LOW-INCOME COUNTRIES UNDER STRESS

IMPLEMENTATION OVERVIEW

OPERATIONS POLICY AND COUNTRY SERVICES

DECEMBER 2003
### Abbreviation and Acronyms

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>CPIA</td>
<td>Country Policy and Institutional Assessment</td>
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<tr>
<td>CPR</td>
<td>Conflict Prevention and Reconstruction</td>
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<td>CRN</td>
<td>Country Re-engagement Note</td>
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<td>DAC</td>
<td>Development Assistance Committee</td>
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<td>DEC</td>
<td>Development Economics</td>
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<td>DFID</td>
<td>Department for International Development</td>
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<td>ESSD</td>
<td>Environmentally and Socially Sustainable Development</td>
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<td>FRM</td>
<td>Resource Mobilization Department</td>
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<td>HIPC</td>
<td>Highly Indebted Poor Countries</td>
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<td>HIV/AIDS</td>
<td>Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome</td>
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<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
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<td>IDA</td>
<td>International Development Association</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>LAP</td>
<td>Learning and Advisory Process</td>
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<td>LICUS</td>
<td>Low-Income Countries under Stress</td>
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<td>MDGs</td>
<td>Millennium Development Goals</td>
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<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
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<td>OPCS</td>
<td>Operations Policy and Country Services</td>
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<td>PCPI</td>
<td>Post-Conflict Progress Indicators</td>
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<td>PREM</td>
<td>Poverty Reduction and Economic Management</td>
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<td>PRSP</td>
<td>Poverty Reduction Strategy Paper</td>
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<td>UN</td>
<td>United Nations</td>
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<td>UNDP</td>
<td>United Nations Development Programme</td>
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<td>WBI</td>
<td>World Bank Institute</td>
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<td>WDR</td>
<td>World Development Report</td>
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LICUS IMPLEMENTATION OVERVIEW

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I. Background

1. Introduction. In June 2002, the Task Force on Low Income Countries Under Stress (LICUS) reported to the Board on the challenges facing the Bank and other donors in supporting countries with particularly weak policies and institutions. Traditional aid programs have not worked well in these environments, and many donors have disengaged. Total disengagement has proved risky, however, perpetuating poverty and failing to prevent cross border spillovers of conflict, organized crime and epidemic diseases, with adverse regional and global consequences. Since almost 500 million of the world's most disadvantaged citizens live in these countries, engagement, although difficult, is critical to making progress on the Millennium Development Goals (MDGs).

2. LICUS principles. The challenge of aid effectiveness in LICUS is to maintain engagement, but to engage in a different way. The LICUS approach entails anchoring strategies in stronger political and economic analysis, promoting domestic demand and capacity for positive change, supporting simple and feasible entry-level reforms, and exploring innovative mechanisms for social service delivery. At the institutional level, the Task Force highlighted the need for stronger resourcing of analytical and capacity-building work, deployment of more experienced staff, and review of operational policies and procedures to assess their applicability in particularly low-capacity environments. Close donor coordination is particularly crucial in LICUS, where resources are typically meager and capacity low: greater consensus is needed on the principles of aid engagement and country-specific priorities.

3. Implementation arrangements and Board reporting. A unit to coordinate LICUS implementation was established in the Operations Policy and Country Services (OPCS) vice-presidency in October 2002. Board discussed implementation of the LICUS Initiative on January 9 2003, and an informal information exchange was held with Executive Directors' Advisers on July 18, 2003. This note summarizes progress in the first year of LICUS implementation, grouped into three main areas of activity: country-level strategy work, institutional reform, and research and partnerships with other donors. The note includes a description of possible models for country engagement in LICUS which are emerging from the lessons of implementation: this thinking is still at a relatively early stage, and management welcomes a close exchange with the Board as the work goes forward.

II. Country Strategy Development

4. LICUS focus countries. Thirteen country teams have volunteered as LICUS focus countries for the fiscal years 2003 and 2004. New strategies for five of these countries have been discussed by the Board. Strategies for two of the FY03 LICUS pilots (Central African Republic and Papua New Guinea) were delayed due to political instability: a frequent occurrence in LICUS environments.

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1 FY03 LICUS "pilot" countries were: Angola, Central African Republic, Haiti, Papua New Guinea, Somalia, Sudan and Tajikistan. FY04 LICUS focus countries are: Burundi, Comoros, Guinea Bissau, Liberia, Togo, and Zimbabwe.

2 Haiti (informal brief), Tajikistan (Country Assistance Strategy), Angola (Transitional Support Strategy); Somalia (Country Re-engagement Note), and Sudan (Country Re-engagement Note).
5. **Innovations.** The FY03 pilot strategies initiated several innovative approaches to re-engagement and reform in a LICUS environment. These include:

- a three-pronged strategy in Angola to target public, private sector and civil society actors to increase the transparency of natural resource revenue management;
- a combination of top-down initiatives (policy dialogue, technical assistance, and exposure to the lessons of reform programs in other countries) with bottom-up community mobilization to implement reform priorities and accelerate poverty reduction in Tajikistan;
- early engagement in analytical work on policy priorities, and capacity building in Sudan;
- multi-donor dialogue on economic governance measures in Haiti, and;
- support to the provision of public goods such as HIV/AIDS work and export certification in Somalia.

