

selective enhancement of this support. Section V outlines how IDA supports fragile states through World Bank and donor-financed trust funds, as well as through the World Bank's budget. Section VI summarizes the conclusions of the paper.

II. FRAGILE STATES AND THE INTERNATIONAL AID ARCHITECTURE

5. This section provides the broader context for IDA's operational approach and financial assistance to fragile states, by describing their characteristics, the challenges they face, rationale for engagement and issues in development effectiveness, and trends in the international aid architecture.

A. What is a fragile state?

6. Fragile states is the term used for countries facing particularly severe development challenges such as weak institutional capacity, poor governance, political instability, and frequently on-going violence or the legacy effects of past severe conflict. While there is no one agreed definition of fragile states (Box 1), development partners have been converging around an approach developed by the OECD, which recognizes common characteristics of weak governance and vulnerability to conflict, together with differentiated constraints and opportunities in fragile situations of: (i) prolonged crisis or impasse, (ii) post-conflict or political transition, (iii) gradual improvement, and (iv) deteriorating governance. The OECD-DAC emphasis on fragile situations as well as fragile states is designed to recognize the need for strong international support to address "episodes of temporary fragility in the stronger performers."⁶

7. The World Bank's definition of fragile states covers low-income countries scoring 3.2 and below on the Country Policy and Institutional Assessment (CPIA), which is the primary tool used to assess the quality of country policies and the main input to IDA's Performance-Based Allocation (PBA) system. In FY07 this covers 34 IDA-eligible countries⁷ which are: Afghanistan, Angola, Burundi, Cambodia, Central African Republic, Chad, Democratic Republic of Congo, Republic of Congo, Comoros, Cote d'Ivoire, Djibouti, Eritrea, The Gambia, Guinea, Guinea-Bissau, Haiti, Lao PDR, Liberia, Mauritania, Myanmar, Nigeria,⁸ Papua New Guinea, Sao Tome and Principe, Sierra Leone, Solomon Islands, Somalia, Sudan, Timor-Leste, Togo, Tonga, Vanuatu, Uzbekistan and Zimbabwe as well as the territory of Kosovo.⁹ The list of fragile states is updated annually, based on the computation of the countries' individual CPIAs. Over the medium to long term, there is significant movement in and out of the fragile states category.

⁶ "Fragile States: Policy Commitment and Principles for Good International Engagement in Fragile States and Situations," DAC Senior Level Meeting, December 5–6, 2006.

⁷ Out of 82 IDA-eligible countries.

⁸ As a large federal state, Nigeria includes both strongly performing states and those affected by very weak institutions and conflict. Nigeria and Cambodia have also made strong reform efforts in recent years and have CPIA ratings very close to the cut-off line at which they would exit the fragile states group.

⁹ West Bank and Gaza is on the World Bank's FY07 LICUS list but is not IDA eligible.

8. In line with the OECD-DAC's guidance on fragile situations,¹⁰ the 2006 Board paper¹¹ also notes that higher income or higher-performing countries facing fragile post-conflict or political transition situations (Balkans, Sri Lanka, Nepal), as well as fragile sub-national regions (Aceh, Mindanao) may benefit from drawing on similar operational approaches and tools. For the purposes of this report, the term *fragile states* refers to countries with CPIA ratings of 3.2 and below and is used in the discussion of aid flows, research, and the monitoring of results; the term *fragile situations* is used in the discussions of the World Bank's role, strategy and operational approaches.

Box 1: Definitions of Fragile States

Different organizations use different parameters to judge fragility, in general combining aspects of the capacity and accountability of institutions with indicators related to conflict risks.

The OECD-DAC does not have an agreed list of fragile states and situations, but for research purposes has used the bottom two quintiles of the World Bank's CPIA, resulting in a similar grouping to the World Bank's 3.2 cut-off line. The methodology developed by the US Fund for Peace measures twelve social, economic and political indicators related to fragility. The Fund for Peace's index identifies 28 countries as high risk in 2006, but does not include ratings for non-sovereign territories or small states which are included in the World Bank's list. DFID's 2005 policy paper on fragile states highlights the importance of territorial control, safety and security, capacity to manage public resources and deliver services and ability to protect the poorest and provides a list of 46 countries.

