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**IMPLEMENTATION ARRANGEMENTS FOR ALLOCATING IDA  
RESOURCES TO COUNTRIES FACING “TURN-AROUND” SITUATIONS**

**BACKGROUND NOTE**

**International Development Association  
IDA Resource Mobilization Department (CFPIR)**

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**ACRONYMS AND ABBREVIATIONS**

CPIA	Country Policy and Institutional Assessment
CPR	Country Performance Rating
CRW	Crisis Response Window
FCSs	Fragile and Conflict-affected States
IDA	International Development Association
MTR	Mid-Term Review
PBA	Performance-Based Allocation
PC	Post-Conflict
PCNA	Post-Conflict Needs Assessment
PCPI	Post Conflict Performance Indicator
PI	Performance Index
PPR	Portfolio Performance Rating
PSI	Peace- and State-building Indicators
RE	Re-Engaging
WBG	World Bank Group
WDR	World Development Report

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## I. INTRODUCTION

1. **At the second IDA17 meeting held in Managua in July 2013, Participants discussed a proposal for enhancing IDA’s support to Fragile and Conflict-affected States (FCSs).** The proposal aims at re-aligning IDA’s allocation framework with the World Bank Group (WBG) goals, including by enhancing IDA’s financial engagement in FCSs and improving the targeting of exceptional support.<sup>1</sup> The proposal rests on two main components: (i) establishing an exceptional allocation regime for countries facing “turn-around” situations; and (ii) increasing the poverty orientation of the regular Performance-Based Allocation (PBA) system.<sup>2, 3</sup> Implementing the proposal would result in an allocation system that: (i) preserves a strong performance orientation;<sup>4</sup> (ii) builds on IDA’s implementation experience, including the need for striking a balance between rules and judgment; and (iii) reflects the new understanding on fragility and conflict.

2. **At the request of the Participants, this note provides further details on the implementation arrangements for the exceptional turn-around regime.** At the Managua meeting, Participants broadly supported the establishment of an exceptional turn-around regime and requested staff to prepare a background note providing specific details on its implementation. This note responds to that request by: (i) providing additional elements that complement and clarify the framework for the exceptional turn-around regime as presented in earlier replenishment documents; and (ii) summarizing the implementation arrangements for this exceptional regime. A condensed version of this note has been included as an annex to the draft IDA17 Deputies’ Report. For the final version of the IDA17 Deputies’ Report, the annex will be revised based on the guidance received at the third replenishment meeting.

3. **This note is structured as follows.** Section II describes the foundations of the exceptional turn-around regime. Section III describes its implementation arrangements. Section IV discusses the feedback mechanisms that are part of the regime. Section V describes how countries would exit from the exceptional turn-around regime and return to the regular PBA system. Finally, Section VI sets out arrangements for monitoring and reporting on implementation experience.

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<sup>1</sup> The term FCS in this document refers to a country that: (i) has a harmonized average Country Policy and Institutional Assessment (CPIA) rating of 3.2 or less (or no CPIA); or (ii) has or has had a UN and/or regional peace-keeping or peace-building mission during the past three years. Out of the 35 countries currently considered as FCSs, 32 are IDA-eligible.

<sup>2</sup> See “Special Themes for IDA17,” June 2013. Under the Management proposal, the increased poverty orientation of the regular PBA system would be achieved by changing the Country Performance Rating (CPR) exponent in the regular PBA allocation formula from 5 to 4. Management’s proposal also includes: (i) an increase of the minimum base allocation from SDR3 million per year to SDR4 million per year; and (ii) measures to ensure a smooth transition of countries currently under the exceptional Post-Conflict and Re-Engaging regimes.

<sup>3</sup> The development of the proposal benefited from consultations with academia, other Multilateral Development Banks and think tanks, including in the context of the IDA16 working group on FCSs.

<sup>4</sup> See Annex 2 of “Updated IDA17 Financing Framework and Key Financial Variables,” September 2013.

## II. FOUNDATIONS OF THE TURN-AROUND REGIME

4. **The implementation arrangements for the turn-around regime are based on two key elements.** First, they build on IDA's implementation experience with the existing exceptional Post-Conflict (PC) and Re-Engaging (RE) regimes. Second, they are guided by a set of principles that aim at maximizing the impact of IDA's scarce resources within the broader objective of advancing the WBG goals.

5. **Implementation experience.**<sup>5</sup> The exceptional PC and RE regimes have been an important source of financing for countries that had either gone through a period of significant conflict or had been an inactive IDA borrower for an extended period of time. The exceptional turn-around regime builds on the strengths of these regimes and on lessons learned from their implementation; and updates them so they reflect the current conceptualization of fragility and conflict and new knowledge of how countries transition toward resilience.

- (i) **The PC and RE regimes have allowed IDA to respond to the challenges faced by eligible countries within a performance-driven framework.** They have allowed the provision of exceptional financing based on clear criteria for country eligibility, level of support and duration. At the same time, these regimes recognize the need for flexibility and qualitative judgment to address the heterogeneity of country situations. In addition, recognizing the need for focus on the areas most relevant to these settings, the quality of policies and institutions is assessed using the Post-Conflict Performance Indicators (PCPI) – which are tailored to the specific context of PC and RE countries. Relative to alternative approaches to providing exceptional support, such as establishing a set aside, these regimes have proved to be more flexible and dynamic in responding to changes in country performance, as well as more resilient to changes in donors' support. In addition, evidence suggests that the principles, criteria and signals underpinning these regimes have been successful tools for selective engagement, directing enhanced support to countries that following access proved to be stronger performers.
- (ii) **Yet, these regimes present shortcomings vis-à-vis the current understanding of fragility and conflict.** First, they do not fully address the long-term, slow pace, and high risk process of peace and institution building in fragile environments. These regimes were structured around the conflict/post-conflict paradigm under which countries were assumed to follow a linear transition from violence to peace (i.e., end of conflict followed by a short post-conflict phase leading to peace). As shown in the “World Development Report 2011: Conflict Security and Development” (2011 WDR), however, the path out of fragility is often very long and non-linear, with countries experiencing periods of progress interrupted by cycles of repeated violence and instability. Second, the provision of enhanced support is limited to countries that have experienced extensive violence or accumulated significant arrears. Yet, the 2011 WDR shows that cycles of low level violence and/or partial state collapse can have an impact just as devastating as an all-out

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<sup>5</sup> For a detailed discussion of IDA's implementation experience with the exceptional PC and RE regimes see “IDA's Support to Fragile and Conflict-affected States,” March 2013.

war and urges the international community to provide quick and decisive support when there are significant openings for change.