6. **Emerging models for LICUS engagement.** The FY04 focus countries have had more time than the countries submitting strategies in FY03 in which to deepen the approach in LICUS situations. This has been particularly evident in joint work with other donors. In Liberia and Sudan, the World Bank is playing a role in coordinating, with the United Nations (UN), joint assessment missions that will focus on common results frameworks appropriate to fragile governance transitions. In Togo and Zimbabwe, the World Bank has engaged with other donors in close discussion on the appropriate form and sequencing of assistance under different scenarios. In Comoros, donors are in the process of agreeing on common benchmarks and pooled funds to support national progress on key governance issues. In the Central African Republic, where the authorities have committed to a road-map to re-establish legitimate institutions following the coup in March 2003, the World Bank is working closely with the IMF and other donors on a common framework to ensure that financial assistance is closely coordinated behind a few select reform priorities, and supports, rather than undermines, efforts to complete a successful transition to stable, improved governance. The country operational work and dialogue with other donors undertaken in this period have provided some initial pointers on models for engagement in different types of LICUS.

7. **Non-accrual LICUS.** For the most severe non-accrual LICUS, a new approach to gradual transition has emerged from several diverse country situations. Scenario assessment in these countries typically includes a scenario of “no progress or deterioration” and a scenario of “weak transition” - characterized by new commitments from the authorities on the national reconciliation and/or the economic and governance front, but without a dramatic change in governance or a proven track record for such efforts. This contrasts with classic post-conflict transitions, which often experience a more immediate and hard-to-reverse improvement in governance prospects. These

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3 Attachment A provides a more comprehensive write-up of selected innovative approaches attempted in LICUS strategies to date.

4 These efforts are supported by an increase in the use of socio-political analysis in early strategy planning exercises.
periods of “weak transition” require careful, sequenced support from international donors. Too little support can undermine initial momentum and the prospects for reform, while too rapid or large-scale financial re-engagement can undermine incentives to follow through on policy commitments. Bank assistance strategies for these most severe LICUS are highly diverse in response to different country circumstances, but some common elements are emerging.

8. In situations of “no progress or deterioration” in the governance environment in non-accrual countries (such as Somalia), the Bank is likely to update its analytical work to identify risks and increase readiness for re-engagement when the situation improves; collaborate with other donors to build capacity for social service delivery or social protection, in particular initiatives to address HIV/AIDs and other epidemic diseases; and support opportunities to bring different national stakeholders together into dialogue on economic or social issues.

9. In situations of “weak transition” in non-accrual countries, appropriate international support for domestic reform efforts is crucial. Domestic reformers in these countries are often politically weak: they require modest but timely international support to build momentum for reform efforts. Previous experience in these situations argues that the Bank will benefit from close coordination with other donors on a carefully-sequenced program of support. Depending on country circumstances, this may involve supporting the authorities on early reform efforts through grant-based technical assistance and piloting of basic (zero-generation) reforms, and participating in areas of the Bank’s comparative advantage in multi-donor efforts to strengthen key service delivery sectors such as health and education. This early transitional assistance can help these countries develop a more robust and sustainable basis for full IDA re-engagement, by building a track record of reform prior to arrears clearance, and by establishing a coordinated multi-donor effort to assist the countries in exiting from crisis.

10. Post-conflict LICUS. In post-conflict countries with fragile policies and institutions, the LICUS initiative collaborates closely with the Conflict Prevention and Reconstruction (CPR) team in supporting reconstruction and recovery strategies. While post-conflict LICUS are generally characterized by a clear peace settlement and, frequently, new governmental authorities, many of these countries still face very weak capacity and governance environments. The value added of the LICUS approach, which builds on the strong work already completed by the CPR, has been to increase the emphasis on governance and institutional issues in post-conflict LICUS. A phased approach, starting with quick, visible reconstruction efforts and parallel institutional capacity-building immediately after a peace settlement, and moving to larger scale reconstruction and delivery through the state in a subsequent phase, is becoming common practice. Country teams in Liberia and Sudan, which are both LICUS focus countries, are also piloting a new type of results framework for post-conflict situations, which focuses on ensuring that domestic stakeholders and donors agree on a limited number of priority actions, across the political, institutional, economic and social areas.

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5 Such activities will be more limited than in the case of post-conflict transitions where absorptive capacity is higher and the prospects for improved governance are more clear-cut, but ensure that the Bank provides appropriate support to fragile domestic reform efforts, even in situations where arrears clearance and full IDA re-engagement will take some time.
11. **More stable, active LICUS.** In the more stable LICUS, in particular those with active IDA programs, FY04 has also seen a deepening of work on the design of appropriate programmatic and project interventions. In particular, country teams have grappled with the identification in practice of reforms that are both politically feasible and will build momentum for future change; with the appropriate mix of national-level policy dialogue and sectoral projects; and with efforts to build domestic capacity to manage reform efforts. In Tajikistan, for example, the World Bank is working with other donors to review previous adjustment programs and focus policy dialogue and community-linked sectoral programs on a common set of priority development issues. This is complemented by WBI-supported work with national counterparts to increase exposure to international lessons on the management of reform programs.