The AfDB defines fragile states as those with CPIA ratings below 3.0 and a Country Vulnerability Index of less than 0.351. This results in 25 countries being classified as fragile in Africa.

Amongst the MDBs, AsDB's paper "*Achieving Development Effectiveness in Weakly Performing Countries*," November 2006, compares the country lists produced by the World Bank, DFID and the Fund for Peace Index and notes that 11 countries in Asia qualify under two or more of these lists, compared to 8 on the World Bank's list alone.

B. Fragile states' development challenges

9. Fragile states are furthest away from achieving the Millennium Development Goals (MDGs) and they contribute significantly to the MDG deficit (Table 1). Extreme poverty is concentrated in fragile states: while they are home to only 19 percent of the population of IDA-eligible countries, they account for over one third of the extreme poor, almost two-fifths of all child deaths, and one third of 12-year olds who did not complete primary school in 2005. Their low levels of human and social development are linked to weak institutional capacity and governance and to internal conflict, all of which undermine the capacity of the state to deliver basic social and infrastructure services and offer security to citizens.

10. Fragile states have consistently grown more slowly than other low-income countries. Although the average per capita growth of fragile states has picked up in recent years, this is partly due to accelerated expansion in a few fuel-producing countries. Among non-fuel-producing fragile states, real per capita growth rates recovered to an average of 2 percent per annum in 2001-05, after negative growth between 1986 and 2000. However, the outlook is for

¹⁰ OECD Principles: "*Principles for Good International Engagement in Fragile States and Situations*," DAC Senior Level Meeting, April 2007. Also see footnote 22 and 25 in OPCS (2005). "*Good Practice in Country Assistance Strategies*."

¹¹ OPCS (2007). "*Strengthening the World Bank's Rapid Response and Long-Term Engagement in Fragile States*." The World Bank.

per capita growth for these countries to remain a full percentage point lower than that experienced by low-income countries as a whole, with a resulting increase over time in the proportion of the world's extreme poor living in these countries.¹² Lower investment relative to GDP in fragile states, linked in part to lower national savings rates (domestic savings and net transfers from abroad, including official transfers and worker remittances), has been one cause of their slower growth. Another is their high vulnerability to conflict.

Table 1: Fragile States Face the Largest Deficit in Most MDGs

Indicator	Total in IDA-eligible countries (millions)	Total in Fragile States (in millions and % share)
Total Population (2004)	2,620	485 (19%)
MDG1 – Poverty (2004)		
Extreme Poverty	724	261 (36%)
MDG2 – Universal Education		
Children of relevant age that did not complete primary school in 2005	11.8	4 (33%)
MDG4 – Under-Five Mortality		
Children Born in 2005 not expected to survive to age five	8.5	3.3 (39%)
MDG5 – Maternal Health		
Unattended Births	42.5	8.9 (22%)
MDG6 – Diseases		
TB deaths	1.2	0.34 (28%)
HIV+	20.9	7.2 (35%)
MDG7 – Environmental Sustainability		
Lack of access to improved water	667	209 (31%)
Lack of access to improved sanitation	1,586	286 (18%)

Source: Global Monitoring Report 2007

11. More than four-fifths of fragile IDA countries are or have been subject to conflict.¹³ Conflict is one of the major reasons why countries slide into fragility. Conflict can extract a high cost in terms of lives lost and physical damage, negatively affect growth and poverty and have lingering and hard-to-overcome legacy effects. While the number of conflicts in low income countries has been declining, conflicts have become more intense, with a significant negative impact on GDP growth averaging about a 12 percent decline per year of conflict. It takes longer for countries to regain their pre-conflict per capita income levels than was the case before 1990: 11.1 versus 3.6 years.¹⁴ The risk of reversal in post-conflict countries is also very high, with

¹² World Bank (2007). "Global Monitoring Report 2007."