6. **Principles.** A set of principles have guided the formulation of the implementation arrangements for the exceptional turn-around regime. These principles include: (i) effectiveness in the allocation of scarce resources; (ii) strong coordination with other international actors; (iii) flexibility to adjust to specific FCS contexts; and (iv) monitoring and accountability.

(i) **Effectiveness.** This principle calls for allocating resources where they are likely to have the largest development impact. The 2011 WDR presents evidence that addressing the causes of fragility and conflict can unlock significant development potential. It also presents a roadmap for breaking out of fragility and conflict which involves the seizing of opportunities for change at critical moments. The 2011 WDR stresses that success in these situations requires:

- **A national government genuinely committed to reform.** To successfully build resilience, countries must: (i) send strong signals of commitment to reform for building resilience; (ii) monitor their progress; (iii) demonstrate effective country performance (e.g., on policies and institutions and portfolio performance); and (iv) adapt their reform process as progress unfolds.<sup>6</sup>
- **A timely and flexible response from the international community** to the national efforts towards making the most out of these unique opportunities for change (helping, inter alia, to contain the stresses that could derail the process).

Past experience from the exceptional PC and RE regimes confirms that such processes must have government buy-in and leadership to succeed.<sup>7</sup>

(ii) **Strong coordination with other international actors.** This principle calls for providing exceptional support within a framework of harmonized donor efforts. IDA is not always the largest source of financing for countries confronted with a turn-around situation – and is seldom the only source of financing. Yet, IDA’s endorsement of a reform process is a strong signal that can galvanize the international community into action. Because IDA is not the only actor, it is vital – in order to maximize the impact of aid resources – that its exceptional support be provided in the context of a coordinated action with the rest of the development (and security, humanitarian and diplomatic) community. The complex aid architecture in FCS settings also calls for a well-defined role for IDA and a clear

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<sup>6</sup> See Chapter 3 of the 2011 WDR. This approach is consistent with the Bank’s commitment to supporting country-led transition processes as outlined in the New Deal for Engagement in Fragile States from the Fourth High Level Forum on Aid Effectiveness, Busan, 2011.

<sup>7</sup> The criteria for providing enhanced IDA support under these regimes emphasize the need for clear signals of commitment to reform as a pre-condition for the delivery of exceptional support. These criteria have allowed to direct exceptional IDA support to FCSs with strong performance. See “IDA’s Support to Fragile and Conflict-Affected States,” March 2013.

understanding of the modalities for cooperation of different partners.<sup>8</sup> The issue of coordination among international actors is also a core topic in the context of the New Deal.<sup>9</sup>

- (iii) **Flexibility.** This principle calls for providing context-specific support for FCSs and for avoiding “one size fits all” approaches. Key among IDA’s unique strengths is the tailoring of its support to diverse client circumstances, and adaptation to different implementation needs. FCSs constitute a highly heterogeneous group and each country faces its own challenges and opportunities as it moves from fragility and conflict towards resilience. The modalities for implementing the exceptional turn-around regime must retain flexibility and ability to adapt to fast-changing realities if the regime is to be effective.
- (iv) **Monitoring and accountability.** This principle calls for ensuring that the exceptional support achieves its intended objectives and for adopting corrective measures if necessary. Flexibility and ability to adapt to high-risk contexts need to be accompanied by a focus on monitoring and accountability. To address this principle, the exceptional turn-around regime includes multiple monitoring and feedback mechanisms to allow for mid-course corrections, including the possibility for countries to revert to the regular PBA system if progress is not satisfactory. Strong Executive Directors’ involvement and oversight at key steps of the process – including through consultation at the time of eligibility and re-application decisions – will provide effective accountability for the exceptional turn-around regime.

7. **The implementation arrangements should also be able to incorporate new elements under development around the issue of fragility and conflict,** in particular as part of the New Deal. As part of the New Deal, the FCSs – through the g7+ – are developing peace- and state-building indicators (PSIs). Depending on progress, elements under development as part of the New Deal could inform decisions under the exceptional turn-around regime. For example, they could provide evidence of progress towards peace- and state-building; country ownership of the national planning associated with the turn-around situation and commitment to address the underlying causes of fragility and conflict; and the alignment of the international community behind the national planning.

### III. IMPLEMENTATION ARRANGEMENTS

8. **This section sets out the implementation arrangements for the exceptional turn-around regime.** A key finding of the 2011 WDR is that fragility and conflict take many forms along a continuum and that all of their forms can have a severe human and developmental

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<sup>8</sup> Evidence of strong international cooperation with a well-defined role for the Bank is needed under the exceptional PC and RE regimes.

<sup>9</sup> The New Deal highlights the importance of more effective partnerships to reduce the burdens on low capacity governments in FCSs and ensure coordinated support around clear country-led and country-owned priorities. It also calls for the use of “compacts” between FCS governments and their development partners offering a new approach to ensure such coordination.

impact. The implementation arrangements below align the provision of enhanced support with this finding. This section: (i) defines what will be considered as a turn-around situation for the purpose of determining eligibility for exceptional support; (ii) describes the application process; and (iii) provides guidance on the determination of the level and duration of exceptional support.

#### A. DEFINITION OF A TURN-AROUND SITUATION

9. **The definition of a turn-around situation builds on concepts used to define eligibility for exceptional support under the PC and RE regimes.** For the purpose of the exceptional regime:

A **“turn-around” situation** is a critical juncture in a country’s development trajectory providing a significant opportunity for building stability and resilience marked by:

(i) the **cessation of an ongoing conflict** (e.g., interstate warfare, civil war or other cycles of violence that significantly disrupt a country's development prospects);

**or**

(ii) the **commitment to a major change in the policy environment** following:

- a prolonged period of disengagement from Bank lending; or
- a major shift in a country’s policy priorities addressing critical elements of fragility.

10. **Relative to the exceptional PC and RE regimes, using this definition would:** (i) provide a vehicle for enhanced support to countries that are confronted with a turn-around situation and are committed to reform, even if they have not experienced major conflict or extended periods of inactivity; and (ii) allow the possibility to provide enhanced support to countries not formally classified as FCSs under the current definition of having a CPIA score below 3.2, thus mitigating threshold effects associated with this definition.

#### B. APPLICATION PROCESS

11. **The application for support under the exceptional turn-around regime will follow a transparent and robust decision-making process built on the elements identified in the previous sections.** The objective of the application process is to strike a balance between rules and flexibility and to incorporate elements of strong oversight by Executive Directors and collective action by international actors – with a clearly defined role for IDA.<sup>10</sup> Another key element of the application process will be the crafting of a framework to monitor the country’s progress in peace- and state-building.