12. **Current status and next steps.** The first year of LICUS implementation has seen an acceleration of efforts to embed LICUS principles in operational practice. At the time of the LICUS Task Force report, the framework was strongly debated at the policy and research level within the World Bank and with other donors, but was still to be translated into concrete changes in country strategy development and implementation. Intensive implementation support over the last year has gone a long way towards mainstreaming the approach, which constitutes a culture change for the Bank in becoming more attuned to domestic socio-political realities. Four to six new strategies for LICUS focus countries should be submitted for discussion at Board in FY04 or early FY05. Management expects that these new strategies will demonstrate a deepening of the approach. Much remains to be done, however, to produce sustained results on the ground: on-going organizational support and the institutional reforms described below are therefore a critical complement to operational work at the country level.

III. **Institutional Reform**

13. **Organizational support, policies and procedures.** The LICUS Task Force recognized the need for an internal culture shift at the World Bank to enable implementation of the LICUS approach. In view of this, the institutional response to LICUS has included increased management attention to all aspects of LICUS implementation, through quarterly meetings with senior management. Staff have requested that these regular face-to-face meetings continue, finding the upstream guidance useful in boosting staff morale and providing assistance with difficult strategy issues. In addition, a pattern has emerged of joint support to country strategy development, from OPCS, the Conflict Prevention and Reconstruction (CPR) team and Development Economics (DEC) or the Poverty Reduction and Economic Management (PREM) network. One specific innovation to facilitate re-engagement in LICUS in non-accrual has been the development of the Country Re-engagement Note (CRN), a strategy instrument which focuses on analytical work, capacity-building and small demonstration projects, and has a strong emphasis on upstream socio-political analysis and collaboration with other donors. This form of strategy instrument has been used in Haiti, Somalia and Sudan.

14. **Administrative budget.** The LICUS Task Force stressed that knowledge work should be strengthened and regularly updated in LICUS situations. An important institutional change has therefore been the de-linking of administrative budgets for
economic and sector work and technical assistance from lending volumes, in recognition of the importance of maintaining analytical and capacity-building work in LICUS, even while lending is low. Where countries have developed innovative new strategies and work programs, regions have also made strong efforts to ensure that these strategies are appropriately resourced. As a result, declining administrative budgets for non-lending work in LICUS have been reversed: LICUS focus countries are currently funded at or above previous years’ levels. This allows the Bank to rebuild or maintain its knowledge base in LICUS, increasing readiness for fuller re-engagement, and enhancing the effectiveness of development interventions in more stable LICUS.

15. **Human resources.** The Task Force also recognized that many LICUS country teams have had difficulty in the past in attracting the strongest and most experienced staff, as many staff did not view involvement in LICUS programs as positive for their career paths. Equally, some country teams have had dedicated and highly professional staff working in the most difficult environments without recognition. The human resource department is therefore putting in place a strategic staffing and rotation plan for LICUS, which involves quarterly reporting on technical and managerial vacancies in LICUS and increased use of corporate managed recruitment to fill key vacancies. In addition, proposals are under consideration to improve incentives for staff who work in these difficult environments and to increase recognition for work on LICUS in promotion criteria.

16. **Performance measurement.** Measuring country performance is of particular importance for LICUS, which are defined by their low ratings against the Country Policy and Institutional Assessment (CPIA), with particular weight to the governance cluster. The application of the World Bank’s performance-based allocation system to LICUS has been examined by OPCS and FRM, with findings reflected in the IDA Mid-Term Review. This analysis highlighted the difficulty of accurately measuring country performance in LICUS, where data is often weak or lacking. It was also observed that certain features (for example, absence of a ‘1’ rating) limit the sensitivity of the CPIA to basic performance improvements in LICUS. Revisions to recognize basic performance improvements at the bottom of the spectrum and increase the use of different data sources are being considered in planned and on-going work to review the methodology and process of the CPIA. An enhanced process of review for the Post Conflict Progress Indicators (PCPI) and refined guidance on PCPI ratings are also under development for FY05.

17. **Financing instruments.** Regarding financial allocations, analysis shows that the more stable, active LICUS and post-conflict LICUS already have access to appropriate levels of resources through the IDA 13 framework. However, LICUS in non-accrual are constrained by lack of small transitional grant instruments to support early reforms in advance of arrears clearance (as described in paragraphs 8 and 9 above), and in some cases, by prospective severe net negative transfers following arrears clearance. It is in this context that the attached proposal for a LICUS Implementation Trust Fund has been

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6 While allocation volumes for post-conflict LICUS would stay the same, IDA deputies welcomed, at the November 2003 IDA13 Mid-Term Review, a proposal to stretch out the extra Post Conflict allocation from 3 to 4 years and extend transition to normal PBA from 2 to 3 years, commensurate with the recommendations of the LICUS Task Force Report.
developed. The Trust Fund would enable the Bank to provide a modest level of grant financing to (a) support the implementation of early policy and institutional reforms\textsuperscript{7} to improve performance and facilitate re-engagement with the international community, and; (b) support multi-donor efforts to address urgent service delivery needs, especially capacity building for HIV/AIDS. In addition, and at the request of IDA Deputies, a section on the framework for IDA allocations to LICUS will be prepared as part of the IDA 14 performance-based allocations paper to be circulated in February 2004.