¹³ According to the Uppsala Conflict Database which records conflicts based on the number of battle deaths, only Gambia, Mauritania, Sao Tome & Principe, Tonga, Vanuatu, Solomon Islands, and Zimbabwe have not experienced intermediate or severe conflicts. It should be noted that the eligibility of countries for exceptional post-conflict IDA financing is based on additional dimensions of conflict, as discussed subsequently in this paper.

¹⁴ World Bank (2007). "Global Monitoring Report 2007".

around 40 percent of countries relapsing into conflict in the first decade of post-conflict recovery.¹⁵

C. Rationale for engagement and issues in development effectiveness

12. Development interventions in fragile states are inherently risky: weak institutions undermine effectiveness and the high vulnerability to conflict increases the risks that gains made will be reversed. Engaging in very fragile environments can also create reputational and fiduciary risks for donor agencies which require careful mitigation. Despite these constraints, there is a sound rationale for engagement.

13. These countries merit attention despite the difficulties of the operating environment. There is a risk-reward trade-off in fragile states engagement. On the one hand, their weak institutions mean that the probability of successful outcomes for aid-financed programs is lower than in more strongly performing environments (section III looks at trends in IDA portfolio performance). On the other, their high deficit with respect to MDGs means that where country programs – including those financed from aid – are successful, their development impact can be very significant at the margin because these countries start from a low baseline. This can be seen in individual country examples: Timor-Leste achieved the highest rate of decrease in under-five mortality of all developing countries between 1990 and 2005, with an annual percentage decrease of 7.1 percent. Guinea and Burundi significantly improved primary education completion rates from 2000 to 2005: from 33.3 to 54.5 percent and from 25.1 to 35.7 percent, respectively.

14. The potential for successful development outcomes can also be seen in aggregate analysis of the fragile states group, but this appears to be highly variable by sub-sector.¹⁶ Extreme poverty rates remained unchanged in fragile states during the last fifteen years, a period which saw significant poverty reduction in non-fragile IDA eligible countries as a group. However, in the some other MDGs, fragile states as a group have seen improvements. For example, they increased primary completion rates faster than non-fragile states in the period between 1995 and 2005 (from 40 to 72 percent in fragile states; from 70 to 79 percent in non-fragile IDA-eligible countries). Access to water jumped by 13 percent between 1995 and 2005 but increased by only 9 percent in non-fragile countries. Measles immunization rates increased slowly in fragile states between 1995 and 2005, but were unchanged in non-fragile, IDA-eligible countries. In other sectors, however, the pace of improvements in development outcomes lags behind non-fragile states: infant mortality decreased by 8 percent in fragile states between 1995 and 2005, but by more than 13 percent in more strongly performing countries. Further research would be needed to establish why development effectiveness varies significantly between different sectors of investment in fragile states.¹⁷

¹⁵ Collier, P., A. Hoeffler and M. Soderbom, (2006). “*Post-conflict risks*,” World Bank Working Paper and Journal of Peace Research (forthcoming).

¹⁶ Indicators used in this paragraph have more than 90 percent coverage in fragile states, weighted by population.

¹⁷ The reasons for such highly variable outcomes against different MDGs are unclear. A reasonable set of hypotheses would be that fragile states are more likely to make progress against indicators where improvements do not require sophisticated institutional capacity; are not highly correlated with broad-based growth; and where

15. For countries that make a successful transition from weak institutions and the legacy of conflict, there is a growing body of research indicating a shift in the risk-reward trade-offs: these environments remain risky, but the development impact of successful aid projects increases.¹⁸ Again, this can be seen in specific country examples: countries such as Mozambique and Uganda have made significant progress towards the MDGs (Table 2).

Table 2: Progress in Country-Level Development Results in Uganda and Mozambique

Country Indicators	Uganda		Mozambique	
	1992	2006	1990/92	2005/06
GDP per capita (US\$)	177	267 (2005)	150	310
Average inflation (%)	42	6.6	39	9.7
Poverty incidence (%)	56	31	69 (1997)	54(2003)
Net primary school enrollment (%)	68 (1995)	91.7	43	71
Under-five child mortality (per 1,000)	160 (1990)	138 (2004)	235	152

16. Last, disengagement and failure to address the problems of fragile states imposes costs on their neighbors as well as their own citizens. For stronger performers, sharing a border with a fragile state is estimated to cause a loss of approximately 1.6 percent of GDP per annum.¹⁹ This is of particular concern in Africa, where most countries that have succeeded in improving governance and realizing gains in growth and poverty reduction are bordered by at least one fragile state. Aid that diminishes fragility could therefore have positive spillover effects.