12. **Similar to the implementation over the past decade of the PC and RE regimes, Management will determine eligibility for support under the exceptional turn-around**

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<sup>10</sup> As has been the case under the exceptional PC and RE regimes, decisions on exceptional support will take account of consultations with international partners, including UN agencies and other multilateral organizations, bilateral donors and regional institutions as appropriate.

**regime.**<sup>11</sup> Decisions regarding eligibility will be informed by: (i) a country eligibility note; and (ii) the potential beneficiary country agreeing to and commencing implementation of a reform program endorsed by the Bank and the international community.

**13. The decision to proceed with exceptional support will take account of the guidance received during consultations with Executive Directors.** In cases where Management determines that a potential candidate meets the requirements for the provision of exceptional turn-around support, a process of consultation with the Executive Directors will be launched. Similar to the process for the allocation of resources from IDA's Crisis Response Window (CRW), the consultations with the Executive Directors will take place in the context of an oral briefing. The oral briefing will include a presentation of the parameters for the provision of exceptional support and its duration. The final eligibility decision will take account of the guidance received during these consultations and will be formalized in the next country strategy or country operation document.

**14. The country eligibility note will be prepared to inform decisions under the exceptional turn-around regime.** The note will assess a potential candidate for exceptional turn-around support against the definitions set out above (see Annex 1 for details). While the content will need to adapt to country context, it is expected that the note will at a minimum:<sup>12</sup>

- (i) Discuss the drivers of fragility and conflict, the nature of the turn-around situation and related challenges and opportunities.
- (ii) Address the relevant aspects of country eligibility, including an assessment of the type of turn-around situation as per the definitions above. Eligibility will be determined using the two-filter approach detailed in Annex 2. This approach aims at ring-fencing access to the exceptional turn-around regime to countries: (a) where fragility and conflict are imposing significant obstacles to development; and (b) are facing a turn-around situation and are committed to reform. The filters are modeled on the criteria and signals used as successful tools for selective engagement under the existing exceptional PC and RE regimes.
- (iii) Propose the framework for monitoring the country's progress towards resilience. This would include specific measures or reforms – considered as critical – and timelines for

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<sup>11</sup> This determination will be made within the context of IDA's broader legal and policy framework, which includes the Articles of Agreement and relevant provisions of various operational policies and procedures. Notably, this determination will be guided by the provisions of IDA's Articles of Agreement regarding IDA's purposes, terms of financing, cooperation with other international organizations, and the prohibition of political activity; and – where applicable – OP7.30 (Dealing with De Facto Governments) and the Bank's financial policies and its preferred creditor status.

<sup>12</sup> The 2011 WDR points out the need for assessing country circumstances (stresses, institutional challenges, stakeholders who need to be involved to make a difference) and adapting lessons from others to the local context. Within this context, it proposes a framework for assessing the challenges, risks and opportunities associated with a transition situation. This framework could inform the preparation of the relevant sections of the note.

their implementation that if missed would result in the country's returning to the regular PBA system.

- (iv) Indicate the parameters for the provision of exceptional turn-around support to the country – including the country-specific scale factor (see details in paragraph 18) and the duration of the eligibility period.
- (v) Indicate the amount of the exceptional allocation for the first year of eligibility.<sup>13</sup> Allocations for subsequent years will be determined as part of IDA's yearly allocation exercise and will be based on country performance as described in Section C below.<sup>14</sup>

### C. DETERMINATION OF THE LEVEL AND DURATION OF SUPPORT

15. **Allocating resources entails determinations regarding the allocation of exceptional support and the duration of eligibility for such support.** The country's allocation for the first year of eligibility will be specified in the country eligibility note. Allocations for subsequent years will be determined as part of IDA's yearly allocation exercise (which will allow for a swift response to changing country circumstances) following the performance-driven framework described below. The proposed resource allocation process will preserve the positive features of the exceptional PC and RE regimes while streamlining it and enhancing the role of portfolio performance.<sup>15</sup> In addition, the proposed approach will allow for flexibility to include newly eligible countries between two annual allocation exercises.<sup>16</sup>

#### *Determining a country's allocation*

16. **A country's allocation under the exceptional turn-around regime will be determined in three steps.** The first step will consist in assessing the beneficiary country's performance. In the second step, the assessment of performance and country-specific factors will be used to determine the per-capita support to the country. Finally, the per-capita support will be multiplied by the country's population to obtain the country's total allocation. These steps are detailed below.

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<sup>13</sup> As for the exceptional PC and RE regimes, there will be flexibility in the level of allocations for the first year of eligibility (i.e., allocations higher than the notional maximum per-capita allocations detailed in the next section could be possible). This flexibility reflects the acute need for resources that some countries could experience during the initial response to a turn-around situation. Such flexibility would only be warranted in very special circumstances (e.g., in cases where the conflict has been extremely destructive, but where the government's capacity to implement a comprehensive recovery program has remained strong) and with due regard for absorption capacity considerations.

<sup>14</sup> Allowing for off-cycle first year allocations will be key for providing a timely response to eligible turn-around situations that may emerge between two allocation exercises. Following the first year, allocations will be determined as part of the regular yearly cycle.

<sup>15</sup> This will allow FCSs to capitalize on the progress experienced in project implementation. It will also bring enhanced focus on the results framework, monitoring and the actual achievement of results.

<sup>16</sup> For more details on positive features of the exceptional PC and RE regimes – that the exceptional turn-around regime builds on – see Box 3 of “IDA's Support to Fragile and Conflict-affected States,” March 2013.

17. **Step 1: Assessing country performance.** Country performance will be assessed using the following performance index (PI):

$$PI = (0.8)PCPI + (0.2)PPR$$

Where PCPI and PPR are the country's Post-Conflict Performance Indicator and its Portfolio Performance Rating, respectively.<sup>17, 18</sup> For example, a country with PCPI and PPR scores of 3.5 and 4.5, respectively, would have a PI of 3.7.

18. **Step 2: Determining the per-capita allocation.** A country's per-capita allocation will be based on country performance (as assessed under step 1 above) and will be informed by country-specific factors. Below is detailed how these two elements will be incorporated in the determination of the country's per-capita allocation.

