

## Main Evaluation Messages

- Low-Income Countries Under Stress (LICUS) present some of the toughest development challenges, and the donor community continues to grapple with the question of how best to assist them. The World Bank has been an active participant in international policy discussions on LICUS and has improved its operational readiness to support them since introducing the LICUS Initiative in 2002.
- Before the LICUS Initiative, outcomes of the Bank's assistance programs in LICUS were mostly in the unsatisfactory range. The initiative has increased Bank attention to LICUS, but it is too early to assess outcomes. Implementation experience has been mixed, and outcomes of the few country strategies that have been assessed by the Independent Evaluation Group (IEG) mostly indicate underachievement of objectives.
- By adopting state building as a central objective, the Bank has made an area of traditional weakness (capacity development and governance) a part of its main focus in LICUS. Focusing the LICUS Initiative on the complex state-building agenda requires that the Bank clarify its areas of comparative advantage and the scope and content of the agenda. The Bank also needs to identify innovative approaches to improve the weak capacity development and governance record, and performance indicators to measure state-building outcomes.
- Little progress has been made on critical human resource reforms relating to staffing numbers, staffing quality, and incentives to undertake LICUS work in the three years since the LICUS approach was implemented.
- Although the Bank has recently emphasized the need to increase its field presence in LICUS, that emphasis alone will be insufficient for the effective implementation of country strategies. Increased field presence needs to be complemented by stronger communication between the Bank's field and headquarters staff. An adequate number of field staff with the appropriate authority and skills is also required.
- Donor reform agendas in LICUS could be more selective. In complex LICUS environments, where virtually every sector requires reform, appropriate sequencing of reforms and sufficient time to implement them are crucial for achieving results without overwhelming limited LICUS capacity.



# Executive Summary

Home to almost 500 million people, roughly half of whom earn less than a dollar a day, fragile states, until recently known in the World Bank as Low-Income Countries Under Stress (LICUS), have attracted increasing attention. Concern is growing about the ability of these countries to reach the Millennium Development Goals (MDGs) as well as about the adverse economic effects they have on neighboring countries and the global spillovers that may follow.

With their multiplicity of chronic problems, LICUS pose some of the toughest development challenges. Most have poor governance and are embroiled in extended internal conflicts or are struggling through tenuous post-conflict transitions. They face similar hurdles of widespread lack of security, fractured relations among societal groups, significant corruption, breakdown in the rule of law, absence of mechanisms for generating legitimate power and authority, a huge backlog of investment needs, and limited government resources for development. Past international engagement with these countries has generally failed to yield significant improvements.

The donor community is grappling with the question of how best to assist countries faced with such challenging problems. With their differing motivations and objectives, donors and researchers have chosen to address different aspects of these problems, which has led them to focus on slightly varying groups of countries. For instance, recent research by the Center for Global

Development focuses on stagnant low-income countries (defined by gross national product per capita and growth rates), and the Failed States Index of *Foreign Policy* focuses on state failure, identifying countries based on such factors as the level of economic decline, security, factionalized elites, displaced persons, human rights breaches, and external intervention. The U.S. Agency for International Development aims to address issues surrounding vulnerability and crisis, many pertaining to the political environment. The U.K. Department for International Development (DFID) and the Organisation for Economic Co-operation and Development–Development Assistance Committee’s (OECD-DAC’s) definitions of fragile states are similar to those used by the World Bank.

As defined by the World Bank, all LICUS are characterized by weak policies, institutions, and governance. The Bank has used two criteria to define *core* and *severe* LICUS (henceforth LICUS refers to core and severe LICUS, not *marginal* LICUS, which are identified by the Bank only for

monitoring purposes): per capita income within the threshold of International Development Association (IDA) eligibility and performance of 3.0 or less (2.5 or less for severe and 2.6–3.0 for core) on both the overall Country Policy and Institutional Assessment (CPIA) rating and the CPIA rating for Public Sector Management and Institutions.

Some low-income countries without CPIA data are also included. In fiscal 2005, the Bank identified 25 countries as LICUS. Six fiscal 2005 LICUS did not have a CPIA rating: Afghanistan, Liberia, Myanmar, Somalia, Timor-Leste, and the territory of Kosovo. This review bases its evaluation on the Bank's assistance to the 25 countries classified as LICUS in fiscal 2005.

Lending and administrative budgets to LICUS have increased since the LICUS Initiative began. Lending to LICUS increased from about \$2.5 billion during fiscal 2000–02 (before the LICUS Initiative) to about \$4.1 billion during fiscal 2003–05 (since the launch of the LICUS Initiative). On a per capita basis, lending to LICUS ranged from \$0 to \$25.4 during fiscal 2003–05. Administrative budgets for LICUS increased from about \$104 million during fiscal 2000–02 to about \$161 million during fiscal 2003–05. On a per capita basis, administrative budgets for LICUS ranged from \$0.002 to \$4.5 during fiscal 2003–05.

