

83. **Re-engagement imminent?** Furthermore, once a credible window of opportunity for peace materializes, IDA can provide limited grant financing even before arrears are cleared and the country is restored to accrual status. Such grant funding is subject to a number of conditions and has only been available to countries that are eligible for exceptional post-conflict IDA allocations.⁷⁴ To date, Afghanistan, the Democratic Republic of Congo and Liberia have received such pre-arrears clearance grants.

C. Implications of the Proposed Changes on Overall Shares of IDA Resources

84. Under the proposed modifications, an additional four percent of overall IDA resources are expected to be redirected to post-conflict and re-engaging countries from the PBA pool. Of this four percent, two percent is due to the reactivation of Cote d'Ivoire, Liberia and Sudan (with a 50 percent probability), and is unaffected by changes in the duration of the phase out period. This redirection of resources would happen regardless of the proposed changes to the post conflict arrangements. Therefore, the real additionality comes from the two percent attributable to the extension of the post conflict phase out period for the existing countries.

85. The financing requirements associated with proposed modifications in post-conflict and re-engagement allocations⁷⁵ add to the IDA15 financing requirements as mentioned in the accompanying paper entitled, "*The Demand for IDA15 Resources and Strategy for their Effective Use.*" As discussed in section 1.7 of that paper, without the proposed increase in IDA15 commitment authority, the implementation of these changes will not be feasible as it would take away resources from the PBA pool.

V. THE ROLE OF TRUST FUNDS IN FRAGILE STATES

86. Trust funds of various types have grown into a significant source of support for fragile states in recent years, and have become an important tool for rapidly scaling up donor support, particularly in post-conflict settings. While the bulk of the World Bank's support for fragile states as a group continues to be channeled through IDA, in some fragile states donor resources are channeled through World Bank-managed trust funds. This is especially notable in Afghanistan, which receives the bulk of the aggregate resources for fragile states, and also in countries where IDA activities are constrained by the presence of arrears, such as Sudan. The trust funds are often used to finance recurrent costs and therefore complement IDA's financing that primarily focuses on financing crucial investment expenditures (e.g. in Afghanistan).

87. Over the past five years, contributions to trust funds aimed at fragile states have seen a six-fold increase, from \$136 million in FY02, to \$821 million in FY06 (see Table 6). There has been a parallel growth in disbursements, which rose from \$130 million in FY02 to \$679 million in FY06, to an aggregate five year total of over \$2.2 billion. The bulk of these resources were channeled through so-called Recipient Executed Trust Funds (RETFs) which, like regular IDA operations, enable recipients to execute or spend resources on various development activities

⁷⁴ IDA (2005). "*Additions to IDA Resources: Fourteenth Replenishment. Working together to achieve the Millennium Development Goals.*" Paragraph 75, p. 27.

⁷⁵ If the proposed changes are accepted and the anticipated IDA15 financing under the base scenario materializes, then consideration would be given to modifying the FY08 allocations (final year of IDA14) of the affected countries after notifying the Board.

including investment and recurrent expenditure to meet service delivery, capacity building, and technical assistance needs.

88. While RETFs for fragile states can be linked explicitly to a specific IDA operation, they are increasingly being designed as free-standing funds. They can also be single or multi-donor in nature; during FY02-06, the bulk of disbursements (nearly 70 percent) were channeled through multi-donor or pooled arrangements. The Afghanistan Reconstruction Trust Fund (ARTF) is by far the largest of the multi-donor trust funds (MDTFs) that support fragile states, having received by April 2007 nearly \$1.8 billion of contributions from 27 bilateral donors.

Table 6: Trust Fund Contributions to Fragile States (\$ millions)

Trust Fund Name	2002	2003	2004	2005	2006	Total
Afghanistan Reconstruction Trust Fund	41	230	280	449	363	1,363
West Bank and Gaza - Non IBRD Funded	6	34	73	181	120	414
Iraq Reconstruction Trust Fund	0	0	220	52	53	325
Multi-donor Trust Fund for Government of South Sudan	0	0	0	0	167	167
West Bank and Gaza - IBRD Funded	0	13	80	0	0	93
Trust Fund for Timor-Leste - Bank Executed	51	9	0	15	5	80
Multi-donor Trust Fund for North Sudan	0	0	0	0	73	73
Low Income Countries Under Stress Trust Fund	0	0	25	0	26	51
Post-Conflict Trust Fund	8	9	9	8	8	46
Other	37	7	4	1	13	63
Total	136	293	683	697	821	2,630

89. The flexibility that trust funds offer makes them an important complement to the support that donors deliver to fragile states through IDA. They allow for one or more donors to concentrate and scale up support to selected countries. Furthermore, through trust funds, donors have a cost-effective tool for supporting countries they otherwise may not have been able to support, or could support only at a much greater cost. Trust funds also allow donors to take advantage of the World Bank's expertise in terms of country dialogue, policy advice and project preparation. The risks to donor resources are also reduced through the World Bank's high fiduciary standards and experience in project management. Lastly, trust funds, and especially MDTFs, offer a way to reduce the tax of donor assistance on local capacity by facilitating the channeling of many streams of donor funds through one mechanism. Also see Box 7.