- The notional maximum level of per-capita support to an eligible country will be determined using the country's PI and a matrix mapping PI scores to notional maximum yearly per-capita allocations. Table 1 below presents what this matrix would be if the financing under the preferred "ask" scenario would be mobilized.<sup>19, 20</sup> Annex 5 illustrates the potential for the scaling up of support to qualifying countries under the preferred scenario: a qualifying country could receive an allocation from three times up to six times that it would receive using the regular IDA16 PBA formula. Referring to the country example in the paragraph above, the notional maximum per-capita allocation under the preferred "ask" scenario for a country with a PI of 3.7 would be US\$19 (see Table 1).

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<sup>17</sup> The PCPI is a set of criteria used to assess the quality of a country's policy and institutional framework tailored to the specific circumstances of PC and RE countries. The PPR reflects the share of a country's projects identified as actual problem projects and adjusted for the age of the country's portfolio. For a detailed discussion of the content and use of the PCPI and the PPR, see Annexes 4 through 6 of "IDA's Support to Fragile and Conflict-affected States," March 2013.

<sup>18</sup> The use of the PPR at this stage is a new feature relative to the exceptional PC and RE regimes. The PPR weight of 20 percent (as in the allocation formula under the exceptional PC regime) could be revisited at the IDA17 mid-term review with recommendations based on implementation experience. It should be noted that in cases where there is no active portfolio, when portfolio implementation has been severely disrupted by conflict or where reforms undertaken as part of the "turn-around" situations would lead to a qualitative change in project implementation lower weights may be considered in the initial years of the eligibility period. In such cases, however, it will be expected that the 20 percent weight be reached relatively quickly and that such level be sustained during possible re-applications – see illustration in Annex 3.

<sup>19</sup> See "Updated IDA17 Financing Framework and Key Financial Variables," September 2013.

<sup>20</sup> See Annex 4 for the matrixes underpinning the lower and higher "ask" scenarios.

**Table 1: Exceptional Turn-around Regime – Notional Maximum Per-capita Allocations Matrix**

Performance Index	Notional Maximum Per-capita Allocation (US\$ per annum)
2.0 to 2.5	5.4
2.5 to 3.0	9.6
3.0 to 3.5	13.6
3.5 to 4.0	19.0
4.0 to 4.5	23.0
Above 4.5	27.2

- The actual per-capita support to a country will be determined by modulating the notional maximum per-capita support to reflect country circumstances. This will be done with the help of a country-specific scale factor (“ $\alpha$ ”) which will be set at the time of the eligibility discussions.<sup>21</sup> This factor, which will have a maximum value of 1, will multiply the notional maximum per-capita levels obtained as per the bullet above. The value of the country-specific scale factor will be informed by:
  - *Country needs.* In general, it will be expected that countries in a post-conflict situation (reflecting their significant needs) would benefit from per-capita support closer to the notional maximum level. Actual per-capita support to other countries would be expected to be lower.<sup>22</sup>
  - *Country absorptive capacity.* Absorption will likely vary from country to country, especially in the initial years of eligibility. Severe absorption capacity limitations would result in lower levels of exceptional turn-around support.
  - *The level and duration of the exceptional support already provided by IDA.* As detailed in the re-application section, factoring in these two factors will be key when modulating the country’s transition to the regular PBA system.

Referring to the example of the country with a PI of 3.7, when gaining eligibility for the first time after a severe conflict and when absorptive capacity is strong, the actual per-capita support to the country could be close to US\$19 (i.e., the country-specific scale factor would be close to 1). On the other hand, if absorptive capacity is limited, the actual level of support would be lower. A lower actual support should also be expected if the country has not been affected by

<sup>21</sup> If warranted by context, consideration could be given to adjust this factor mid-course during the eligibility period to respond for example to a sharp change in a country’s absorption capacity or to the country missing the milestones agreed as part of the monitoring framework.

<sup>22</sup> PC considerations will be based on evidence of conflict intensity as per the current exceptional PC regime. Candidates for post-conflict considerations will have to fall into one of the following categories: (i) a country that has suffered from a severe and longstanding conflict which has led to extended inactivity as a borrower, or at least a substantial decline in the level of external assistance, including from IDA; (b) a country that has experienced a short but highly intensive conflict, leading to a disruption of IDA involvement; or (c) a newly sovereign state that has emerged through the violent break-up of a former entity. Furthermore, and as has per the past practice under the existing PC regime, evidence of conflict intensity will be used to assess the level of support, with at least one of the following assessed as high: (a) extent of human casualties; (b) proportion of population that is internally displaced; and (c) extent of physical destruction.

severe conflict or if it has already benefited in the past from exceptional support (see Annex 6 for illustration).

19. **Step 3: Determining the country's total allocation.** The country's total allocation will be equal to its actual per-capita allocation times its population.

### *Duration of support*

20. **The duration of the exceptional turn-around regime would be expected to be around two to three years.** The eligibility for exceptional turn-around support would be linked to the eligible country's national planning associated with the turn-around situation. In that regard, the length of the eligibility period would be set, in principle, to the duration of such a national planning (it is expected that this could be a two- to three-year period, acknowledging that – in some cases – this could be as short as one year depending on the national planning or political cycle).

### *Other implementation aspects*

21. **Unused allocations.** To optimize the use of IDA resources, resources allocated under the exceptional turn-around regime but not committed will be re-allocated as part of the re-allocation exercise (of country-allocable resources) undertaken in the last year of a replenishment period. This approach, already applied for the existing exceptional PC and RE regimes, reflects the fact that the exceptional turn-around regime is not a set aside but a special regime within the broad IDA allocation system. It also reflects the fact that support under the exceptional turn-around regime is not an entitlement. As per current practice, the re-allocations decisions will be informed by policy and institutional considerations as well as by portfolio performance.

22. **Capping.** Capping the level of exceptional turn-around support to any given country would be an important element in managing IDA's constrained resources.<sup>23</sup> IDA's experience with blend countries suggests that caps are needed to manage the impact that allocations to populous countries (based on per-capita levels) can have on the allocations to other IDA-countries. Considering this, an indicative cap is introduced to the level of exceptional turn-around support provided to any given country. Such cap is set at 7 percent of IDA's total core IDA financing. Also, an indicative cap of 15 percent of the overall IDA core financing has been set for the overall support through the exceptional turn-around regime.<sup>24</sup>

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<sup>23</sup> Under the exceptional PC regime there is special attention to avoid over-allocating scarce IDA resources to countries with large populations. Setting a cap on the level of support under the exceptional turn-around regime, especially in the context of the increase in the notional maximum per-capita allocation levels, would be consistent with this approach.