A large share of lending to LICUS during fiscal 2003–05 went to post-conflict LICUS (post-conflict countries are identified based on Post-Conflict Progress Indicators, for purposes of determining exceptional IDA grants), while administrative budgets have been more evenly distributed across the LICUS group (7 post-conflict LICUS out of the 25 received 64 percent of total LICUS lending, and 34 percent of the total LICUS administrative budget).

While the large proportion of lending to post-conflict LICUS might have occurred even without the LICUS Initiative (given that IDA's exceptional post-conflict allocations predate the initiative), the initiative likely contributed to the more even distribution of administrative budgets across the group (given an increase of 400 percent or more in administrative budgets between fiscal 2000–02 and 2003–05 for three LICUS—Liberia, Somalia, and Sudan—that

would have received minuscule amounts of administrative budgets prior to the initiative because of their non-accrual status).

The Bank's LICUS approach has evolved since its initial articulation in 2002, which was grounded in country-level core principles (see table ES.1). The original rationale for the initiative was that of improving aid effectiveness by using other instruments, such as analytical work and knowledge transfers where necessary, supplemented by financial transfers to promote change.

In 2005, the objectives and scope of the LICUS Initiative shifted from general aid effectiveness to state-building and peace-building objectives. The LICUS Initiative also introduced four business models (deterioration, prolonged political crisis or impasse, post-conflict or political transition, and gradual improvement) that provided for varying treatment of different types of LICUS. Learning by doing and the focus on organizational issues in the 2002 approach were retained and further reinforced in the 2005 approach.

This review set out to answer three questions:

- How effective has the Bank's LICUS approach been?
- How operationally useful are the Bank's criteria for identifying and classifying LICUS, and how useful is the aid-allocation system for them?
- How appropriate and adequate has the Bank's internal support for LICUS work been?

## Main Findings and Conclusions

### *Effectiveness of the Bank's LICUS approach*

Implementation experience across the core country-level LICUS principles has been mixed (see table ES.1). Problems encountered in implementation sometimes arose from overambitious Bank objectives (thus requiring the scaling down of objectives) and sometimes from inadequate Bank effort or inappropriate input, as suggested by IEG's fieldwork and its CAS Completion Report Reviews (thus requiring scaling up of effort).

The majority of stakeholders interviewed in IEG's Stakeholder Survey said that the Bank's

**Table ES.1: Implementation Experience on the Core Country-Level LICUS Principles**

LICUS principle	Implementation experience rating
<b>Stay engaged</b>	<b>Substantial</b>
<b>Anchor strategies in stronger sociopolitical analysis</b>	<b>Medium</b>
<ul style="list-style-type: none"> <li>• Political understanding</li> <li>• Internalizing political understanding in strategy design and implementation</li> </ul>	<ul style="list-style-type: none"> <li>• Medium-substantial</li> <li>• Medium-low</li> </ul>
<b>Promote domestic demand and capacity for positive change</b>	<b>Low</b>
<b>Support simple and feasible entry-level reforms</b>	<b>Medium-low</b>
<ul style="list-style-type: none"> <li>• Macroeconomic reforms</li> <li>• Delivery of physical infrastructure</li> <li>• Transition from the immediate post-conflict reconstruction phase to the development phase</li> <li>• Selectivity and prioritization</li> </ul>	<ul style="list-style-type: none"> <li>• Substantial</li> <li>• Substantial</li> <li>• Low</li> <li>• Low</li> </ul>
<b>Explore innovative mechanisms for social service delivery</b>	<b>Medium</b>
<b>Donor collaboration</b>	<b>Medium</b>
<ul style="list-style-type: none"> <li>• At international policy level</li> <li>• At country level</li> </ul>	<ul style="list-style-type: none"> <li>• Substantial</li> <li>• Medium-low</li> </ul>
<b>Measure and monitor results<sup>a</sup></b>	<b>Low</b>

Sources: Fieldwork and thematic background analysis done for this review by IEG, 2005.

a. Not specifically mentioned as a separate core principle by the Bank, but included by IEG because it is pivotal to the Bank's learning-by-doing LICUS agenda.

overall program in LICUS has made a small positive contribution to development—a view that refers to Bank support generally, and not to the LICUS approach per se.

There have been some notable early successes with regard to the LICUS principles. The Bank's LICUS Initiative has allowed for increased Bank engagement in countries where such engagement would likely have been lower. The Bank has recently engaged with a number of LICUS from the early days of peace or political transition. The Bank has also contributed to macroeconomic stability and to the delivery of significant amounts of physical infrastructure, especially in post-conflict LICUS. Substantial progress has been made in donor coordination at the international policy level, as exemplified by the recent agreement of a wide spectrum of donors, including the Bank, to the 12 OECD-DAC principles of international engagement.

