

## VII. CUSTOMIZING CAS PRODUCTS TO COUNTRY CIRCUMSTANCES

1. The Bank works with clients to reach a shared view about the priorities for Bank financial and knowledge products so that it can provide customized development solutions to an increasingly diverse range of countries, with specific needs and diverse demands for Bank services. Two of the most challenging client segments for country strategy products are IBRD countries, particularly MICs, and fragile and conflict-affected states—which are largely IDA-eligible. This chapter examines recent practice among these two sets of clients, demonstrating the extent to which CAS products are flexible and practical.

### A. Customization for IBRD-eligible countries

2. Many MICs have successfully fostered economic growth and poverty reduction, improved policies and institutions, and attracted cross-border flows of private capital. Thus IBRD partner countries are very diverse—ranging from countries that will soon join the group of advanced market economies to countries with weak policies and institutions and limited creditworthiness. This changes the circumstances for WBG engagement in two important ways: first, the spectrum of development challenges across IBRD partner countries has broadened in this diverse clientele; and second, as clients' options for sourcing financial and analytic services have increased and they have strengthened their capacity for dealing with traditional development challenges, governments have become more selective about program areas for which they seek Bank Group support and more discerning and less predictable in their demand for services. These changes affect the design of country strategies in MICs—particularly the selectivity of the support program, the responsiveness to changing client requests (program flexibility), the lending envelope (financial flexibility), the funding of nonlending services, the coordination of support across the WBG, and the articulation of results for which the Bank Group can be held accountable.

#### *1. Challenges of Diverse IBRD Country Circumstances*

3. IBRD CASs reveal that in most countries, the government priorities continue to focus on traditional development challenges (Box 14)—but with an increasing emphasis on second-generation issues such as strengthening public sector management in subnational entities, addressing issues of social exclusion and income inequality, attracting private sector participation in public infrastructure, and improving energy efficiency. The CASs also show that new challenges are coming to the fore in the most successful IBRD-eligible countries, including the need to accelerate technological and business innovation, attend to global climate change and other cross-border externalities, and grow into the role of donor to other developing countries.

#### **Box 1. Development Challenges in IBRD CASs**

The CASs show that the combination of challenges varies from country to country, but that there are distinct patterns among subgroups of countries.

**Common themes.** Frequent government priorities across CASs include strengthening public sector management, with the emphasis often on improving the ability of subnational governments to deliver local services in a fiscally sustainable manner and/or on raising the level of public accountability (e.g., in Argentina, Brazil, Bulgaria, Chile, China, Macedonia, Peru, Romania, Russia, and Ukraine); reducing poverty, with the emphasis often on addressing inequality, including regional disparities and/or the

inclusion of minorities (e.g., in Brazil, Bulgaria, Chile, China, Colombia, Jordan, Panama, Peru, Romania, and Russia); private sector development, with the emphasis on strengthening the country's competitive position (e.g., in Argentina, China, Colombia, Macedonia, Russia, and Serbia); and closing infrastructure gaps, with attention to attracting private sector participation (e.g., in Argentina, Chile, China, Lebanon, Panama, Peru, and Russia). Most CASs also highlight the need for improved governance and note government concern with the national environmental impact of development projects.

**EU convergence.** In the subgroup of European countries focused on convergence with the European Union (Bulgaria, Macedonia, Montenegro, Romania, and Serbia), maintaining macroeconomic and fiscal stability remains a high priority, as does the completion of structural reforms needed to underpin private sector-based growth. The CASs for these countries also point to the need for strengthening institutional capacity to improve public financial management, social service delivery, and the ability to absorb EU funds. These countries also are increasingly concerned about energy security and energy efficiency.

**New themes.** In the subgroup of countries with a record of strong growth and broad-based capital market access (Chile, China, and Russia) the dominant challenges highlighted in the CASs include maintaining high growth, entering the group of advanced market economies, and dealing with climate change. Government priorities to that end include technological and business innovation, development of the knowledge economy, further integration into the world economy as a tool for growth, social mobility, and modernization and the development of market institutions needed to gain from globalization. In addition to the environmental management of domestic programs, China, Colombia, Mexico, Peru and Russia also give priority to global public goods issues.