<sup>24</sup> Core financing refers to the financing supporting IDA's core program in clients. In the context of IDA17, it would exclude financing under the IDA regional program, the CRW, the systematic approach to arrears clearance and transitional support to India. Note also that these indicative caps refer only to the financing under the exceptional turn-around regime. They do not apply to the overall core financing for FCSs as a group.

#### IV. FEEDBACK LOOPS

23. **Flexibility accompanied by monitoring and accountability are key principles underpinning the exceptional turn-around regime.** Addressing these principles requires the incorporation of feedback mechanisms generating the adequate incentives and allowing for mid-course corrections. The exceptional turn-around regime incorporates enhanced and more dynamic feedback mechanisms relative to the existing exceptional PC and RE regimes.<sup>25</sup> The feedback mechanisms incorporated in the exceptional turn-around regime, illustrated in Chart 1, include:

(i) **Allocations responsiveness**, which creates a:

- Fast (annual) feedback loop. Allocations under the exceptional turn-around regime will be determined as part of IDA's yearly allocation exercise. As detailed in the resource allocation section, they will be responsive (i.e., increase/decrease) to both the country's policy and institutional performance (as measured by its PCPI) and its portfolio performance (as measured by its PPR).<sup>26</sup> This feedback loop was part of the exceptional PC and RE regimes and has been retained in the exceptional turn-around regime.
- Feedback loop that reflects country performance without lags. A country's PCPI and PPR are updated each year to reflect its most recent performance. This ensures a rapid transmission of changes in the country situation to allocations. This is particularly relevant for the country's policy and institutional environment since PCPI assessments cover events that took place in the year immediately before the assessment is undertaken. This feedback loop was part of the exceptional PC and RE regimes and has been retained for the exceptional turn-around regime.

(ii) **Monitoring framework.** As detailed above, as part of the eligibility discussions, a monitoring framework will be set up to track the country's progress in peace- and state-building. This monitoring framework will create:

- A feedback loop aligned with the length of the country's eligibility for exceptional turn-around support (typically two to three years). Countries with insufficient progress as per the monitoring framework will revert at the end of the eligibility period to the regular PBA system. This is a new feedback loop relative to the current exceptional PC and RE regimes (under which eligibility was granted for pre-established periods).
- A feedback loop by which a country could revert to the regular PBA-system within the eligibility period. The monitoring framework could set specific timelines for

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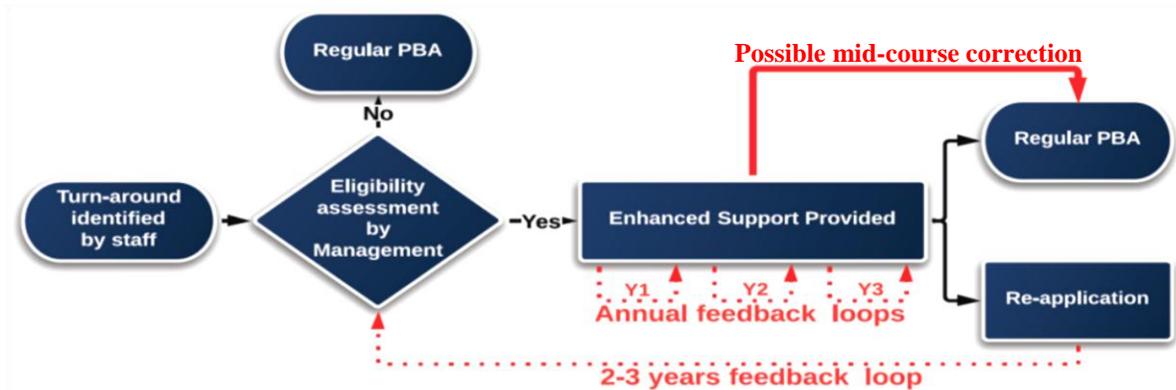
<sup>25</sup> The feedback loops in this note refer only to those that are part of the resource allocation process. As detailed in the draft Deputies Report, enhanced monitoring and evaluation and feedback loops will be incorporated in broader aspects of IDA's knowledge agenda and other aspects of its operational engagement with clients.

<sup>26</sup> As pointed out in the Paris document (see Box 3 in "IDA's Support to Fragile and Conflict-affected States," March 2013), a key advantage of this approach when compared to a set aside is the swift response to changes in country performance.

implementation of some critical measures or reforms that if missed would result in the country's returning to the regular PBA-system. This is a new feedback loop relative to the existing PC and RE regimes.

- (iii) **Recalibration of the level of exceptional support.** Management can, under exceptional circumstances, recalibrate the parameters of support during a country's eligibility period. This option would be applied only if warranted by significant set-backs/improvements in a country's environment (e.g., to reflect unsatisfactory country performance as detailed in the next section or to respond to a sharp change in the country's absorption capacity). The shorter eligibility periods and possibility of re-application under the exceptional turn-around regime mean that such recalibrations should not be frequent.

**Chart 1: Feedback loops**



## V. EXIT ARRANGEMENTS

24. **The exceptional turn-around regime would provide exceptional and targeted support for IDA countries strongly committed to building resilience when they confront exceptional openings for change.** Therefore, as part of the design, country eligibility for support under the exceptional turn-around regime will be terminated when the turn-around situation (as defined in the framework) no longer exists. The shorter eligibility period envisaged under the regime together with the long time-horizon involved in building resilience and heterogeneity of turn-around situations imply that the exit mechanisms should be complemented by the possibility of re-application. This possibility, however, would: (i) only be open if “turn-around” conditions continue to exist; and (ii) entail a re-calibration of the level of exceptional support to reflect updated country context.

25. **Reverting to the regular PBA system.** A country's eligibility for exceptional “turn-around” support will be terminated (i.e., the country will return to the regular PBA system) under three circumstances. First, at the end of the eligibility period if the country is no longer in a turn-

around situation.<sup>27</sup> Second, at the end of the eligibility period if the country's performance is not satisfactory as per the monitoring framework set out in the country eligibility note. Third, during the eligibility period, if the country fails to implement the specific measures or reforms considered as critical by the timeline specified in the country eligibility note. In the last circumstance, the return to the regular PBA system will take place at the beginning of the fiscal year immediately following the date set out in the eligibility note for the implementation of such critical measures or reforms.<sup>28,29</sup> Executive Directors will be notified as part of the next country strategy or operation document following the decision on termination of exceptional turn-around support. Relative to the current exceptional PC and RE regimes, the shorter eligibility periods would allow for a quicker return to the regular PBA system if countries cannot demonstrate progress in their "turn-around" process.