The Bank has often played a leading role as co-chair of international donor events and co-author of joint policy papers. The Bank's recently introduced business models, which differentiate among different types of LICUS,

are likely to permit a more tailored response to LICUS. The percentage of closed LICUS projects rated satisfactory on outcome by IEG increased from 50 percent in fiscal 2002, before the LICUS Initiative, to 58 percent in 2003, 65 percent in 2004, and 82 percent in 2005. The corresponding numbers for projects in non-LICUS low-income countries ranged from 70 to 79 percent.

But several significant challenges remain. The Bank's initial engagement with a number of LICUS has not been adequately followed up by a focused and well-sequenced reform agenda. Furthermore, the Bank has yet to internalize sufficient political understanding in country strategy design and implementation. The Bank also needs to strengthen the quality of its country-level coordination with other donors, especially in implementation follow-through that goes beyond policy agreements.

In addition, the Bank has made one of its areas of traditional weaknesses (capacity development and governance) a central part of its focus by adopting the more complex state-building objective. This new emphasis requires

the Bank to identify its comparative advantage more effectively; improve performance, including through the development of innovative approaches; and identify partners who can complement its work to ensure achievement of the intended outcomes. Finally, the choice of the term *state building* may itself be inappropriate, given its political and ideological connotations.

The Bank needs to develop its operational approaches in LICUS, especially for the *deterioration* and *prolonged crisis or impasse* business models. Further refinement of the business models by more explicitly factoring in differences in capacity to perform core state functions (for example, resource generation, resource allocation, basic social service and infrastructure provision, and political accommodation of dissent and security) is also needed to enable the Bank to achieve a better fit between its operational approaches and the varying institutional environments of LICUS.

The Bank's work on post-conflict countries predates the LICUS approach, and the corresponding business model for post-conflict LICUS is articulated more clearly than the other business models. However, it has shortcomings and needs to be further developed to guide the transition and development phases that follow the immediate post-conflict reconstruction phase. Furthermore, while the Bank has given increasing attention to conflict prevention, there is limited knowledge about the effectiveness of its efforts in this area.

The Bank's role and comparative advantage in conflict prevention have yet to be clearly established, especially because conflict prevention requires the Bank to give greater attention to the *root causes* of conflict and address ethnic, sociological, and political factors. The Bank needs to define better what its peace-building objective does and does not include and how it will be achieved.

#### ***Operational utility of the Bank's LICUS identification, classification, and aid-allocation mechanisms***

Despite the move to state- and peace-building objectives, the Bank continues to rely almost

exclusively on the CPIA to identify LICUS. The CPIA, however, fails to capture some key aspects of state fragility (such as accommodation of political dissent) and conflict (such as political instability and security or susceptibility to conflict), and may need to be supplemented. A stronger approach to the identification of LICUS would require an analytical framework that more explicitly focuses on the objectives of the LICUS Initiative.

The policy selectivity of the system the Bank uses to allocate IDA resources (called performance-based allocation, or PBA) has increased over the years, and less IDA funding has been available for countries with weaker policies, institutions, and governance. This has raised the question of whether LICUS are receiving appropriate amounts of IDA resources. Adjustments to the PBA have resulted in increased IDA financing, including to some post-conflict LICUS and LICUS undergoing political transitions. Yet it remains far from clear whether the current levels of IDA funding ensure that LICUS are not under- or over-aided.

The aid-allocation issue has once again come to the fore with some research questioning the empirical evidence for the positive link between policies and aid effectiveness (which underlies the PBA). Other research argues that aid can be effective in promoting sustainable policy turnarounds in failing states by building and strengthening the preconditions for reform or by enhancing the chances that the reform will be sustained once it is set in place. The latter research finds that potential returns from aid to LICUS can be extraordinarily high, even though the risks of failure are substantial.

For its part, the Bank has yet to address the aid-allocation issue for LICUS in a way that reflects its objectives for these countries and ensures that LICUS are not under- or over-aided.

#### ***Appropriateness and adequacy of internal Bank support for LICUS work***

The Bank's internal support for LICUS work has progressed in several areas:

- Expanding analytical work by de-linking administrative budgets for economic and sector

work and technical assistance from lending volumes

- Using Interim Strategy Notes that allow for the design of strategies that cover a shorter period to accommodate the volatile LICUS conditions
- Providing LICUS managers access to the Bank’s senior management
- Introducing the LICUS Trust Fund to finance countries in non-accrual (for which the Bank previously lacked an instrument).

Based on country experience, the LICUS Unit has distilled guidance on a number of important issues and has fed this guidance into both operational advice to country teams and broader external policy debates.