**Other themes.** Many government priorities are country-specific: for example, Russia's emphasis on creating points of growth as part of regional development, Mauritius' concern with the environmental impact of tourism, and Argentina's challenge to restore financial intermediation, public/private partnerships, and the social protection system after a devastating debt crisis. A number of countries (Lebanon, Jordan, Macedonia, and Panama) note concerns about rising unemployment.

4. **Selective Demand.** Some IBRD-eligible countries have advanced enough that they can finance development programs from their own resources or access commercial funds at costs that, before the financial crisis of 2009, were roughly comparable to MDB funds. They also have acquired analytic and technical capacity for dealing with traditional development issues and can afford to purchase consultancy services for more complex tasks. Some countries in this group, including new members of the EU, have graduated from IBRD, and the Bank no longer prepares CASs for them. But more are holding on to the option of calling on IBRD, increasing their demand for knowledge services and technical assistance (e.g., Russia and South Africa); and others continue to value the institution's package of bundled services (e.g., China, Colombia and Brazil). Most countries also have maintained—and some (e.g., China and Russia) have increased—their demand for IFC's services. Increasingly countries also use the financial advisory services of the Bank's Treasury and the foreign investment services of FIAS, the Bank-IFC unit.

5. **Implications for CAS Design.** The desire for selective Bank engagement is common to well-performing IBRD partner countries. This matters for CAS design, as demand selectivity may constrain the Bank's ability to be selective about what it will support; increase uncertainty about future demand, calling for additional flexibility in the composition and the financial envelope of the programs; and/or increase the share of client-requested nonlending services in the support package, raising issues of funding. But the CASs for Chile, China, and Russia show differences in governments' approaches to selectivity that are relevant for CAS design: Chile

preselects particular components and subcomponents of its development program for Bank Group involvement, China relies more on criteria for project selection irrespective of program components, and Russia focuses demand on new services, not available elsewhere, that help it resolve particular problems (see Box 15).

### **Box 2. Selectivity in the Demand for Bank Group Services**

The governments of Chile, China, and Russia use the option of calling on IBRD in distinct ways that affect the circumstances for CAS design.

**Chile.** The CAS reports that the Government of Chile has identified six program components where it sees value in Bank services, leaving out areas of past Bank engagement such as health, regional development, and social inclusion. Within the components identified for Bank involvement, the government limits requests to subcomponents where it perceives gaps in its own knowledge or technical capacity. Examples include infrastructure, where it asks the Bank to help with urban transport, but not with energy and housing; public sector management (integrated financial management, but not devolution of functions to local governments); and sustainable development (carbon finance and ecological services markets, but not agricultural export development). While the Bank would be able to provide valuable services in the areas not selected and could build on past activities in the country, the government prefers to draw on its own resources or those of other service suppliers.

**China.** The CAS reflects the Government's criteria for the selection of projects for which it will request Bank funding: that they be innovative and complex, have a policy and institution-building component, be suitable for learning and for scale-up, and draw on IBRD expertise for which there is no perfect commercial substitute. The criteria guide the upstream dialogue between the Bank and the government on the pipeline of operations. This approach puts few constraints on the Bank's own selection of areas for support; it also limits uncertainty about demand for services over the CAS period.

**Russia.** The CAS notes that the federal government demands diversified services in accordance with its status as one of the most sophisticated MIC clients. The focus is on services unavailable elsewhere. Examples include on-time advice on international experience with a wide range of policy issues; advice on and technical assistance for new activities such as the establishment of domestic development institutions, Russia's emerging donor role, development of a carbon market, and specific activities under the climate change and biodiversity conventions; and design and management services for public investment projects that involve only little or no Bank funding. This approach to selectivity poses few constraints on the Bank's selection of program areas to support, but creates considerable uncertainty about service requests over the CAS period.