**26. Re-application.** At the end of the eligibility period, and if the "turn-around" process is successful (as demonstrated by the country's progress under the monitoring framework set out in the eligibility note), the country could re-apply for continued support under the exceptional turn-around regime. The decision on renewing a country's eligibility for exceptional turn-around support will be case-by-case and it will involve the same decision process, oversight by Executive Directors, and the use of the same criteria and principles as for a newly eligible country. The possibility of re-application, rather than pre-established "phase-out" periods, would increase IDA's flexibility to respond to changing conditions, including through the adequate recalibration of allocation levels. Furthermore, flexible timing would allow alignment of the support under the exceptional turn-around regime to national strategic planning.

**27. Phasing out from the exceptional turn-around regime.** Unlike the current exceptional PC and RE regimes, the exceptional turn-around regime does not entail a pre-established phasing out period. Instead, the return to the regular PBA system will be modulated as part of the re-application process. In that regard, as part of the re-application process two key elements to be factored in while deciding the level of exceptional turn-around support will be the level and duration of the exceptional support already provided by IDA to the country (note that this would also apply to current PC and RE countries – if and when they apply for the exceptional turn-around regime). For countries under the exceptional turn-around regime and which had access to the highest levels of support due to post-conflict considerations, the phasing out would notionally entail two stages:

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<sup>27</sup> Note that the definition of a "turn-around" situation entails not only the notion of an opportunity for change but also evidence of commitment by the country to address the drivers of fragility and conflict and satisfactory early performance.

<sup>28</sup> At the same time, it is important to avoid on and off interventions –particularly in the FCSs context. In that regard, consideration could be given to continue providing exceptional "turn-around" support depending on the degree of reversal in a country's progress under its "turn-around" process. If deemed appropriate, the enhanced support could be continued with due consideration of the country implementing remedial actions and the recalibration of the level of exceptional support.

<sup>29</sup> The exceptional allocations foregone will be redistributed through the regular PBA system and associated channels (e.g., re-allocations during the last year of a replenishment period).

- (i) The phasing out from “higher levels” under the exceptional turn-around regime to the “regular levels” under the exceptional turn-around regime.<sup>30</sup>
- (ii) The phasing out from the “regular levels” under the exceptional turn-around regime to the regular PBA system.<sup>31</sup>

## VI. MONITORING AND REVISION

28. **At the time of the IDA17 Mid-Term Review (MTR), Management will report its experience on implementing the exceptional turn-around regime and propose adjustments to the framework if needed.** The proposed framework for the exceptional turn-around regime incorporates several new elements relative to the current exceptional PC and RE regimes. Some of these new elements are currently still under development, especially the ones linked to the New Deal process (e.g., Fragility Assessments, PSIs). In this context, Management will adapt the framework as progress on these new elements unfolds. The proposed reporting by the IDA17 MTR will elaborate – in light of implementation experience – on possible adjustments to the definition of a turn-around situation as well as on the process, criteria and other implementation arrangements underpinning the framework. It will also report on the modalities for incorporation of the elements currently in development under the New Deal and experience with the enhanced role of portfolio performance under the new exceptional regime.

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<sup>30</sup> Clearly the duration of the high level of support warranted under post-conflict considerations will have to be context-specific. However, as a rule of thumb, it will be expected that countries would phase out from those high levels after about 2 to 3 consecutive eligibility cycles.

<sup>31</sup> As part of this return to the regular PBA system, it will be expected that the country-specific scaling factor “ $\alpha$ ” follows a decreasing path that will ensure a “soft landing” to the allocation levels determined under the regular PBA system.

## **Annex 1: Indicative Content of the Country Eligibility Note**

The effectiveness of providing support under the exceptional turn-around regime depends on ensuring the adequate targeting, timing and volume of such support. To inform Management's decisions, staff will prepare a country eligibility note which will address the following points:

- **Background on fragility and conflict**

This section will outline the country context, including the nature of fragility and/or conflict and key peace- and state-building priorities. It should in particular outline the key drivers and/or stresses associated with fragility and conflict and their impact on development.<sup>32</sup>

- **Eligibility assessment**

This section will address eligibility issues as per the two-filter approach described in Annex 2. This annex also details the evidence base and expected content of this section. In particular this section will need to provide elements on the nature of the turn-around situation and the related challenges, risks and opportunities to step up support to peace- and state-building.<sup>33</sup>

- **Monitoring framework**

This section will spell out the milestones that will be used to monitor the country's progress on peace- and state-building priorities (which should be outlined in the background section). The milestones could include specific reforms, policy measures, as well as indicators and related targets to be met in the short-term (immediate or within a year's period) and longer term.<sup>34</sup> Building on the principles outlined in section 1 of this note, the monitoring framework should focus on indicators/policy actions that: (i) build on national strategies; (ii) are limited in number (i.e., select those that are critical to support the specific peace- and state-building priorities); and (iii) are adequately specified to ensure monitorability.

The monitoring framework could also include specific timelines for implementation of some critical measures or reforms that if missed would result in the country's returning to the regular PBA-system.

- **Proposed parameters for the provision of support**

This section will propose and duly motivate the key parameters for the provision of support: (i) the weight for portfolio performance in the performance index, and – if the initial weight is smaller than 20 percent – the path for reaching the 20- percent indicative threshold; (ii) the scaling factor “ $\alpha$ ” applicable to the country; (iii) and the duration of the eligibility period.

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<sup>32</sup> As part of the IDA17 policy commitments, an analysis of the drivers of fragility and conflict will have to be included in all country strategy documents for IDA FCSs.

<sup>33</sup> The 2011 WDR proposed a framework for assessing the risks and opportunities associated to transition moments (see Chapter 8, Practical Country Directions and Options). This framework could inform the preparation of this section.

<sup>34</sup> Indicators to assess the country's performance during the eligibility period could include the CPIA, PCPI, PSIs as well as indicators on macroeconomic performance, progress on economic and social reforms and on the incidence of violence and conflict intensity as considered relevant given the country context.

See Section III.C for details on the determination of the scaling factor applicable to the country. The duration of the eligibility period should normally be aligned with the length of the national planning associated to the turn-around situation.

- **The level of the exceptional allocation for the first year of eligibility**

For subsequent years, the allocations will be determined as part of IDA's yearly allocation exercise. They will reflect country performance as per the parameters detailed in the bullet above.