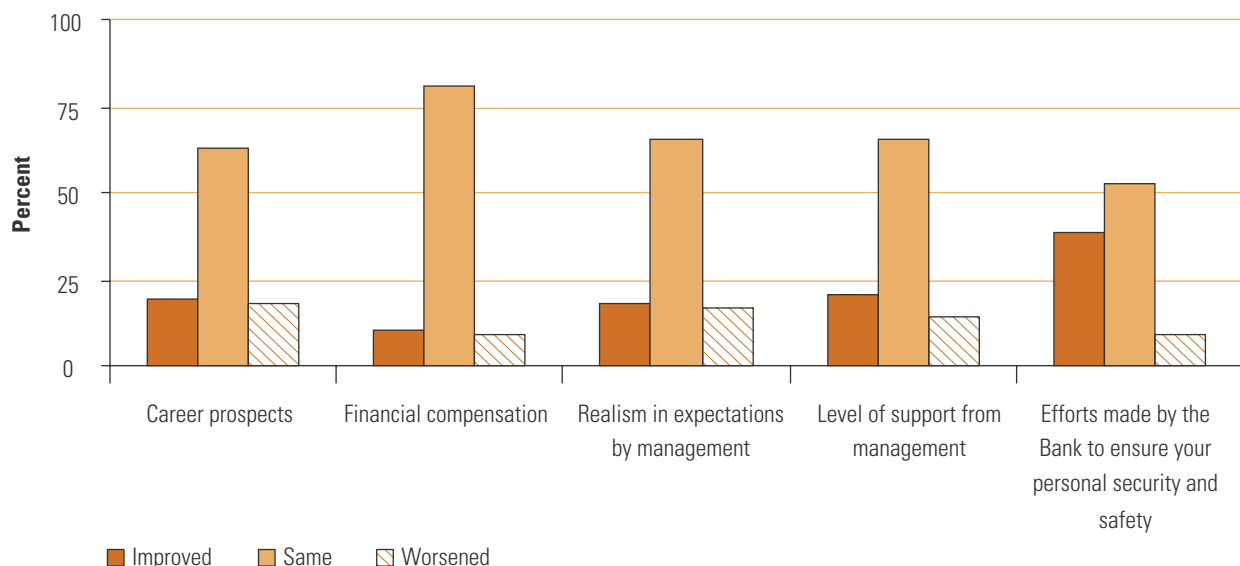
However, three years after the Bank recognized the need for an internal culture shift to implement the LICUS approach effectively, the Bank’s internal support for LICUS work has progressed little. It remains unsatisfactory on critical human resource reforms relating to staffing numbers, staffing quality, and incentives to undertake LICUS work. Bank staff comments about the importance of working on both a non-

LICUS and a LICUS country demonstrate inadequate recognition of LICUS work within the Bank and point to an incentive system in need of reform.

The uneven attention of individual country directors, especially if they are also covering a larger, more “successful,” or higher-profile country, was mentioned by staff as an issue, indicating the need to ensure consistent attention to LICUS work throughout the management hierarchy. In IEG’s Stakeholder Survey, the majority of Bank respondents said that there has been no change when working on LICUS with respect to several human resource matters (see figure ES.1).

There is significant duplication and confusion surrounding the roles and responsibilities of the LICUS and the Conflict Prevention and Reconstruction (CPR) Units. Staff is concerned with the practical questions of which unit to turn to for specific types of advice and what kinds of support to expect from each unit. In IEG’s Stakeholder Survey, about two-thirds of Bank respondents saw some problem with the current organizational arrangement: 37 percent

**Figure ES.1: The Majority of Bank Respondents Said There Has Been No Change When Working on LICUS in Several Areas (listed below)**



Source: Appendix Z (Stakeholder Survey results).

Note: Number of valid responses ranges from 213 to 238. The question in the survey did not differentiate between staff who had worked in a LICUS and those who had worked in a non-LICUS in their previous assignment.

said that there is some duplication between the support of the Bank's LICUS Unit and that of the CPR Unit, 15 percent that there is a lot of duplication, and 12 percent that there is a conflict or contradiction.

### **Lessons of Experience for the Bank and Other Donors**

Several lessons emerge from this review's assessment of the Bank's experience in implementing the core principles of the LICUS approach. Many of the issues covered under these lessons were noted as areas in need of improvement in the 2002 LICUS Task Force report (World Bank 2002)—such as the need to anchor strategies in stronger sociopolitical analysis or to support highly focused reform agendas—and have also been emphasized in the Bank's 2005 LICUS reports. The lessons derive from the Bank's own implementation experience, but may also be useful in guiding other donor assistance in LICUS.

#### ***LICUS engagement***

***Staying engaged is only a means to an end and needs to be quickly followed by a clear and relevant reform agenda in LICUS.*** In the absence of a clear and relevant reform agenda, early successes of engagement may be short lived and contribute little to the achievement of country strategy objectives. The examples of the Central African Republic and Haiti show that various obstacles may make the follow-up to a successful initial LICUS engagement difficult. Because political successes were insufficiently backed up on the economic side, the government of the Central African Republic is now faced with a potentially disastrous budget crisis. In Haiti, the donor community seems to have given inadequate attention to ensuring a minimum level of security. In both cases, good initial results of the LICUS Initiative are now at risk of being diminished.