D. Trends in the international aid architecture

17. Overall donor assistance to fragile states declined steeply after the mid-1990s, as shown in Figure 1.²⁰ Aid levels began to recover in 1999, driven mainly by debt relief and emergency assistance. Assistance for core development programs is also showing an upward trend since 1999, but is still far below the peak reached in the mid-1990s. Donor re-engagement in the Democratic Republic of Congo, Sudan, and Afghanistan has had significant impact on recent levels of aid flows.²¹ Despite the overall increase in aid flows, empirical evidence shows that fragile states as a group receive lower *overall* aid in relation to their level of performance and

development goals are likely to receive broad societal support even amongst warring or oppositional segments of society.

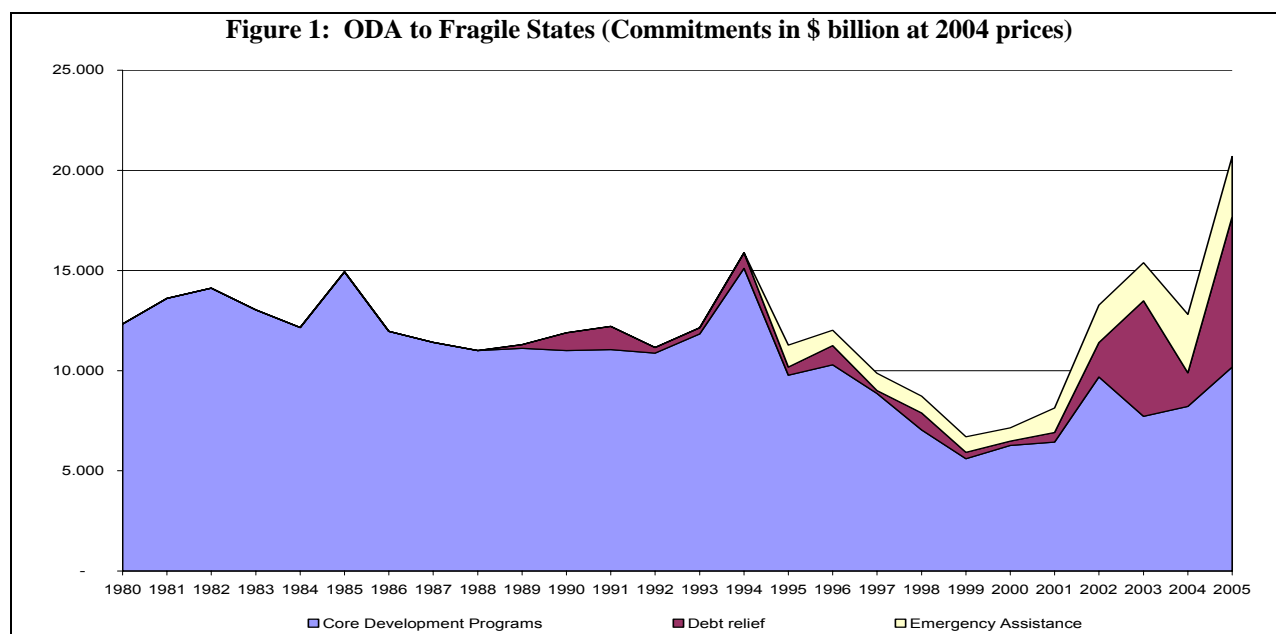
18 World Bank (2002). "Aid, policy and growth in post-conflict societies," World Bank Policy Research Working Paper 2902; Addison, T. (ed) (2003). "From Conflict to Recovery in Africa." OUP; Anand, P.B. (2004). "Getting infrastructure priorities right in post-conflict reconstruction." McGillvray (2005). "Aid allocation and fragile states," WIDER.

