### "The World Bank's LICUS Initiative: Making aid work in fragile and failing states"

Carnegie Endowment for International Peace, January 21<sup>st</sup> 2004 What do we mean by fragile and failing states? (Low Income Countries Under Stress)

- ✓ Weak governance
- ✓ Weak capacity
- ✓ Weak voice
- ✓ Often conflict-affected
- ✓ Low-income, but may have high natural resource revenues

13 post-conflict or conflict affected Others exhibit entrenched poor performance

## What is the thinking on aid in these situations?

Aid effectiveness literature shows that aid works best where policies and institutions are strongest

Donors have increasingly moved to target their aid to the "good performers"

<u>IDA</u> – based on country performance and institutional rating

<u>US</u> – Millennium Challenge Account

<u>Several European donors</u> – more selective focus countries

## What has happened to actual aid patterns in LICUS?

#### Data is unreliable

Aid to the bottom forty percent of aid recipients has gone down in recent years

This masks differences between groups:

- Post-conflict countries have received higher flows;
- Political and security concerns have driven relatively high allocations to some countries;
- Others receive extremely low development aid

Aid is highly variable over short time periods

Aid programs have not had a successful track record

# Why should this be a concern (to the Bank)?

Poverty: Over 500 million of the world's poorest people live in these vulnerable states

Global Security: Failures in these states can lead to spillovers across regional and global borders:

- conflict
- organized crime
- terrorism
- epidemic diseases such as HIV-AIDs

Collier on the "neighborhood effects": neighboring govs. increase mil expenditure by 2%.

### What should we do differently (1)?

**Understand and support domestic reformers:** 

- Better political analysis
- Supporting one or two "zero generation" reforms which are technically and politically feasible, have quick visible results and build momentum for future reform
- Strengthen domestic capacity to demand reform (training, dialogue and information campaigns across different government and civil society actors)

### What should we do differently (2)?

#### Support social service delivery

- Strengthen capacity where it exists (national government, local government, NGOs, community structures, faith-based organizations)
- Bring accountability closer to the users of services (community driven approaches, local or provincial governments, budget transparency)
- Where necessary, ring-fence programs from existing weak financial systems – but build government capacity over time
- Replace a reactive approach by systems which can operate effectively in difficult conditions over long periods

#### What should we do differently (3)?

Make donor coordination real:

- Move from division of labour to combining efforts
- Link political, security, economic and social dialogue
- Develop shared understanding on benefits of engagement versus disengagement

#### Post conflict countries are different

Massive capital destruction and turnaround in political situation means higher capacity to use aid effectively

Institutions are still weak and long term governance needs more attention than it gets

Benchmarking political, security, social and economic outcomes may help focus aid efforts

## Bank involvement in conflict issues is not new...

- Post Conflict Unit (> Conflict Prevention and Reconstruction Team)
- Activities: Post Conflict Fund, DDR (including MDRP), Conflict Analysis Framework.
- But some recent innovations based on lessons: RBTF, and stretching financial allocations)....

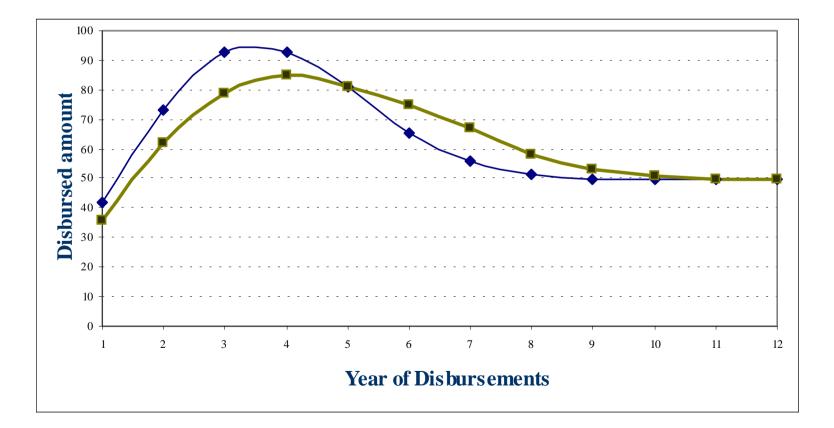
### **Results Based Transition Frameworks** (1)

- Used to date in West Bank-Gaza (2002), Sudan, East Timor, and Liberia
- Holistic, simultaneous treatment of security, political, social and economic dimensions of recovery
- Time bound, allowing for sequencing and forces prioritization ( when everything is a priority)
- Used as tool for multi-agency planning, and as cabinet tool (ET)

#### **Re**sults Based Transition Framework in Liberia: a holistic, shared recovery agenda (2).

	Priority outcome	Results June 2004	Results Dec 2004	Results June 2005	Results Dec 2005
Security					
DDR					
Refugees and internally displaced people					
Governance Democratic Development and rule of law					
Elections					
Basic Services					
Restoration of productive capacity and livelihoods					
Infrastructure					
Economic policy and development strategy					

#### Aid volumes in post conflict countries: less at the beginning, more down the line?(3)



#### What do we still need to know?

A lot.....

.....how do we take cross-border spillover effects into account in designing aid programs?

.....how do we stem the decline in countries on a downward trajectory (EWIs)?

......how does aid interact with domestic reform efforts in the weakest states? – when/how does it undermine them and when/how does it support them?

.....how do these countries fit into the Monterrey commitments – do they already receive too much aid, or could more aid be used effectively with better designed and more strategic programs?