18. **WBI support.** Commensurate with the Task Force emphasis on capacity-building, the World Bank Institute (WBI) has undertaken a significant increase in its support for LICUS capacity-building needs, with eleven LICUS among the WBI focus countries in FY04. WBI activities in LICUS include capacity enhancement needs assessments, training of government officials, media, parliamentarians and civil society, and efforts to increase connectivity and use of distance learning. WBI is also working with the LICUS unit to pilot leadership seminars which aim to expose senior leadership in LICUS to the lessons of successful reform or recovery processes in other countries.

19. **Other institutional support.** Other parts of the World Bank Group have also engaged positively with the LICUS agenda. The Highly Indebted Poor Countries (HIPC) unit is working closely with OPCS on an assessment of challenges to progress in reaching the HIPC decision point for the remaining HIPC-eligible countries (the majority of which are LICUS). The International Finance Corporation (IFC) has initiated a study on private sector response in the absence of state institutions in Somalia and is preparing toolkits on natural resource management and private sector development in post-conflict LICUS. The Human Development Network and the World Development Report team have provided special clinics to LICUS country teams to help them operationalize the WDR recommendations. The Poverty Reduction and Economic Management anchor has collaborated on seminars on aid and governance reform in LICUS at the Spring and Annual Meetings. The Social Development group is working on instruments to analyze and mobilize civil society capacities in LICUS.

20. **Next steps.** The coming year will see completion of on-going institutional work on the performance measurement system to enhance its application to low-capacity environments, as well as, pending approval from Board and the Board of Governors, the establishment of the LICUS Implementation Trust Fund to assist the most severe LICUS. Work underway on staff incentives will also be brought to completion. In addition, OPCS will collaborate with other units to develop a set of guidance notes on LICUS operations, to facilitate learning and innovation in upcoming strategies. Likely topics of these notes include socio-political analysis; service delivery; natural resources revenue management; harmonization; and results. Lastly, work will be initiated to modernize the World Bank's policy and procedures for emergency situations to enable a faster and more effective response, specifically through revisions to Operational Policy/Bank Procedure 8.50, *Emergency Recovery Assistance*.

\textsuperscript{7}Specifically actions which relate to performance indicators in the CPIA and or PCPI.
IV. Research and Partnerships

21. **Renewed focus on research.** At the time of the LICUS Task Force report, conceptual thinking and research on LICUS environments had run substantially ahead of operational practice in the Bank. The first year of implementation therefore focused on mainstreaming the LICUS approach in country strategies, dialogue and partnerships undertaken by Bank country teams. With this work well underway, there is now a demand for further research to deepen the approach developed by the Task Force and feed back into country strategy and partnership work.

22. **Collaborative work through the OECD-DAC.** The primary vehicle for collaborative work on policy and research is the Learning and Advisory group (LAP) on “difficult partnerships”, established in 2003 by the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD-DAC) and co-chaired by the World Bank. The aim of the LAP is to bring together donors - several have new programs underway to find new approaches to working in LICUS - to share ideas, research, and lessons learned. This group agreed in October 2003 on a shared agenda of research on two key themes in LICUS: donor coordination and aid allocations. The Bank agreed to take the lead on the latter theme.

23. **Bank research.** In addition to research under the auspices of the LAP, complementary research is also planned in order to strengthen the conceptual foundations of the World Bank’s approach to LICUS. Planned research topics are: (a) the political economy of reform in “turnaround” countries, to examine the dynamics of reform and aid in cases where countries have successfully exited from poverty or crisis or where reform has been more constrained; and (b) analysis of the experience of the Poverty Reduction Strategy (PRSP) approach in LICUS. This work is being conducted jointly with the United Kingdom’s Department for International Development (DFID), in close synergy with the Poverty Reduction and Economic Management (PREM) and the Environmentally and Socially Sustainable Development (ESSD) Networks’ research on PRSPs and conflict. Lastly, the Bank is commissioning a study on early warning indicators for deterioration in policies and institutions and, ultimately, state failure, which will aim to improve risk analysis in country strategy development.

24. **Country partnerships.** Collaboration with partners on policy and research is complemented by strong partnerships at the country level. From the outset, it has been recognized that World Bank engagement in LICUS depends on effective partnership with bilateral and multi-lateral partners and the United Nations (UN) system. Four of the initial LICUS focus countries have developed their strategies in close collaboration with UNDP (Angola, Central African Republic, Somalia, and Sudan). Engagement with partners at the earliest stages of strategy development is a key lesson of these first pilots. Efforts to apply this lesson are being made in FY04, for example through planned joint assessment missions in Sudan, Togo, Central African Republic and Liberia; and through intensive dialogue with donors on scenario planning, aid priorities and modalities in Comoros and Zimbabwe.