19 Chauvet, L., and P. Collier (2004). "Development Effectiveness in Fragile States: Spillovers and Turnarounds."

20 This analysis is based on donor commitments reported to OECD's Development Assistance Committee. For analysis presented in this report on the MDGs, aid flows, and portfolio performance, a dynamic list of fragile states was used, based on the CPIA ratings for the last two decades which were recomputed to be comparable with current definitions. Because of the difficulties with comparability, this analysis should be used with caution.

21 World Bank (2007). "Global Monitoring Report 2007."

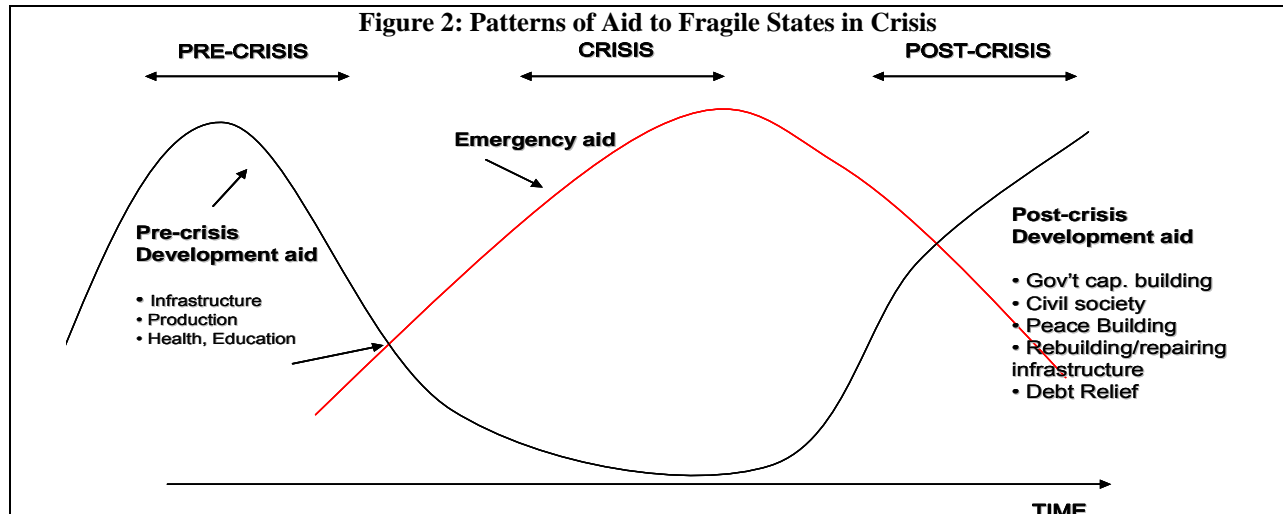
poverty. However, the extent of under-funding appears to be declining in recent periods.²² In line with broader aid trends noted in the paper on aid architecture presented at the IDA15 Paris meeting,²³ about 75 percent of ODA to fragile states in 2005 was provided by bilateral donors, with the remaining 25 percent provided by multilateral institutions. The share of multilateral ODA came down from a peak of 40 percent of ODA to fragile states in the mid 1990s.



18. Within these overall trends, there are two distinctive patterns in the provision of ODA to fragile states: (a) countries that experience donor disengagement during conflict or other internal crises. In the event that there is an end to the conflict or crisis, this is followed by a revival of emergency aid which over time reduces as core development activities resume and is often accompanied by debt relief (Figure 2); and (b) countries that are poor performers and continue to receive unchanging and low levels of aid for core development activities.

²² Ibid. The analysis in the GMR updated Dollar/Levine (2005). The coefficient on the fragile states dummy shows whether this group of countries receives more (i.e. the coefficient is positive and significant) or less (i.e., the coefficient is negative and significant) than would be predicted by the explanatory variables in the regression analysis, which include poverty, population and performance.

²³ IDA (2007). "Aid Architecture: An Overview of the Main Trends in Official Development Assistance Flows."