In certain instances, strategic disengagement—with the exception of in-house analytical work—may be needed, at least for periods of time. This is a particularly appropriate strategy when involvement with the Bank is seen as inappropriately giving legitimacy to the LICUS government or

when it dampens internal pressure for reform, thus potentially hindering the emergence of conditions needed to bring about serious and sustainable political reform.

In the deterioration and prolonged crisis or impasse business models, where there is often little consensus between donors and government on development strategy, engagement needs to include policy dialogue aimed at creating an opening for reform, while simultaneously working on a reform agenda should a window of opportunity appear. In the post-conflict or political transition and gradual improvement business models, engagement will need to have more of a technical content and a stronger focus on implementing the reform agenda, given the greater reform consensus between donors and government.

The Bank's guidance for prolonged conflict or political impasse countries states that “relatively non-controversial development issues may provide an entry point for constructive dialogue between the parties to a conflict.” For deteriorating governance countries, the Bank's guidance states that the Bank should provide “input on specific economic issues which are important for mediation efforts and may serve as a way to restart dialogue” (World Bank 2005e).

***Country ownership and absorptive capacity constraints apply as much to knowledge products as to financial products.*** The involvement of country counterparts in the Bank's analytical work remains limited to administrative aspects, with much less country-client participation in selecting topics and undertaking analysis, thereby reducing national buy-in. Yet the involvement of country counterparts is essential to ensuring client ownership and improving the impact of analytical work.

In Tajikistan, the lack of government involvement in the selection and preparation of the Bank's analytical work limited the government's interest in the results, which hindered effective implementation. In Angola, some Bank-led analytical work (for instance, the recent Country Economic Memorandum) was perceived by senior government officials as an

imposition of Bank views on their internal affairs, which led to limited ownership and capacity development. Without country ownership, the chance of analytical work influencing government policy is small.

LICUS governments' absorptive capacity constraints in using analytical work may also limit possible knowledge transfer. The Angolan government, for instance, endorsed the Bank Interim Strategy Note but expressed concern about the amount of analytical and advisory activities foreseen. This has raised doubt about whether the analytical products would be fully utilized by the government. The absorptive capacity of the government is severely limited, and analytical and advisory activities undertaken mostly by the Bank risk straining relations with the government, regardless of their technical quality. In Cambodia, plans for analytical and advisory services in the 2005 Country Assistance Strategy (CAS)—totaling 30 tasks to be completed over fiscal 2005–07—appear overly ambitious considering the country's limited institutional capacity.

### **Political understanding and its use in country strategy**

**Commissioning and consuming—not necessarily producing—good political analysis is critical for donors in LICUS.** The objective of a country team should be to commission or consume (not necessarily produce) analysis that is directly relevant to, and usable in, the development of a strategy. In LICUS, especially in environments where speed is critical, donors need to ensure that existing political analysis is mined before commissioning new analysis.

In Lao People's Democratic Republic, the Bank effectively tapped existing political analysis and invited a political scientist who had published extensively about the country to make a presentation to the country team on politics and reform in the country. This allowed for the preparation of an independent summary of relevant political analysis (tailored to the needs of the donor community in general and the Bank in particular) and its dissemination to a relevant group of Bank staff and other donors. It avoided the higher costs of preparing a "Bank" analysis, as well as potential

tension with the government, by allowing the Bank to avoid getting bogged down in some of the sensitivities surrounding the analysis. For the Bank, the acquisition of existing knowledge, as well as its dissemination, proved more important and effective in this case than knowledge creation.

**The main focus of donor efforts needs to be on helping staff internalize political analysis in strategy design and implementation.** Although the Bank has conducted or had access to good political analysis in some LICUS, such analysis has not been adequately reflected in its strategy. For example, the Interim Strategy in Papua New Guinea contains a good discussion of the political system and recognizes problems such as clan loyalties, political patronage, corruption, and lack of capacity. Yet the strategy treats these problems as technical matters and does not adequately use them to underpin the overall approach.

### **Focused reform agenda**

**In complex LICUS environments, where virtually every sector requires reform, appropriate sequencing of reforms and sufficient time to implement them are crucial for achieving results without overwhelming limited LICUS capacity.** While donors must strive for collective donor selectivity, this is far from being achieved, as the examples of Afghanistan's donor-endorsed reform agenda and Haiti's Interim Cooperation Framework (ICF), presented below, indicate. However, even if collective donor selectivity is not immediately achieved, the Bank needs to ensure focus and selectivity in its own assistance program, based on its core competences. Such Bank selectivity has been increasing in recent years but remains a challenge.

In Afghanistan, the reforms covered by donors are wide ranging, show lack of sufficient priority, and have led to 120 pieces of pending legislation. These reforms, dealing with virtually every economic and social aspect of the country, need to be carefully prioritized and sequenced, but donors have yet to do so. In Haiti, the ICF is meant to guide international assistance and cooperation with Haiti through September 2006, and covers practically all basic state functions, ranging from security, to national

dialogue, to economic governance, to economic recovery, to basic services. Individually, each of these areas seems important, but together they add up to a formidable agenda.