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* Partners use different vocabulary to define the challenges being addressed by the LICUS initiative and to refer to countries that the World Bank calls LICUS. The terms in use include: “difficult partnerships” (DAC), “poor performers,” “recovering, failing or failed states” and “difficult environments”.

V. Measuring results of the initiative

25. **A high-risk, long-term initiative.** LICUS engagement is high risk: as with experience in the FY03 pilots, a significant proportion of LICUS countries will face policy reversals, renewed conflict or political instability. Nor are LICUS situations generally susceptible to quick fixes. It is expected that the Bank and other donors will need to maintain engagement and follow through on new approaches for several years to support sustainable gains.

26. **Evaluating results.** The LICUS initiative is at too early a stage of implementation to evaluate results on the ground: the first group of focus countries started implementation of their new strategies for the most part only in early FY04. A variety of indicators will be tracked in FY04, FY05 and FY06 to provide a basis for a structured evaluation of results. These include: the number of multi-donor approaches in place in LICUS; changes in the CPIA or PCPI performance measurement ratings; changes in portfolio ratings; progress against results specified for key projects, and; for the most severe LICUS in non-accrual, progress in credible reform programs leading to arrears clearance and international re-engagement. The Bank will also collaborate with other donors such as UNDP to evaluate the success of multi-donor approaches.

VI. Conclusion

27. LICUS implementation is now well underway, with significant progress already having been made in operationalizing the findings of the Task Force report through new country strategies, and through institutional adjustments to support implementation. The coming period will see continued focus on country strategy and implementation support, the completion of several key institutional initiatives, and a renewed focus on collaborative research with other donors. As the Bank’s experience with LICUS increases, new questions emerge (for example on aid modalities, and measuring results) and these will help shape the agenda for the upcoming period.
INNOVATIVE ELEMENTS IN LICUS FOCUS COUNTRY STRATEGIES

Meeting the special challenges of LICUS requires a different type of engagement than in normal Bank programs. This document describes some of the more innovative elements contained in several of the early LICUS focus country strategies.
TAJIKISTAN - COMBINING TOP-DOWN AND BOTTOM-UP APPROACHES TO BUILD MOMENTUM FOR REFORM

The removal of subsidies, weakening infrastructure, and gaps in service delivery have created deteriorating socioeconomic conditions in Tajikistan in the wake of the breakup of the Soviet Union. The public administration suffers from widespread perceptions of corruption and lack of transparency, although a reasonable level of administrative capacity exists. There are many successful small NGO and community-based initiatives, but these are fragmented and have had little success in affecting the macro governance environment.

In these circumstances, one of the great challenges facing donors in Tajikistan is how to operate at a scale that substantively improves the lives of the country’s citizens. Building bottom-up demand for better public services can stimulate a society’s demand for accountability and thus capacity for broader change. However, in contexts with greater political stability and institutional capacity (relative to other LICUS which score lower on the CPIA), there may also be opportunities to simultaneously link such bottom up approaches with top down institutional reform within the same sector, with reinforcement from regional initiatives. The better services and improved public management which result can serve as a demonstration of good public management within government as well as strengthen a constituency for reform among the public.

Tajikistan’s country assistance strategy is built around the unusual combination of policy-based lending with associated analytical work and technical assistance, together with sectoral community-based programs: the most “macro” of the Bank’s instruments twinned with the most “micro”. Through this approach the CAS tries to support the scaling up of capacity and voice within communities to address Tajikistan’s severe economic, social and governance problems. The Tajikistan strategy is also reinforced by efforts at the regional level: the Bank has created a Central Asia CDD working group, which is conducting a regional review of the best approaches to CDD, and has held a regional competition -- Innovation Day -- to identify innovative ideas in CDD.

Top-Down and Bottom-Up Approaches to Build Momentum for Reform

NATIONAL LEVEL
Policy dialogue, leadership exposure to other country models, selection of reforms for PRSC, institutional capacity-building, public financial management, training and information campaigns

IMPROVED SERVICE DELIVERY
IMPROVED INCOMES THROUGH SUCCESSFUL POLICY REFORM

COMMUNITY-LINKED DEVELOPMENT
Community contracting of local infrastructure, management of aspects of social service delivery, monitoring of social service delivery, monitoring of policy reforms, exchange of replicable initiatives between communities
Program design is in an early stage – this multi-level approach could work in Tajikistan in a variety of ways. A number of hypothetical examples are given below:

- **Macro/micro support for policy reform.** On critical policy reform initiatives such as farm privatization, a combination of national dialogue, exposure to models from the region and other countries, technical assistance and information campaigns could be twinned with community-based initiatives to monitor an agreed reform process, targeting the equity and transparency of the process and guarding against corruption and elite capture;

- **Macro/micro support for improved social service delivery.** National initiatives to improve budget allocations, implement diagnostics such as public expenditure tracking surveys and subsequent action plans, disseminate information on national statistics and outcomes in comparison to models from other countries, and improve the training and management of public sector employees could be twinned with community-based initiatives to monitor teacher or health-worker attendance and performance, manage maintenance budgets, textbooks or pharmaceutical stocks, and priorities and construct additional local social infrastructure.