6. ***CAS preparation and implementation during the financial crisis.*** CASs lay out an indicative program of Bank assistance over a 3-4 year period. They are expected to reflect the Bank's response to developments that can be anticipated given information available at the time the CAS is drafted. However, few anticipated the financial crisis that developed in late 2008.

7. Most Bank Group's Country Assistance Strategies in place over the past year had been designed at a time of global macroeconomic stability, economic growth, and increased access to financial markets by IBRD-eligible countries. Many CASs – in particular IBRD CASs and CPSs outlined Bank programs emphasizing knowledge services and had lending programs that were at times ill-defined or highly uncertain. As pricing was adjusted in 2007 (and left unchanged in 2008), and the Bank launched implementation of its Middle-Income Strategy, demand for IBRD borrowing increased. Subsequently, the financial crisis resulted in a further, sharp increase in demand for IBRD.

8. The financial crisis that developed in late 2008 hit many Bank Group members hard, especially those that were more integrated in global financial markets. The drying up of credit, reduced remittances, and lower export demand affected financing needs and sharply reduced growth throughout the world. IBRD countries, more integrated in international financial markets and relying more on export demand than IDA-eligible countries, were directly and immediately affected by the financial crisis and global recession that followed it. IDA countries had been affected significantly by the food and fuel crisis, but with a few exceptions so far have been less affected by the financial crisis – reflecting their lesser degree of integration with financial markets.

9. The financial crisis resulted in an unprecedented demand from governments of IBRD countries. With a few exceptions, IBRD countries entered the crisis with stable macroeconomic outlooks. Demand resulted from governments' attempts to sustain reforms and core expenditure programs that would otherwise need to be cut. Some launched fiscal stimulus and safety net programs to sustain growth and protect vulnerable populations. In some ECA countries (Hungary, Latvia), the financial crisis exposed vulnerabilities and imbalances that preceded it, and the Bank was asked to join the IMF and other partners in addressing them.

10. As the financial crisis ensued, the Bank sought to respond to the urgent demands of its members by adjusting the country strategy to the new circumstances and urgent needs. Bank Senior Management kept a close dialogue with the Executive Board, including frequent Board briefings and discussions. During those briefings, Management informed the Board that Bank assistance would need to depart from that outlined in CASs, sometimes significantly, and provided early information on operations under preparation. In most cases, operations under preparation – in particular DPLs – were accelerated or brought forward, and the size of the operation increased. As members called on the Bank to scale up its assistance, and uncertainty about the outlook remained high, some teams chose to delay CAS preparation – as it was difficult to prepare a mid-term indicative strategy under heightened uncertainty. It is expected that FY10 will reflect a catch up in CAS and other CAS product preparation.

## ***2. Selectivity and Flexibility in IBRD Programs***

11. A basic principle of Bank engagement is to support the government's development strategy: the Bank seeks to respond to the client's demand for development services and does not plan operations outside the government's program or in areas where the authorities see no need for support. Within these confines, however, the support program is expected to be selective; focusing on areas in which the Bank Group can best serve the country's development and poverty reduction needs while taking into account the activities of other development partners. The selection is informed by the Bank's own diagnosis of the country's development situation and needs, which is informed by economic and sector work and summarized in the CAS. Together with an analysis of the government's strategy, the diagnosis allows the CAS to identify the areas of the government's program that most merit support and also point out areas where the Bank could more usefully engage in policy dialogue and advocacy. Particularly in countries where government demand for services is highly selective and/or uncertain, the absence of an independent Bank diagnosis could leave the Bank ill-prepared to ensure that its response to requests best serves the country's needs. A review of selectivity in the CASs shows the importance of independent diagnosis for the quality of the strategies (see Box 16).

### Box 3. Selectivity in Bank Group Support Programs

CASs show three basic patterns in selecting government priorities for support through the WBG program. The distinguishing feature is the use of Bank diagnosis of the country's key development challenges.