## Annex 2: Two-Filter Approach for Identifying “Turn-around” Situations

### Filter 1: Determine if Fragility and Conflict have a Significant Development Impact on the Country

Objective	Evidence Base	Treatment in Eligibility Note	Notes
Establish evidence that conflict and/or collapse of the state are imposing significant obstacles to development in the potential candidate.	<p>The evidence base for this filter will be provided by the PCPI framework.<sup>35</sup> Countries with a PCPI score greater than 5.5 will be, in principle, ineligible for support under the exceptional turn-around regime.</p> <ul style="list-style-type: none"> <li>The PCPI is designed such that an overall PCPI score of 5.5 or higher reflects a situation where the country’s policy and institutional framework is sufficient to insulate its development from the impact of fragility and conflict (including the risk of relapsing into conflict).</li> </ul>	<ul style="list-style-type: none"> <li>The eligibility note will include a section on the country policy and institutional environment and the relevant impact of its weaknesses or strengths on development.</li> </ul>	<p><b>On the evidence base:</b></p> <ul style="list-style-type: none"> <li>Using a 5.5. PCPI threshold will not preclude countries with a CPIA above 3.2 from access to support under the exceptional turn-around regime.<sup>36</sup></li> <li>Using the PCPI framework will provide a common metric – applicable to fragile situations – for measuring the quality of policies and institutions for all beneficiary countries, providing relevant baselines and comparators.</li> <li>Use of this filter will entail:<sup>37</sup> <ul style="list-style-type: none"> <li>expanding the coverage of the PCPI exercise (currently applied only to countries under the exceptional PC and RE regimes); and</li> <li>allowing for off-cycle PCPI assessments.</li> </ul> </li> </ul> <p><b>On the eligibility note:</b></p> <ul style="list-style-type: none"> <li>The section in the eligibility note will draw on the PCPI framework.</li> </ul>

<sup>35</sup> Country teams will be responsible for undertaking the PCPI exercise for countries under consideration for the exceptional turn-around regime.

<sup>36</sup> The last round of revisions of the PCPI framework established a more explicit link between CPIA and PCPI whereby there is a broad correspondence between PCPI scores of 5.0-6.0 and CPIA scores of 3.0-3.5. This relationship, however, is indicative only as the contents of the two sets of criteria do not fully overlap. Exceptional turn-around support to countries with CPIA scores above 3.2 could be available in rare cases where fragility and conflict have an impact sufficiently large so as to translate into a PCPI below 5.5.

<sup>37</sup> This selective approach would avoid undertaking PCPI assessments for all IDA countries, which will be a resource-intensive exercise. Instead, at the end of each fiscal year, PCPI assessments will be performed for all countries eligible for support under the exceptional turn-around regime. As part of the yearly exercise, staff will also undertake assessments for countries that – while not eligible – could become (in staff’s view) eligible for exceptional turn-around support. Only PCPI assessments for countries actually eligible for exceptional turn-around support will be publicly disclosed and will be the basis for determining the country’s exceptional turn-around allocation for the year in which they become public. This is consistent with the current practice under the exceptional PC and RE regimes. However, unforeseen “turn-around” situations may emerge during a given fiscal year in countries which have not been assessed as part of the yearly PCPI exercise. For these countries, staff will undertake an off-cycle PCPI assessment for which staff will apply the same review and scrutiny as for the assessments performed as part of the regular yearly exercise.

## Filter 2: Determine if the Conditions for Providing Support under the Exceptional “Turn-around” Regime are Met

Objective	Evidence Base	Treatment in Eligibility Note	Notes
<p>Establish evidence that:</p> <p>(i) the potential candidate is facing a “turn-around” situation (as defined for the purpose of this regime);</p> <p>(ii) the potential candidate is committed to take the steps necessary to make the most out of that situation (e.g., avoid conflict, identify and address the drivers of fragility and conflict); and</p> <p>(iii) the national planning associated with the “turn-around” situation has broad international support.</p>	<p>Evidence would need to show:</p> <p>a. a reasonable expectation of continued stability (based, inter alia, on the Bank’s endorsement of a national plan associated with the turn-around situation);<sup>38</sup></p> <p>b. an effective national counterpart for the Bank;</p> <p>c. concerted international support for the national planning and the potential for a well-defined role for the Bank;<sup>39</sup> and</p> <p>d. satisfactory early performance demonstrated, for example, by strong portfolio performance or by the country having taken convincing steps towards social and economic recovery.</p> <p>For countries emerging from conflict, it would also be expected that active conflict has diminished sufficiently to allow implementation of IDA-supported activities, including by a reasonable expectation of a formal cease-fire.<sup>40</sup></p>	<p>The eligibility note will include a section discussing:</p> <ul style="list-style-type: none"> <li>• The characteristics of the turn-around situation, including: <ul style="list-style-type: none"> <li>○ the signals suggesting that the country is facing a turn-around situation;</li> <li>○ the challenges and opportunities associated with the turn-around situation;</li> </ul> </li> <li>• The national planning associated to the turn-around situation, including: <ul style="list-style-type: none"> <li>○ its preparation process;</li> <li>○ its priorities and actions (with the envisaged sequencing and phasing of implementation);</li> <li>○ the international community support and the Bank role.</li> </ul> </li> <li>• The signals showing the country’s strong commitment to reform, including the elements of early satisfactory performance;</li> <li>• The compatibility of providing exceptional turn-around support with the relevant Bank policies, procedures and other requirements.</li> </ul>	<p><b>On the evidence base:</b></p> <ul style="list-style-type: none"> <li>• The evidence base for this filter is modeled based on Operational Policy 2.30 and other criteria guiding the decisions under the exceptional PC and RE regimes.<sup>41</sup></li> <li>• Portfolio performance would need to be used flexibly as part of this filter.</li> </ul> <p><b>On the eligibility note:</b></p> <ul style="list-style-type: none"> <li>• The section in the eligibility note could draw on Bank staff assessments, CPIA and PCPI exercises, the tracking of PSIs (developed under the New Deal), country-led fragility assessments, and in transitions results frameworks and compacts signed onto by government and development partners.</li> </ul>

<sup>38</sup> The national planning associated with the turn-around situation should reflect a nationally owned process of widespread consultation, through national dialogues, stakeholder consultation and an inclusive political process.