- **Macro/micro support for improved agricultural productivity.** National initiatives on budget allocations and expenditure tracking, irrigation policy, or improved quality of extension services could be twinned with demand-driven community contracting for irrigation projects or technical assistance.

These examples have in common that: (i) they move community-based initiatives out of a narrow role in the construction of local infrastructure to a wider role in service delivery or policy reform; (ii) they rely on a combination of building national momentum for reform, within and outside government, with community-based initiatives to help ensure that reforms are implemented as intended and improve direct accountability at the client-service provider level. Over time, these could be gradually scaled up to strengthen the voice of poor people in policy formulation – but this takes time, and a good first step would be to increase accountability of local services and reform initiatives.

The choice of which initiatives constitute appropriate entry points for the macro/CDD approach envisaged in the CAS will depend on sound socio-political analysis of the environment for successful reform. Efforts to improve high level dialogue – such as leadership seminars – and implement a strong EXT/outreach initiative are also likely to be critical to generate support for the approach, in particular from government but also from other key stakeholders.

*For more information, please contact Ross Pavis*
CENTRAL AFRICAN REPUBLIC – UPSTREAM DONOR COORDINATION

The Central African Republic has endured political and military upheavals from 1996 to the present day, and most recently a coup d'etat in March 2003. Poor governance has eroded the legitimacy of CAR’s political institutions and paved the way for popular support for violent revolts. The administration has historically been centralized, with little communication between the governors and the governed. Recurrent crises in the public finance system – in particular the repeated accumulation of salary arrears – have fostered widespread discontent, particularly amongst the army and the civil service.

These unfavorable social and political conditions have frequently interrupted implementation of development projects and caused loss of assets and project resources. Performance of World Bank projects has generally been unsatisfactory in the past, according to implementation completion reports, due to the lack of institutional capacity by government and lack of continuity in country knowledge. In recent years, arrears on debt service have accumulated and the Bank and many other donors have been disengaging.

Taking a new approach, an upstream multi-donor mission – jointly undertaken with UNDP, the World Bank, and other UN agencies in close collaboration with bilateral donors – traveled to Bangui in March 2003. The central objective was to identify two or three entry points for reform where visible and quick results could be obtained, and to work towards donor consensus in the preparation of the medium-term strategy. Although the mission was cut short by the coup d'etat, it resolved to work on several highly focused impact actions aimed at enhancing socio-economic recovery. Once the most pressing post-conflict concerns of national reconciliation, demobilization, and security sector reform are underway in the wake of the coup, rapid action in the area of governance, public administration, and public finances can underpin political developments and help catalyze successive reform. Possible specific entry points include civil service appointments, salary payments, pilot decentralization, and transparent natural resource revenue management.

Civil Service Appointments

Senior civil servants employed in state institutions are widely viewed in CAR as representing the regime in power rather than national interest. Under the rule of General Kolingba, appointments to senior positions were dominated by people of the Yakoma ethnic group from the south of the country. Under President Patasse, most ministers and heads of civil service came from the north. Significant numbers of experienced civil servants from the Yakoma group were implicated in the mutinies of 1996/97 and the coup of May 28th 2001 and fled to the neighboring countries or to France, weakening the civil administration. Political instability has exacerbated nepotism, corruption, and lack of transparency in the management of public resources in the civil service.

- Rapid establishment of new civil service procedures for merit-based senior appointments in the civil service – with appropriate compliance mechanisms – would bring together the often competing interests of the public trade unions, national leadership, and the exile community while addressing long-standing tensions closely tied to the country’s political instability.

Salary Payments

Mismanagement of public finances and the accumulation of repeated salary arrears has been a crucial source of instability in CAR. Public workers' salary arrears reached 7 percent of GDP in 2002, leading to a teacher’s strike that closed most public schools. The civil service in CAR is not particularly large, although wages are relatively high in relation to average national income.

- While CAR is unlikely to have the resources to repay even a small part of its salary arrears, the establishment of effective systems for the timely payment of current salaries – accompanied by reforms to ensure the sustainability of the wage bill – should be possible to accomplish in a relatively short time-frame. Such reforms would support improvements in political stability and service delivery for many citizens of CAR.

Pilot Decentralization

A new constitution adopted in January 1995 called for decentralization and the empowerment of local communities. However, local elections have not yet taken place due to political instability. CAR has historically decentralized very
little of its public expenditures to the commune level. Low transfers from the center have meant that only communes with their own revenue sources – typically from taxing natural resources – have been able to implement strong local development plans. Yet communes have fairly well-developed systems of budgeting and expenditure-tracking, and experience of management of services, in particularly in the health sector.

- Implications of decentralization for public expenditure management need to be studied to identify appropriate institutional arrangements. However, building on existing local capacity to pilot the decentralization of further personnel and maintenance budgets – accompanied by small development funds – would send a positive and visible signal to the population regarding their involvement in CAR’s reconstruction.