**Explicit diagnosis.** Six CASs provide a substantive summary of the Bank's diagnosis of the country's major development issues (Argentina, China, Lebanon, Macedonia, Russia, and Ukraine) and a separate analysis of the government's development strategy. (The CAS for Romania provides a diagnosis for the more limited range of development issues related to EU accession.) Differences in emphasis or substance between the Bank's and the government's view, though not always highlighted, guide the selection of areas for support in these CASs. The value for articulating Bank Group strategy is best demonstrated in the CAS for Ukraine, where the diagnosis allows CAS designers to distinguish between core program components suitable for full Bank support (e.g., energy security, energy efficiency, transport infrastructure, and strengthened public finance), less urgent program components for which the Bank will not provide investment lending (e.g., deepening financial markets and improving housing quality), and areas in which the Bank considers the government's strategy inadequate and plans to engage in advocacy (e.g., business climate and quality of public health services).

**Implicit diagnosis.** Three CASs indicate that the Bank and the government agree on the key development issues of the country (Chile, Panama, and Peru). The underlying diagnosis of the country's development challenges is not summarized in these CASs, but is implicit in the Bank's detailed analysis of the government's development strategy and priorities. Since the Bank could in principle support each of the government's priorities, the planned support program reflects an understanding with the client about the services that will be requested, with a provision for changes that remain within the scope of the analyzed government priorities. This approach can only work in countries where there is indeed a far-reaching consensus on development issues. (In these three countries, the consensus appears to result from close policy dialogue and/or similarity between Bank staff and country counterparts in thinking about the full range of development issues in the respective country.)

**No diagnosis.** The other six CASs appear to proceed without an independent Bank diagnosis. In three of those CASs the Bank agrees with the client's focus on the goal of further convergence with the EU or eventual EU accession, but appears to lack an appropriate basis for selecting among the government priorities under this broad objective. For example, the Bulgaria CAS describes some 18 government action areas before selecting three for WBG support on the basis of comparative cost considerations, i.e., they are the areas in which the Bank can build on an ongoing portfolio and an existing body of diagnostic work. While these are valid considerations, they should come into play only after the Bank has acquired a view of the country's priority needs that informs the analysis of the action areas. In the remaining CASs, the absence of a Bank diagnosis leaves the reader uncertain about the strategy that guides the support program, other than to respond to client requests.

12. **Client Demand for Knowledge Services.** Many IBRD countries call on the Bank Group for advice or nonlending technical assistance on specific tasks where they perceive a knowledge or capacity gap. Recent examples include a diagnosis of Chile's supervisory framework for the pensions, securities, and insurance sector; an impact evaluation of Chile's management enhancement program; and consultative services for large-scale PPP infrastructure investment in St. Petersburg, Russia. These client-requested knowledge services are not linked to lending operations. Like other services, they should be discussed in the CAS, including with respect to the lessons of experience, role in the support program, and funding.

13. **Fee-Based Services.** During CAS preparation, teams should discuss with the client the option of providing client-requested services for a fee—particularly in countries where stagnant

or declining lending demand limits the possibility for funding such requests from the administrative budget. While the Bank's Treasury and the Bank-IFC FIAS unit provide financial and foreign investment advisory services on a contract basis and IFC's TAAS program provides services on a flexible cost-sharing basis, the Bank's regional offices have traditionally used fee-for-service arrangements primarily for nonborrowing clients such as the Gulf states, Czech Republic, and South Africa. But with demand for knowledge services rising relative to lending demand, fee-based services have become more common, particularly in the well-performing MICs of the ECA and LCR Regions.