With respect to the Bank's own assistance program, São Tomé and Príncipe is an example where the Bank was far too ambitious in relation to the resources allocated to the country, with the result that many of the CAS objectives were not achieved or were only partially achieved.

Beyond selectivity in CASs, it is critical to ensure that actual reform agendas on the ground are focused and well prioritized. The lack of selectivity and prioritization in the reform agendas raises questions of effectiveness, especially given the limited capacity in LICUS. While it is difficult to be selective in a country where there is an urgent need to fix many things, the appropriate sequencing of reforms is crucial to ensuring that limited LICUS capacity is not overtaxed, while also avoiding partial solutions. Well-sequenced reforms spanning a sufficient number of years, along with donor commitment to see them through, will be essential.

In Timor-Leste, donors may have pulled out too quickly, without sufficiently dealing with the country's pressing capacity needs. In Haiti, development assistance has greatly fluctuated over the years. The country has gone through several "feast or famine" cycles in its relations with the donor community. This might have been avoided had various donors better timed and sequenced their aid.

### **Capacity development in post-conflict LICUS**

#### **Capacity development and governance programs need to start early, even in post-conflict LICUS.**

Immediately following the cessation of conflict, the international donor community tends to focus its assistance on physical reconstruction. Because capacity to use aid effectively in post-conflict LICUS is low and governance is often poor, the focus from the beginning also needs to be on the development of capacity and improvement of governance, not merely the reconstruction of physical infrastructure. This may require the creation or strengthening of public institutions, civil service reform, and use of local

expertise. If foreign experts are brought in to provide technical assistance, it must be ensured that this will not compromise the long-term development of *local* capacity.

### **Donor coordination**

#### **Donor coordination cannot succeed without a common vision and purpose among donors—when donor objectives cannot be fully harmonized, it is important that they at least be complementary.**

The Bank's approach has not fully recognized the differing motivations of donors for engaging with LICUS. Although the broad concept of fragility is widely understood and accepted, the countries identified by donors as fragile vary. The motivations for supporting fragile states range from security, to aid effectiveness, to equitable development, to poverty reduction, to state building, to peace building and conflict prevention.

In both Afghanistan and Tajikistan, IEG's fieldwork found that major donors did not subscribe to a single clear objective. Without a common overall objective, policy coherence is unlikely. The Bank's donor coordination efforts and modalities are insufficiently informed by the objectives of the different players in a country. That said, donor coordination is a form of collective action, requiring that other donors similarly improve their outreach to the Bank and subordinate bilateral agendas to agreed multilateral objectives.

#### **Coordination needs to begin within each donor agency.**

Coordination is not only important among multilateral and bilateral donor agencies. It is also a vital issue *within* each donor agency. Projects in different sectors of the same country often work in parallel and fail to tap synergies. This was the case in the Bank's Community Empowerment and Agricultural Projects in Timor-Leste.

A side-effect of the Bank's decentralization to country offices has been the concentration of country knowledge among local staff and inadequate dissemination of this knowledge to the country team, especially to those based in Washington. Addressing the problems of coordi-

nation across the various departments of donor agencies (such as among Bank departments dealing with public sector management, conflict prevention and reconstruction, LICUS, capacity development, and research) is particularly important in LICUS, where problems are complex and widespread and often require multisectoral solutions.

### **Results measurement and monitoring**

**Monitoring and evaluation are at least as important in LICUS as they are in any other country.** Monitoring and evaluation are crucial in LICUS for a number of reasons:

- First, the Bank, like other donors, is still learning what approaches work in LICUS contexts. Closely monitoring experiences in order to draw lessons is critical, and learning and sharing needs to become a more prominent feature of LICUS work.
- Second, given that progress is often slow in these countries, it is important to reassess continually whether the program is on course to achieve the desired outcomes.
- Third, a constantly changing and volatile LICUS environment where progress is often nonlinear means that program adaptation is essential—closely tracking performance will help determine when and what kind of adaptation is necessary.

Effective learning by doing to improve the Bank's future effectiveness in LICUS can only happen with strong monitoring and evaluation.

The Bank has stated that state and peace building should be the goals used to measure the LICUS Initiative's success. But the Bank has yet to identify performance indicators for this purpose or yardsticks against which performance may be measured. Change is often more process oriented, especially in the deterioration and prolonged crisis or impasse business models, and outputs and outcomes that may be expected in the other business models may not be appropriate yardsticks of success. Objectives should be appropriate to particular LICUS contexts, which would, in turn, determine

yardsticks and ensure that the bar of success is set at an appropriate height.