19. Concern over the risk of conflict in fragile states and its consequences in terms of global and regional spillovers has spurred other changes in the international architecture. These include:

- **Attention to coherence.** The last five years have seen a move to improve coherence between different government and multilateral agencies engaged in fragile developing countries, including coherence between diplomatic/political, humanitarian, security and development engagement. This trend, initially most evident as an internal debate within recipient and donor countries, has also found expression in the establishment of the UN peace-building commission, which brings together Security Council and Economic and Social Council (ECOSOC) members, donors and troop-contributing nations. At a country level, the push for increased coherence is seen in the development of more integrated approaches to peace-building and to relief-to-recovery transitions.
- **Commitment to peace-building and state-building goals** for both ODA-eligible and non-ODA eligible assistance in fragile states. The OECD DAC Policy Commitment and Principles for International Engagement in Fragile States and Situations²⁴ underline that effective state-building and peace-building in fragile states and situations are a pre-requisite to laying the basis for long-term progress against the MDGs, and commits DAC members to prioritize these areas as goals of development assistance and other types of engagement in fragile states.
- **Rise of international peace-keeping expenditures.** The cost of international peace-keeping missions has risen substantially in the last decade. The UN currently has 18 peacekeeping and political missions, with well over 100,000 civilian and uniformed personnel. The current budget for UN political and peace-keeping missions is \$5.48 billion, up from around \$2 billion in the 1990s. This does not include the cost of peace-keeping by regional and other multilateral institutions:

²⁴ DAC High Level Meeting, April 3-4, 2007.

there are also significant peace-keeping forces under the leadership of the EU, the AU, NATO and the Pacific countries.

- ***A strengthened role for regional institutions.*** Much of the drive for change in approaches to conflict and fragility has taken place in regional institutions, in particular in Africa. The AU is now playing a significant role in leading international mediation efforts and in peace-keeping in highly-challenging situations such as Darfur and Somalia. Sub-regional institutions, such as ECOWAS, have played a critical role in mediation of peace processes and conflict prevention efforts.

20. These trends in the broader international aid architecture for fragile states create new demands upon the World Bank, in its assistance strategies and organizational response towards this client segment and in its partnerships.

III. WORLD BANK STRATEGY AND ORGANIZATIONAL SUPPORT FOR FRAGILE STATES

A. Background

21. Post-conflict reconstruction in the war-torn economies of Western Europe was from the outset part of the rationale for the existence of IBRD. In the first three decades after the establishment of IDA, however, issues of conflict and fragility were generally peripheral to development debates. Where IDA played a large role in post-conflict reconstruction, this was generally carried out in the context of a clear end to an inter-state conflict: IDA-financed capital investments executed by well-functioning government counterpart agencies and designed in a similar manner to “regular” development programs. The post-conflict settlements of the mid 1990s, in West Bank and Gaza, the Great Lakes and the Balkans, posed a very different set of challenges. In these countries and territories, international re-engagement marked the beginning rather than the end of a complex political process to find lasting peace, and took place in a situation of partially collapsed public administrative capacity, requiring different approaches to rebuilding state capacity, delivering services and undertaking capital reconstruction.

22. The World Bank responded to these challenges by strengthening its work on conflict, in particular by research on conflict and development linkages²⁵ and introducing a new policy on conflict and development laying out the parameters for engagement.²⁶ The World Bank’s analytical work on conflict and growing operational experience during the 1990s in post-conflict reconstruction was strengthened and complemented by the 2001-02 task force on Low Income Countries Under Stress (LICUS), which highlighted the problems of a broader range of countries with weak institutions and governance. The Task Force noted that these fragile states are “significantly more prone to large-scale violence and civil conflict than other low-income countries.” The Task Force identified the need for a range of institutional changes – on country assistance strategies, partnerships, human resources, and operational policies and procedures – to improve the World Bank’s response.

²⁵ Collier Paul et al (2003). “*Breaking the Conflict Trap: Civil-War and Development Policy.*” and Collier P. and Hoeffler A., (2002). “*Aid Policy and Growth in Post-Conflict Societies,*” World Bank Policy Research Working Paper 2902.

²⁶ OP 2.30 Conflict and Development