14. ***CAS Response to Client Demand.*** Among recent CASs, those for Chile and Russia provide good examples of a forward-looking approach to responding to client demand for specific advisory services and nonlending technical assistance in a manner that furthers the objectives of Bank engagement. (While the Bank also provides a few fee-based services to Argentina, the CASs do not discuss the contribution of the services to the support program.) Both CASs draw lessons from recent experience, discuss the contribution of such services to the Bank's strategy, list ongoing and already agreed fee-based work within the support program, and consider arrangements and principles for responding to requests emerging within the CAS period. Notably, both CASs discuss consultations with the governments on moving from case-by-case arrangements to a framework agreement to provide greater planning certainty, cost-effectiveness, and administrative flexibility. In the words of the Chile CAS, this "would allow both the Bank and the client to develop an annual work program agreement detailing the products and services to be provided, and a time-line for their delivery, while including flexibility to add and modify deliverables during the year. The Bank will agree with the Government on the pricing of products, the financing to be provided by each side, and determine what percentage of the cost of the work program will be provided ex ante and what percentage ex post. Most important, the arrangement will advance and support the strategic objectives of the CAS."

15. ***A Particular Challenge—Partnership with MICs.*** At the upper end of the spectrum of the Bank's client countries, emerging market economies tend to have access to alternative sources of finance at competitive rates and sufficient technical expertise of their own (or access to other providers of technical expertise) to deal with traditional development issues. Several of these countries command a larger role in the global arena. At the same time, their own development experience offers lessons to other Bank clients, and contributes valuable knowledge to the Bank's development professionals. The Bank has been responding with more joint (with the country) knowledge generation, using country systems, cooperating on the country's own activities as a donor or as a leader in its region, and encouraging the country's participation in collective actions on global or regional issues. For these countries, the Bank is increasingly offering a more varied menu of services (including fee-based services)—not only those provided by Bank and IFC operations but also specialized services offered by Treasury (debt and risk management) and by the Global Environment Facility (GEF) and other trust funds supporting global and regional public goods. The Bank Group's MIC strategy paper,<sup>1</sup> with its emphasis on engaging clients through as broad a menu of services as possible,<sup>2</sup> is primarily aimed at this set

---

<sup>1</sup> *Strengthening the World Bank's Engagement with IBRD Partner Countries* (DC2006-0014), September 7, 2006.

<sup>2</sup> The Bank Group has elaborated a strategy for enhanced engagement focused on the flexible and tailored delivery of an expanded range of lending and nonlending financial services, knowledge services, strategic

of countries, calling for turning the CASs for these countries into distinctive Country Partnership Strategies (CPSs).<sup>3</sup> For this group of countries, a few CAS teams have experimented with an open-ended CAS period (i.e. Kazakhstan).

16. **Results in IBRD CPSs.** As in support for IDA-eligible countries, the WBG's shareholders, clients, and Management expect support for MICs to bring about development results that can be evaluated and demonstrated. During FY10, OPCS will issue a guidance note on customizing results matrices for IBRD, include MICS CASs.

## **B. Customization for Fragile and Conflict-Affected States**

17. The Bank's fragile and conflict-affected clients include countries in a wide variety of circumstances—ranging from countries emerging from conflict and with good prospects for success (such as Mozambique, which emerged from conflict in the early 1990s), to countries in conflict (where the Bank's role is more limited, and collaboration with UN agencies is critical), to countries with long-standing governance weaknesses (which require a different mode and level of assistance).

18. **Choice of Strategy Instrument.** Due to the uncertainty in country outlook and level and nature of the Bank's engagement, many country teams working with fragile and conflict-affected states have used ISNs; indeed, 15 of the 22 ISNs during FY06-08Q2 were in fragile or conflict-affected countries. For most, the country was in transition from conflict or political crisis or was reengaging with the Bank after a prolonged hiatus; for a smaller number, a high degree of uncertainty prevented clarity concerning the nature of longer-term engagement, or the country did not yet have a medium-term development/poverty reduction program in place to frame the Bank's support.

19. **Country Context for Fragility and Conflict.** Overall, most of the FCS strategies during FY06-08Q2 provided a sufficient level of detail on political and security issues, in addition to the more classic Bank issues of governance, economic, and social services, to allow the reader to place the country "in context" at the time the document was authored. Increasingly over the review period, that "context-setting" exercise demonstrated a nuanced understanding of the spectrum of fragility and conflict that underpins the "four-quadrant" framework presented in the

---

services, and products and services to pioneering enterprises in the private sector. A wide range of actions has been taken already (including the development of new or revised lending products, expanded financial advisory services, and more attractive loan charges and maturities) or will soon take (such as streamlined investment lending procedures, increased use of country systems, expanded options for technical assistance to MICs, and introduction of a new credit allocation model)—measures that greatly enhance the WBG's ability to provide customized development solutions and respond flexibly to client demands.