### **Improving internal organizational support for LICUS work**

**Field presence alone is insufficient for effective country strategy implementation—it needs to be complemented by adequate communication between field and headquarters donor agency staff, as well as by an adequate number of field staff with the appropriate authority and skills.** Understanding of country circumstances is often best achieved through substantial field presence, although that alone is not enough. Internalizing analysis of the country conditions throughout all donor agency departments involved and applying its lessons to all interventions is equally important. In Cambodia, for example, the Bank's field presence has significantly improved understanding of the political situation, but discussions with country team members and other stakeholders suggest that this knowledge may still be highly concentrated among a few managers and staff (mostly in the country office and Bangkok hub), with relatively limited dissemination to the broader country team.

The issue appears to have shifted from a partial understanding of the political realities of Cambodia to a question of where within the Bank's country team this knowledge is located and how it is used to guide decision making in strategy and program implementation. The concentration of in-depth country knowledge among just a few staff members implies that only some Bank activities and interventions benefit. In general, greater knowledge transfer is needed between donor country offices and their headquarters-based country and sector staff.

Despite the cost, field offices need to be adequately staffed if they are to engage effectively with clients. In Angola, the initially small group of field staff faced a multiplicity of tasks, from strategic dialogue with government and donors to logistics such as moving the office to new premises. The situation was made more difficult by the lack of operational-level staff in the field office who could, in consultation with Ministry staff, prepare the ground before high-

level meetings between the ministers and the Bank. Moving issues to the top too quickly—because the lower levels were not staffed—led to unnecessary tensions. Donor decisions regarding the number of staff in each LICUS should reflect the extent and nature of intended engagement, considering respective donors' objectives in those countries.

Apart from the absolute numbers, field office staff also need sufficient authority in relation to headquarters to ensure that not every decision has to be approved by headquarters. An effective field presence requires that the right kind of staff be involved in the country. In semistructured interviews done for this review, several donors emphasized that coordination is unusually susceptible to the strengths and the foibles of the individuals involved. More appropriate training for staff being posted to difficult field assignments and improved incentives within the Bank that encourage staff to collaborate with other donors might ameliorate these idiosyncratic risks.

In the deterioration business model, where there might be a breakdown of dialogue with the government, donor agency staff will need strong diplomatic and persuasive skills to ensure that the door remains open for a dialogue with the government, while simultaneously mobilizing nongovernmental groups, including civil society.

In the prolonged crisis or impasse business model, where problems are chronic or there is political stalemate, the necessary staff skills will include immense patience as well as creativity, with constant innovation to break persistent logjams.

In the post-conflict or political transition business model, the necessary staff skills will include specific technical knowledge of how to develop sound economic systems, institutions, and key infrastructure. Staff should also possess the ability to act quickly and decisively in these environments, before the optimism following peace dissipates, and to help guard against the countries falling back into conflict. Since these situations often attract massive international aid, donor staff need strong coordination and sequencing skills to organize both development partners and their activities.

In the gradual improvement business model, the primary staff skill needed is the ability to provide customized technical assistance and work hand-in-hand with a client that is already reforming.

***Sharing experiences—both positive and negative—is essential for learning, but doing so effectively requires a receptive institutional environment and management support.***

Sharing experiences of what is working in different LICUS situations, and what is not, can foster learning. Learning is especially important in LICUS work because the donor community is continuing to grapple with the question of how best to assist these challenging countries. Although the Bank has shared some lessons through its LICUS Learning Group Seminar Series, much more attention is needed to intensify the systematic stock-taking and dissemination of emerging LICUS experiences—both those of the Bank and of other donors, and both positive and negative.

Creating a more receptive institutional environment and ensuring management support for the sharing of negative experiences will be critical. So far, the Bank seems mainly willing to share positive examples, as in its recent LICUS reports.

***Effective communication is essential both for ensuring country acceptance of donor approaches for LICUS and for tempering unrealistic country expectations about what can be achieved, especially immediately following the cessation of conflict.*** Better communication of donor objectives and approaches in LICUS will be needed to ensure country buy-in. It can also prevent disillusionment by tempering unrealistic expectations among stakeholders about what can be achieved in a specific period of time.

In the Bank's deterioration and prolonged crisis or impasse business models, where the economic and social situation is for the most part worsening or stagnant, the communication strategy would need to disseminate actively the benefits of reform to both the government and civil society. In the Bank's post-conflict or political transition business model, in order to prevent the disillusionment that follows unreal-

istic expectations, the communication strategy should target the entire population and be explicit about what donors will do, when, how, and what results should be expected. The communication strategy in the gradual improvement business model will need to be more informational, presenting relevant cross-country and cross-sectoral experiences.

Immediately following the cessation of conflict, international donors, including the Bank, have often committed large amounts of aid coupled with overly ambitious agendas. This has frequently created high expectations among the population and led to disillusionment when expectations have remained unfulfilled and there are few tangible improvements day to day. Avoiding overambitious agendas and utilizing better communication are critical, and the Bank needs to invest in such strategies.