90. In terms of the effectiveness of support for fragile states delivered through multi-donor trust funds, a recent review of post-crisis multi-donor trust funds concluded that MDTFs are important for resource mobilization, policy dialogue, risk and information management in difficult settings.⁷⁶ While the performance of individual MDTFs has varied, the review concluded that on the whole the World Bank has managed budget support and large scale

⁷⁶ See "Review of Post-Crisis Multi-Donor Trust Funds." Final Report, February 2007. The review was commissioned by the World Bank and Norway, and supported by Canada, UK and the Netherlands. It assessed experience with 18 MDTFs, of which 13 were administered by the Bank and five by the UN.

projects well. Off-budget and small-scale projects, which represent only a small share of the overall MDTFs, have, on the other hand, generally taken too much time to approve and fund. The review notes that there is now an emerging consensus on "good practice" in design and implementation, and that given the high-risk, high-cost environments in which they operate, MDTFs require flexible and adequate funding from donors. The review recommended that the World Bank adapt its procedures for post-crisis support to avoid delays and increase staffing in the field in countries with MDTFs; the World Bank has responded to this through the new rapid response policy and fragile states staffing strategy.

Box 7: Examples of Multi-Donor Trust Funds for Fragile States

- *The Afghanistan Reconstruction Trust Fund (ARTF)* was established in May 2002 to serve as a coordinated financing mechanism for the Government's recurrent budget and priority reconstruction programs and projects. To date, ARTF has successfully mobilized \$1.8 billion in grant contributions from 27 bilateral donors; \$1.5 billion had been disbursed as of April 20, 2007. There were 10 ongoing investment projects with a combined allocation of \$419 million, of which \$327 million had been disbursed. To enhance strategic use of resources, the Government has prepared and is using a medium-term fiscal framework to underpin resource allocations for priority programs. A Monitoring Agent helps ensure proper fiduciary management. Recently ARTF donors and the government have agreed on a results framework (the Performance Assessment Matrix) and associated strategic dialogue process to further enhance the effectiveness and impact of this trust fund.
- *Sudan Multi-Donor Trust Funds:* Following the peace agreement, two funds, to be administered by the World Bank, were set up to facilitate the coordination of external donor financing of Sudan's reconstruction and development needs – one for the new Government of National Unity for war-affected areas in the north and transition zones, and the other for the Government of Southern Sudan. To date, \$540 million has been committed to the two MDTFs, and \$282 million has been paid in, including \$10 million from the World Bank's net income. Eleven Grant Agreements have been signed, worth \$146 million. Co-financing by Government leverages an additional \$195 million. After a slow start, disbursements are now \$55 million.
- *The Great Lakes Multi-Country Demobilization and Reintegration Program (MDRP)* was established in 2002 and provides support to national governments to implement national demobilization and reintegration programs (DRPs) in nine countries in central and southern Africa. The objectives of the Trust Fund include (i) providing a regional framework for demobilization, reinsertion and reintegration efforts; (ii) establishing a single mechanism for donor coordination and resource mobilization; and, (iii) serving as a platform for national consultative processes that lead to the formulation of national DRPs. As of September 2006, the Trust Fund had mobilized a total of \$ 650 million, 65 percent of which was already disbursed.

91. **World Bank-financed trust funds for fragile states:** The World Bank also provides resources for fragile states through single and multi-country trust funds financed from IBRD's income. Such trust funds are intended to be complementary to the support provided through IDA, by financing countries and purposes for which IDA resources cannot be used, for example because of the presence of arrears. Furthermore, resources from the Low Income Countries Under Stress trust fund (LICUS TF) and the Post-Conflict Fund (PCF) can be deployed rapidly.

- *The LICUS TF*, which was established in March 2004, targets its financial assistance mainly to countries in non-accrual status, and to those where IDA funds cannot be used easily used in a timely manner to support the objectives of the trust fund. The main objectives of this trust fund are to: (a) support early policy and institutional reform to improve performance and facilitate reengagement with the international community; (b) develop resilient systems for social service delivery that can continue to operate effectively even in situations of political instability; (c)

develop harmonized multi-donor approaches that combine scarce resources behind a selective strategy for reform; and (d) promote the delivery of visible results in support of peace-building efforts.⁷⁷ To date, the LICUS TF has received \$80 million from IBRD surplus, and \$2 million from bilateral donors. Five fragile states (Central African Republic, Cote d'Ivoire, Haiti, Liberia and Sudan) account for 78 percent of its commitments.