<sup>3</sup> The September 2006 Development Committee paper on the MIC agenda promised that the Bank would "accelerate actions to produce higher-quality, more focused WBG Country Partnership Strategies, reflecting country-specific priorities and serving as platforms for more flexible assembly and delivery of the portfolios of expertise and financing—from whatever source—to implement them" (p. v) as well as "Increased financial and program flexibility in Country Assistance Strategies to allow for a rapid response to changes in client demands" (p.20). Subsequently, as the MIC agenda implementation report noted, "moving to better CPSs is a matter of developing practice, . . . [not revising the current BP] which provides ample opportunity for flexibility and customization" (p. 8): *Strengthening the World Bank's Engagement with IBRD Partner Countries-Implementation Report* (DC2007-0022), October 9, 2007.

Good Practice Note<sup>4</sup> (GPN). Overall, security or political aspects of transitions, which fall outside the Bank's mandate but can greatly affect the success of Bank interventions, were not covered in great detail, although they were better covered in the strategies submitted in 2007-2008.

20. ***2005 Good Practice Note Categorization.*** Teams preparing CASs and ISNs have adopted GPN's approach to differentiation within fragile states, setting out four types of situation (deterioration, prolonged crisis or impasse, post-conflict or transition, gradual improvement). Over the last few years, choices of interventions and instruments have drawn on the guidance provided by this note, but some have evolved beyond the GPN. Countries viewed as being in prolonged impasse or crisis depended on strategies that focused on institutional analysis, dialogue, and counterpart training through AAA. Strategies for these countries (e.g., Zimbabwe, Togo, and Somalia) often sought to use socioeconomic analytic tasks to engage and restore dialogue with national authorities, while also identifying entry points for reform and opportunities for basic service delivery through nongovernmental channels. Increasingly over the last two years, strategies also included an explicit focus on restoring and maintaining the Bank's operational readiness for full reengagement; while this took the form of updating and widening the Bank's analytic base, several strategies sought to expand the Bank's range of contacts with stakeholders and potential champions of reform. The Somalia ISN adapted the use of the GPN's four-quadrant vocabulary into the notion of a spectrum of fragility and used it to describe the diverse circumstances of different regions within the territorial boundaries. Figure 1 and Table 1 of that strategy presented this differentiated diagnosis very succinctly, and then aligned the proposed Bank approach and activities to the needs in each region: South-Central (prolonged crisis), Puntland (post-conflict transition), and Somaliland (gradual improvement).

21. ***Adapting Instruments within the Same Strategy.*** The Lebanon ISN provides an interesting example of differentiating the Bank approach according to the specific nature of the fragility and conflict affecting a country. The CAS presented in November 2005 was followed in July 2007 by an ISN, in response to a short period of dramatic and violent hostilities; the ISN articulated an approach that maintained a focus on the same three pillars identified in the CAS, while adapting the instruments and financial resources to the new situation. Specifically, unspent project resources were reallocated, a Lebanon Trust Fund was set up; direct budget support in the form of two DPOs was included; whereas no DPOs had been envisaged under the CAS base case, the allocation of \$70 million in IBRD surplus by the Bank's Board of Governors in response to acute post-conflict needs was programmed through investment operations and TA while a DPO was extended as an IBRD loan. This seemed a well-thought-out strategy to respond to a changed situation, while understanding the need to continue to pursue important reforms with longer-term dividends to which there was broad-based commitment.