**Transparent Natural Resource Revenue Management**

CAR has significant diamond-producing capacity, but up until relatively recently had acted as a route for illicit diamond transit and trade, while succeeding in taxing relatively little of its own production. The previous government had taken important positive steps to comply with the Kimberley process for certification of national origin.

- Continuation of the Kimberley process, including the contracting of independent capacity for valuation of diamonds and certification of origin, would both boost state revenues and send an important signal to the international community on good economic governance.

**Analytic Work**

The donor mission also identified joint analytic work to support the identified entry points and which built upon prior analysis on the management of public finances supported by the European Union and on governance by UNDP. The mission proposed joint reviews in the following thematic areas:

- conflict risk analysis and resolution;
- demobilization and security;
- public financial management and governance;
- the provision of social services;
- natural resources management (mining and forestry); and
- challenges and prospects for economic growth and poverty reduction.

It was proposed that the basic structure for each review would consist of an assessment of the current status in these areas; a discussion of key constraints including exogenous and policy factors; and a selected set of issues for policy discussions and recommendations for action in the short, medium and long terms, taking into consideration the impact on consolidation of peace, poverty and gender.

Although part of this work was undertaken prior to the March 2003 coup, the entry points identified to assist the country in recovery and re-engagement with the international community remain high priority. The Bank plans to conduct a joint planning mission with other donors and in close consultation with the IMF in early 2004 to take this toward.

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**Combined Effort...... Rather than Fragmentation**

![Diagram](https://via.placeholder.com/150)
ANGOLA – THREE-PRONGED APPROACH TO IMPROVING NATURAL RESOURCE REVENUE MANAGEMENT

In a highly selective program in Angola, the Bank is using a three-pronged approach to improve control of oil revenues. It is working with the central government to improve transparency of budgets and accounts; with oil companies to improve the transparency of contract provisions and payments; and with civil society, media, and Parliament to increase domestic capacity to scrutinize the use of resources.

Primary commodity exports – largely oil and diamonds – comprised nearly 70% of Angola’s GDP in 2001, and one index ranked Angola as the tenth most corrupt country in the world in 2003. Although the April 2002 peace agreement ushered in a new period of potential reform and progress, Angola has a weak governance record. Improved transparency, efficiency, and credibility of public resource management is therefore a key feature of the Angola country strategy.

Three-Pronged Approach to Increasing Scrutiny of Oil Revenue

To strengthen central government capacity, the Bank’s strategy features the following components:

- A Public Expenditure Management and Financial Accountability Review (PEMFAR) will assess accountability procedures in Angola and identify areas for improvement, with particular focus on the budget cycle (preparation, execution, control, accounting, and auditing), resource mobilization, external audit, parliamentary oversight, accounting, and the payments system.

- Economic Management Technical Assistance (EMTA) - $17 million IDA credit will help the Government to increase transparency in public resource management. It will strengthen the internal control capabilities of the Ministry of Finance; the ability of the Ministry to generate reliable information on the state's non-financial assets; public debt management, control and recording; the overall planning process and establishment of clear guidelines for monitoring and auditing the execution of the Public Investment Program; and the collection, analysis and dissemination of key socio-economic data.
An ongoing *Country Procurement Assessment Report (CPAR)*, whose implementation the EMTA project will support, will help to establish procurement procedures and practices that are consistent with international standards.

The strategy also contains two key components which will serve as entry points to dialogue with the private oil sector:

- **An ongoing diagnostic study of the oil sector**, commissioned by the Ministry of Finance in 2000 with partial financial support from the Bank, aims to help improve transparency in oil revenue management. It will enable more accurate projections of oil prices, export volumes, and state revenues; design and installation of a monitoring system; assessment of production, export metering, and financial management and procurement in the sector; and recommendations for institutional and regulatory reforms.

- **A study on Corporate Social Responsibility** will focus on enhancing the social investment and community development efforts of oil companies. Oil companies will be sensitized to the importance of transparency and good governance with a view to reducing the collective action problem that currently discourages greater transparency by any individual company (i.e. if any one company attempts to implement more transparent policies, its competitive position may be compromised).

Finally, the capacity of media, Parliament, and civil society will be strengthened to scrutinize natural resource revenues through:

- **Training and awareness-raising seminars and workshops supported by the World Bank Institute (WBI)** on governance and transparency issues for Parliament and the media focusing on natural resource management.

- **Diagnostic results of the PEMFAR** – with its focus on parliamentary oversight – will be used to plan future interventions to strengthen the capacity of Parliament.

- **A cross-country oil revenue management study** will address the serious social and economic under-performance of oil-dependent economies, including Angola. Specifically, the study will address issues of revenue collection, management, and distribution. Expected outputs will include reference materials and stakeholder workshops, one of which is expected to be held in Luanda. This work will involve private sector dialogue and be pursued in close coordination with WBI's natural resource management program.

- **Civil society involvement in the scrutiny of natural resources revenue** will be supported in the context of the PRSP process.

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SOMALIA – STRATEGIC REENGAGEMENT

The World Bank, UNDP, and FAO have launched a joint project for the certification of livestock for export in Somalia. This small but innovative initiative seeks to stimulate demand for governance by demonstrating the benefits of nationally-coordinated provision of a public good in a sector which is vital for the society and economy.

