urgent needs in particular primary education</li> <li>• Efforts to address disparities among individuals or groups affected by conflict</li> </ul>	
9. Health <ul style="list-style-type: none"> <li>• Urgent health care needs, particularly in war affected areas</li> <li>• Disparities among individuals or groups affected by conflict</li> </ul>	
<b>D. PUBLIC SECTOR MANAGEMENT AND INSTITUTIONS</b>	
10. Budget Formulation and Efficiency of Revenue Mobilization <ul style="list-style-type: none"> <li>• Budget formulation and implementation</li> <li>• Effectiveness of revenue collection and tax administration</li> <li>• Effectiveness of public auditing</li> </ul>	This cluster evaluates the quality of governance by focusing on the government's efforts to effectively manage the public sector, and on the state of its institutions.
11. Reestablishing the Administration and Rule-based Governance <ul style="list-style-type: none"> <li>• Functioning of civil administration</li> <li>• Payment of government salaries</li> <li>• Enforcement of contracts</li> <li>• Number of ministries</li> </ul>	
12. Transparency, Accountability and Corruption in the Public Sector <ul style="list-style-type: none"> <li>• Level of government accountability</li> <li>• Extent of corruption and government commitment to reduce</li> </ul>	