22. ***Ongoing Innovation in Bank Activities and Instruments.*** Most FCS strategies were designed to include capacity building and analytic work; some were restricted to investment operations, and a few included both investment operations and development policy operations. Most included at least one component on governance reforms, in particular in the area of public expenditure and public financial management. Over the last three years, there was a gradual increase in the use of DPOs, consistent with the GPN on DPOs in fragile states, with policy and

---

<sup>4</sup> See *Fragile States - Good Practice in Country Assistance Strategies*, OPCS, December 19, 2005, discussed at the Board in January 2006.

institutional reforms focusing on governance and public sector management, as well as service delivery. Beginning with limited operations in Timor-Leste, Afghanistan, and Tajikistan in FY06, in FY07 the volume of DPOs as a percentage of the total portfolio envisioned in a number of country strategies increased gradually. DPOs, mostly on grant terms, were used to provide arrears clearance in CAR (\$82 million out of a \$100 million DPO) and Liberia (\$464 million out of a total of \$520.5 million).

23. ***Results in Fragile and Conflict-Affected State Strategies.*** RBCASs or ISNs for fragile states face the challenges of lower capacity, more limited information, and higher risk than most other engagements. Realism in CAS and ISN outcomes is central in most such settings. Most FCS strategies during FY06-08Q2 included explicit results frameworks and specific indicators, which varied considerably in approach, formulation, and detail. However, many of the results in CASs and ISNs for fragile and conflict-affected states were unrealistic, and based on optimistic assumptions about the impact of external assistance and the ability of the country and the Bank to measure results. In other cases, Bank interventions focused—appropriately—on institution building, activities for which there are no easily quantified metrics. Three strategies in the FCS sample described anticipated results (either at output or outcome levels) in the narrative text but did not present a formal results framework with indicators or benchmarks (Iraq, Lebanon, and Nepal). Even among the FCS strategies developed in late FY07 and FY08 and those with very detailed results frameworks, still only a small number (Angola, Timor-Leste, and CAR) included results or indicators that address specific “peace-building” outcomes. In CAR and Angola, this translated into CDD and DDR activities and results; in Timor-Leste, the results framework included contributions to improved access to justice, with several Bank interventions that directly contributed to peace-building goals. The Liberia ISN, although not specifically offering peace-building results, recognized the security context and the need to include former rebels and militia in its CDD schemes to ensure the success of the program.

24. ***Financing Sources in Fragile and Conflict-Affected States.*** For countries in arrears, including both those in protracted arrears (Zimbabwe, Somalia) and those whose periods of nonaccrual were more recent (Togo), financing consisted entirely of nonlending activities and grants from special-purpose trust funds. Multi-donor trust funds and trust funds created using country-specific grants from IBRD surplus were both notable instruments in FCS strategies; most frequently elements in post-conflict transitions, they were used both in countries with active IDA programs (Afghanistan, Timor-Leste) and in countries still in nonaccrual (Liberia). Strategies in a significant number of FCS positioned the use of LICUS TF and PCF grants as an integral part of the overall strategy; for countries where the strategy was developed after a period of proven implementation of PCF and LICUS TF grants, the ongoing TF activities were taken into account in the design and selection of the proposed areas of intervention in the ISN. The level of detail and candor involved, and the extent to which these lessons were visibly incorporated into the design of the new strategy and proposed portfolio, differed. Zimbabwe is a good practice example; its pages 11-12 and Annex 4 candidly articulated lessons learned from previous grants to provide a platform for both strategy and suggested implementation approaches.

25. ***Engagement with Government.*** All strategies for fragile states during the last two years reflected the consultations with the government at the time of the strategy design, and the results of these discussions clearly framed the substantive elements of strategies. Some documents (e.g.,

Uzbekistan and Zimbabwe) openly discussed difficulties in reaching agreement between the Bank and the government on challenges and approaches.