Somalia is one of the world’s poorest countries due to civil war and state failure for over a decade. GDP per capita is estimated to have declined from US$280 in 1989 to US$266 in 2001, and it is estimated that the vast majority of the population lives below the poverty line. At the extreme of the LICUS continuum of countries, the Bank has not had an active portfolio in the country since 1991.

Despite the absence of a Somali state and its institutions, the private sector has managed to grow impressively, particularly in the areas of trade, commerce, transport, remittance and infrastructure services, and in the primary sectors, notably in livestock, agriculture, and fisheries. The vibrant private sector has a vital role to play not only in economic prosperity, but also in strengthening governance and supporting social services in a more stable setting. However, further growth is hindered due to lack of investment, trained manpower, and relevant legal and regulatory frameworks to enforce rules and regulations, common standards, and quality control.

A lack of a regulatory framework is particularly damaging in the livestock sector. Accounting for 40% of GDP and 80% of exports in normal years, livestock remains the main source of livelihood. However, outbreaks of livestock disease, including Rift Valley Fever, and bans imposed by importing countries in the Gulf region, have periodically interrupted exports. The latest ban in this series was imposed in late 2000 and is yet to be lifted by Saudi Arabia, which has traditionally accounted for 95% of Somali livestock exports.

Building on the ongoing efforts of UNDP, FAO and other agencies in this sector, the World Bank Somalia re-engagement strategy will feature a project to strengthen recognized certification and disease control procedures, such as vaccination, in the livestock sector. At the same time, the sector will be progressively diversified to export other fresh and processed meat and livestock products. A capacity-building component will ensure long-term sustainability by building the skills of Somali professionals.

The project will have a number of important impacts. In the nearer term, the project provides services in a sector that is central to Somali culture and incomes, responding to the needs and interests of a wide cross-section of Somalis and supports in particular the private sector which presents a viable constituency for continuing reforms. In the long term, diversifying the meat trade and supplying an ever-widening range of markets will reduce the current over-reliance of the Somali pastoralist on one commodity and a very limited market. Moreover, the project aims to bridge regional divides in the country, uniting regions’ common interests and providing strong incentives to collaborate.

Zero-Generation Reform Strategy
A key concern in “zero-generation” strategies such as Somalia’s is the next step. In practice, how does one build on the momentum of non-divisive reforms with broad impact and quick payoff to launch a “virtuous circle” of reforms which build longer term capacity to provide public goods? In the case of Somalia, the project is considering the establishment of an independent Somali body to develop more comprehensive standards for inspection and certification, further strengthening the regulatory framework needed to help the livestock sector to develop. This structure would consist of regional authorities, private sector, and civil society stakeholders.

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Papua New Guinea — Linking Analytical work Directly to Government Reform

The 2003 PNG Public Expenditure Review was designed from the start to support the Government budget and public finance reform process. During consultations with the Government on the scope, content and process of the PER, the Government presented its Medium Term Economic and Fiscal Outlook (2002-07) and the Medium Term Development Strategy (2003-07) and proposed that the PER focus on helping the Government implement these strategies. Government emphasized that: the proposed task should: result in specific public finance management reforms (which would be reflected in the budget for 2004) rather than being oriented towards report production; focus on developing a medium-term fiscal framework covering the period 2004-07 to be integrated with the budget for 2004; reflect Government ownership, with technical assistance provided by the World Bank and other donors.

The Government tasked a sub-committee of the Cabinet, the Budget Committee, under the chairmanship of the Treasurer, with the responsibility for designing and implementing a reform agenda to put the fiscal situation on track and to restore the integrity of budget management systems. The PER work will provide analytical underpinnings to the reform work. Additionally, the Government created a PER Counterpart Team to work with the donor team, headed by the Deputy Secretary, Treasury, and comprised of the Deputy Secretaries of Finance, Planning, Personnel Management, Prime Minister’s Office, the National Economic and Fiscal Commission, and staff of the Public Sector Reform Management Unit.

The Bank and other development partners share the Government view that the PER must be a process-driven exercise aimed at designing a reform process and helping the Government implement the reforms, rather than a traditional task geared towards producing a report. The process is intended to support engagement, foster ownership, and result in implementation. The approach includes producing short, focused discussion/policy papers on specific themes, and presenting issues and options to facilitate informed and structured discussion and debate.

Donor agencies actively involved in the task are the ADB, AusAID, IMF and the World Bank. The World Bank coordinates the overall effort on behalf of the donor team. The IMF produced a paper on fiscal sustainability in collaboration with the Bank. Both ADB and AusAID have been consulted and support the broad thrust of the PER. AusAID contributed through (i) its existing consultants in the relevant agencies and departments; and (ii) topping up the consultant trust fund to finance additional consultants. ADB agreed to participate and provide resources for consultant services.

The PER benefited from the substantial amount of already available work on PNG’s fiscal and governance problems, which provided a valuable base to build upon. Indeed, the task of the PER was viewed as not breaking fresh ground as much as pulling together the relevant extant material, reviewing it, and developing a roadmap for implementing financial management reform in a consistent framework.