***Better operational guidance is needed for tailoring donor approaches to the special conditions of LICUS.***

The LICUS Initiative has raised awareness of the need to act differently in LICUS, but the Bank and other donors have yet to identify precisely *how* to do so. The extent to which donor approaches to LICUS need to, and can, efficiently address the causes—not just symptoms—of countries becoming or remaining LICUS also needs greater attention. Solutions that view causes as givens may miss all-important contextual factors. Donor operational guidance must ensure that areas outside the comparative advantage of particular donors be left to others, while their own work both adequately factors in and complements the work done by others.

The Bank's deterioration and prolonged crisis or impasse business models, and the transition and development phases that follow the immediate reconstruction phase in the post-conflict or political transition business model, pose some of the biggest challenges faced by the donor community. These are also areas where there has been relatively little innovative thinking. There is a pressing need for operational guidance in several areas, including ways to prioritize and sequence reforms while avoiding partial solutions; ways to deliver services quickly

without harming long-term government capacity development; ways to foster political reconciliation while also contributing to effective and legitimate governance; ways to internalize political understanding in country strategy design and implementation; and ways to address linkages among politics, security, and development effectively.

The balance of the Bank's recent guidance on LICUS is tilted more toward what instruments should be used rather than outlining actual operational approaches for what needs to be done differently—and how—in varying groups of LICUS. LICUS country teams would also benefit from more narrative-based guidance, of the kind presented in chapter 2 of this review, and from short, problem-oriented notes, rather than the more formal guidance notes that are often too condensed and devoid of sufficient country context.

## Recommendations

- ***Clarify the scope and content of the Bank's state-building agenda and strengthen the design and delivery of capacity development and governance support in LICUS.***

Given its weak record on capacity development and governance, as well as its current focus on the more ambitious and complex state-building objective in LICUS, the Bank needs to clarify its areas of comparative advantage in relation to other donors and adopt innovative approaches that ensure better capacity and governance outcomes. Innovative approaches need to be developed for achieving a better fit between the Bank's interventions and the capacity of a LICUS to perform core state functions; ensuring implementation of focused and well-sequenced interventions in LICUS environments, where virtually every aspect of capacity and governance may need significant improvement; and effectively monitoring capacity and governance outcomes.

- ***Develop aid-allocation criteria for LICUS that ensure they are not under- or over-aided.***

The Bank needs to conduct a technical review of the cumulative effect of the various adjust-

ments to the performance-based allocation system on aid volumes to LICUS. Aid-allocation criteria that reflect the Bank's objectives in LICUS and ensure that these countries are not under- or over-aided need to be developed. Whether and to what extent the criteria should be based on factors other than policy performance (such as levels of other donor assistance, assessment of potential risks and rewards, and regional and global spillovers) needs to be examined, keeping in mind that aid is limited and trade-offs will have to be made.

- **Strengthen internal Bank support for LICUS work over the next three years.**

Two aspects of internal Bank support need attention. **First**, staffing numbers, skills, and incentives for working on LICUS need to be prioritized. Ensuring adequate incentives to attract qualified staff—both at headquarters and in field offices—to work on LICUS will require giving clear signals of what is deemed to be success in LICUS, what outcomes staff will be held accountable for, how much risk it is reasonable to take, how failure will be judged, and how overall performance evaluation ratings and staff career development will take these into account.

As in Olympic diving, where the scoring system factors in both the technical perfection and the difficulty of the dive, staff performance in LICUS should be judged by assigning appropriate weight to the extent of challenges presented by varying LICUS environments. Signaling the importance of LICUS work throughout the management hierarchy will also be required.

Apart from incentives, the Bank needs to ensure that staff working on LICUS has relevant

skills, such as in public sector management; are capable of seeking and using political knowledge; and are willing and able to work in interdisciplinary teams. Current plans to address these issues in the forthcoming *Strengthening the Organizational Response to Fragile States* paper are welcome, even if late.

More systematic thinking is needed about staffing decisions for LICUS within the context of the Bank's overall staffing, recognizing that assigning more and better-qualified staff to work on LICUS would likely mean trade-offs for other Bank country teams. Trade-offs to benefit LICUS may or may not be justified, depending on the Bank's objectives for LICUS as well as other Bank clients' needs for assistance.

**Second**, the organizational structure for LICUS and conflict work needs to be streamlined. The Bank needs to ensure an efficient organizational arrangement that removes duplication and fragmentation of support between the LICUS and the CPR Units.

- **Reassess the value added of the LICUS approach after three years.**

The value of the LICUS category and approach, including the operational usefulness of the business models, needs to be independently evaluated after three years, when sufficient experience with the outcomes of the approach will be available. At that time it should be possible to address the more fundamental question of whether and to what extent Bank assistance can effectively support sustainable state building. Continued Bank support for the LICUS category and approach should be based on the findings of that reassessment.