26. ***Coordination with Partners.*** All FCS strategies of the last two years dedicated some space to coordination, either by describing the range of partners and the division of labor, or articulating coordination mechanisms, or both. However, there is considerable scope to enhance coordination of assistance among development partners, and to reflect these efforts in strategy products. The level of detail on coordination varied considerably, as regards both descriptive detail on partner activities and coordination processes: some strategies provided relatively perfunctory summaries of how the Bank’s proposed interventions were related to those of other partners (section III-B of the 2006 Comoros ISN); others provided more structured summaries of collective actions (Table 4 and Annex 2 of the 2007 Zimbabwe ISN); and a few provided a very detailed articulation of the full range and scope of partner engagement (Annex IV of the 2007 Lebanon ISN). It is noteworthy that even in countries where partners (including the Bank) are known to make great efforts at coordination and where security and political aspects of transitions are important, the strategy documents did not always elaborate on work being done by partners or provide an overview of what funds were coming into the country and how much was invested in which sectors.

27. The specific challenges of fragile and conflict-affected situations often present a “collaboration paradox” for Bank country teams: the nature of the challenges indicates that collaboration with other key partners will be even more fruitful than in non-fragile countries, given the opportunity costs of duplication and the challenge of security-development linkages, and yet the transaction costs of developing and negotiating joint or collaborative strategies seem daunting. Joint strategy examples:

- The CAR ISN, which was prepared through a very collaborative process with key partners and was a fully joint strategy with the African Development Bank; and
- The CAS for the Democratic Republic of Congo, prepared within the “frame” of DRC’s Common Assistance Framework derived from the country’s PRSP and agreed by the Bank, the IMF, the AfDB, the UN peacekeeping mission MONUC, all UN specialized agencies, the European Commission, and 12 bilateral partners (expected to cover 95 percent of ODA over the three years of the strategy).

28. ***Highly Risky and Uncertain Environments.*** Most FCS strategies recognized the highly risky and uncertain environment in which the proposed program would be implemented; but the degree to which they proposed clear and specific approaches to mitigate or lessen the risk and uncertainty varied. All of the documents had sections on risks, but the level of detail and clarity also varied. Bearing in mind that types of risks—particularly political and security risks—are very specific to individual countries, two patterns emerge: strategies that assert that their approach can and should somehow mitigate the political and security risks<sup>5</sup> versus those where the political and security risks are entirely exogenous to the Bank’s sphere of influence. In spite of the increasingly clear corporate messages over this period on the distinct types of risk that are in play in these environments—spanning fiduciary risk, reputational risk, risk to the development effectiveness of interventions, and political/security risk—the only two strategies that reflected

---

<sup>5</sup> Timor FY06; Angola, Comoros, Haiti, Nepal, Uzbekistan, Zimbabwe FY07; PNG FY08.

explicitly on the reputational risk to the Bank were two notable examples of prolonged impasse/crisis (Somalia and Zimbabwe). In general, even when the risks were well articulated and comprehensive, it was difficult to distinguish how the perceived risks had been addressed in the development of the strategy, the instruments, and the choice of interventions. The risk of recently reengaged transition countries falling back into arrears was not covered in depth in any FCS strategy, although ongoing economic and operational monitoring of Haiti, CAR, and Liberia offer increasingly clear signals that this is a specific and potentially high-risk subset of FCS.

29. ***Selectivity in Strategies for Fragile States.*** FCS strategies were generally more selective than the broader sample of IDA strategy documents over the last two years, although there was some variation in how closely the proposed interventions and results promised were calibrated to the resource envelope available. In terms of selectivity, the Belarus CAS stands out; the choice to limit investment lending to one operation per year, with a yearly commitment of US\$100 million, was unusual; most other strategies with similar volume of resources chose to engage in a wider number of areas and sectors. Given Belarus' slow pace of transition to a modern market economy, the choice was made to focus quite narrowly on achievable results in one specific area.

30. ***Improving FCS Country Strategy Products.*** Bank engagement with fragile states has more often extended for many years rather than for a brief transition post-conflict period followed by stability. Rather than a single bridging strategy with a short implementation period (the Transitional Support Strategies), the Bank has operated under serial TSSs (now ISNs) and more recently has moved to some full CASs. Indeed, there are countries that could and do remain fragile for a long period, where the Bank should not operate permanently under ISNs. ISNs are not required to meet all the requirements of CASs, including being followed or preceded by a CASCR.