- *The PCF* was established in FY98 to help deepen understanding of conflict-affected countries and provide appropriate assistance. Grants from the PCF tend to be relatively small and support diverse, often community-based activities. The cumulative resources of the PCF since inception total \$90.3 million, including \$8.7 million donor contributions. About half of the 40 middle and low income countries covered by the PCF are fragile states; they account for 56 percent of grants. Five countries (Afghanistan, Burundi, Haiti, Somalia and Sudan) account for 51 percent of total grants approved for fragile states.

Box 8: LICUS Trust Fund Results	
Haiti (\$6.5 million)	
<u>Visible results</u>	<ul style="list-style-type: none"> ▪ 200,000 person-days of employment through labor-intensive works program; ▪ Daily school feeding for more than 25,000 poor children, including Cite Soleil; ▪ Three rural water systems rehabilitated; and ▪ 44 community sub-projects executed successfully.
Liberia (\$4.7 million)	
<u>Institution-building and donor coordination:</u>	<ul style="list-style-type: none"> ▪ Supported results-based transition framework for donor coordination, and multi-donor platform for concerted action on governance leading to agreement at UN Security Council; ▪ Forestry concession review completed; ▪ Public procurement legislation enacted; and ▪ Financial management training unit established
<u>Visible results:</u>	<ul style="list-style-type: none"> ▪ Voinjama-Zor-Zor highway kept accessible during rainy season; and ▪ CDD program of more than 30 projects for reconstruction needs of most vulnerable population.
Central African Republic	
<u>Institution-building and donor coordination:</u>	<ul style="list-style-type: none"> ▪ Development of results-based transition matrix; ▪ Code of Conduct for domestic political stakeholders during elections, developed through UN/World Bank convened leadership seminars; ▪ Audit of payroll completed; and ▪ Treasury account systems upgraded.

92. These funds play a particularly critical role in laying the basis for IDA's re-engagement in countries in non-accrual. Programs under the LICUS Trust Fund in non-accrual countries are integrated, generally covering both visible results in support of peace-building and longer-term institution building and governance components. Significant results have been achieved through the Fund with relatively small financial allocations (Box 8). In line with the consolidation of capacity between the Conflict Prevention and Reconstruction unit and Fragile States Group, management also intends to bring the LICUS TF and PCF within a more unified framework.

⁷⁷ These activities will include, for example, rapid labor-intensive employment initiatives in conflict-affected areas. Moreover, all activities in support of peace-building will be consistent with the Bank's Articles of Agreement and applicable Bank policies and guidelines.

Active IDA LICUS countries are eligible for assistance for small and urgent activities not easily funded under regular IDA credit or grant operations. Consequently, challenges also arise with the use of the LICUS TF in such countries due to demands for support to stabilize transition situations in fragile sub-national areas (e.g. Mindanao, Caucasus) and to support new government reform initiatives (e.g. Guinea, Guinea-Bissau, Nepal).

93. The World Bank has also provided substantial support for individual countries emerging from serious conflict. It used IBRD surplus to support recovery and reconstruction efforts in Kosovo, Sudan, Timor-Leste and Liberia.

94. In conclusion, the World Bank's and the international community's efforts to assist fragile states have been significantly strengthened by the recent scaling up of trust fund support. MDTFs in particular play a useful and cost-effective role in channeling donor resources in ways that take advantage of the synergies that the World Bank can provide while also reducing the tax on scarce recipient capacity. Trust funds financed through IBRD surplus also play a useful and complementary role to IDA financing, by allowing for the rapid deployment of resources to support small scale efforts in countries in arrears, or in the early phases of re-engagement.

VI. CONCLUSION

95. Fragile states and situations are difficult environments most importantly for national reformers struggling to bring about peace, improved governance and protection of the population but also for the staff of the World Bank and other donor agencies who work to support them under difficult conditions. The risks of engagement in these contexts will not go away – these are environments where development programs will always be vulnerable to periodic setbacks. But the rewards of prudent engagement are worth the risk: these are also the environments where well-designed development assistance can really make a difference.

96. IDA focuses on its comparative advantage in different types of fragile situations by differentiating assistance strategies and its role to the direction and pace of governance change. Within this framework, IDA has a significant contribution to make: by building on its traditional strengths in economic governance, public finance management and service delivery to weak capacity environments; and by tailoring its financing assistance and technical expertise to work with other partners in support of peace-building goals. Division of labor between IDA and other donors will and should continue to be determined at the country level, taking into account country-specific priorities, capacities, and the contribution of other donors. In this regard, the World Bank's partnership with the UN in fragile states has strengthened significantly in recent years, and will be further bolstered by the adoption of a common recovery planning process and agreed fiduciary framework for collaboration in post-crisis situations.

97. Internally, the World Bank also faces many implementation challenges in making its new policy, procedural and organizational approaches a reality on the ground. Continued strong management attention, guidance and operational support to staff working in these difficult environments; adjusting approaches and analyzing lessons learned; and enhancing human resource systems are all central to full realization of IDA's strengths and ability to develop partnerships to assist this most vulnerable group of partner countries.