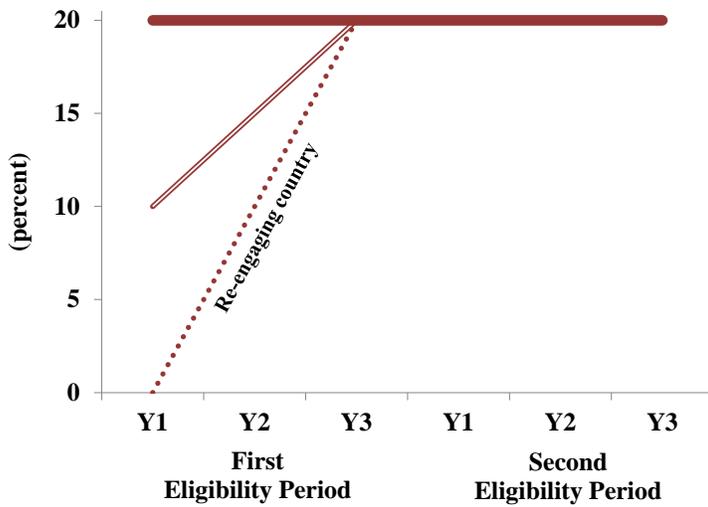
<sup>39</sup> Concerted support from the international community could be demonstrated through donor conferences, alignment of a Post-Conflict Needs Assessment (PCNA) to the national plan and/or New Deal compacts.

<sup>40</sup> Evidence of conflict reduction could include a reduction in the actual incidence of violence (measured in violent deaths, including battle deaths, civilian deaths and/or violence by non-state actors, or destruction), demonstrable and voluntary returns of displaced persons or other efforts to avoid violence, including truth and/or reconciliation campaigns, signing of ceasefire or other peace agreements, security sector reforms and commitment to demobilization, disarmament and reintegration programs; sources for these could be national accounts and/or academic/news sources (e.g., the Armed Conflict Location and Event Database (ACLED) or the Armed Conflict Database from UCDP).

<sup>41</sup> The policy framework under OP2.30 contains various principles for the Bank’s involvement in conflict-affected areas. Certain elements of that framework could also provide useful guidance in the case of countries that have not been heavily impacted by conflict (e.g., reasonable expectation of continued stability).

### Annex 3: Level of Support under the Exceptional Turn-around Regime – Country-Specific Considerations in the Calculation of a Country’s Performance Index

#### Performance Index. Guidance on the Weight for Portfolio Performance



**Indicative weight: 20%**

**Default:** indicative weight applied in calculation of PI

**Country-specific consideration:** lower weights in initial years could be considered

- For re-engaging countries
- For some countries with low current actual PPR

**Expectation:** if lower weights are applied in initial years, the 20% level should be reached quickly and it should be sustained in eventual re-applications

#### **Annex 4: Notional Maximum Per-capita Allocations Matrixes**

##### **Lower Scenario**

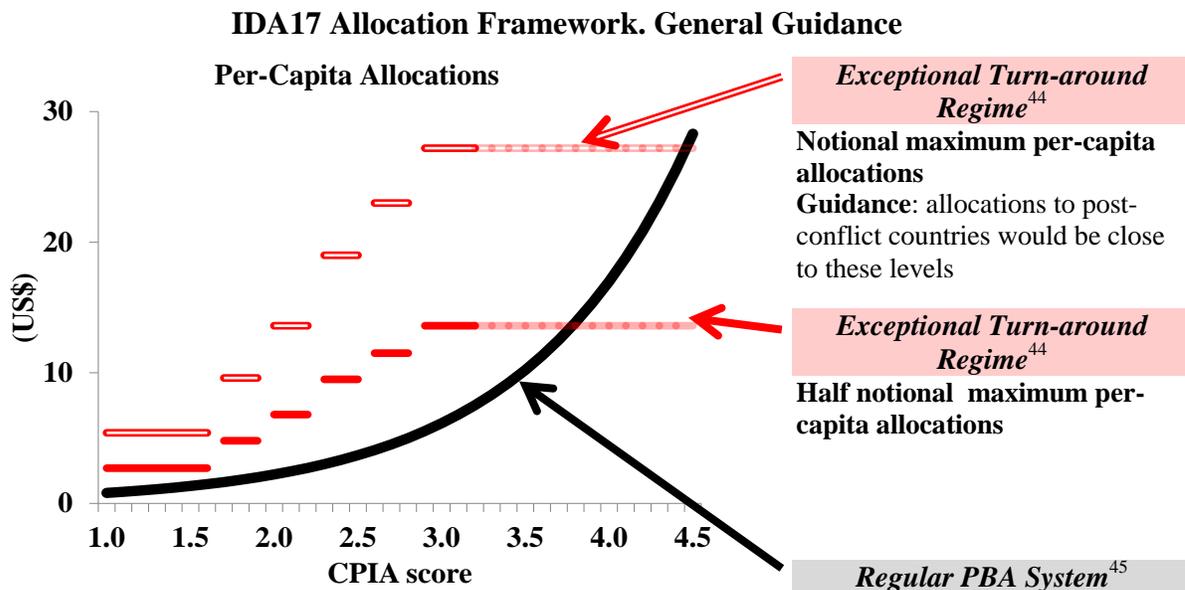
<b>Performance Index</b>	<b>Notional Maximum Per-capita Allocation (US\$ per annum)</b>
2.0 to 2.5	5.1
2.5 to 3.0	9.0
3.0 to 3.5	12.8
3.5 to 4.0	17.9
4.0 to 4.5	21.6
Above 4.5	25.5

##### **Higher Scenario**

<b>Performance Index</b>	<b>Notional Maximum Per-capita Allocation (US\$ per annum)</b>
2.0 to 2.5	5.8
2.5 to 3.0	10.2
3.0 to 3.5	14.5
3.5 to 4.0	20.2
4.0 to 4.5	24.5
Above 4.5	28.9

## Annex 5: Level of Support under the Exceptional Turn-around Regime: General Guidance

The chart below illustrates the strong incentives for performance that are embedded in the exceptional turn-around regime. It also illustrates the significant levels of exceptional support that IDA will have the possibility to target to qualifying countries – if and when facing a turn-around situation and meeting eligibility requirements. As an illustration, a country qualifying for support under the exceptional turn-around regime – and with a CPIA score around the average for countries under the PC and RE regimes – could receive an allocation between three to six times that it would have received using the IDA16 PBA formula (between two and a half and five times using the proposed IDA17 regular PBA formula).<sup>42</sup> This scale up potential is driven by the proposed increase in the notional maximum per-capita allocations under the exceptional turn-around regime relative to the levels agreed in IDA14 for the exceptional PC regime.<sup>43</sup>



<sup>42</sup> This reflects the notional maximum per-capita levels for the exceptional turn-around regime envisaged under the “preferred” scenario in the financing paper.

<sup>43</sup> If the IDA14 levels were to be used, the corresponding range would have been one and a half and 3 times the levels the country would have received using the IDA16 PBA formula.

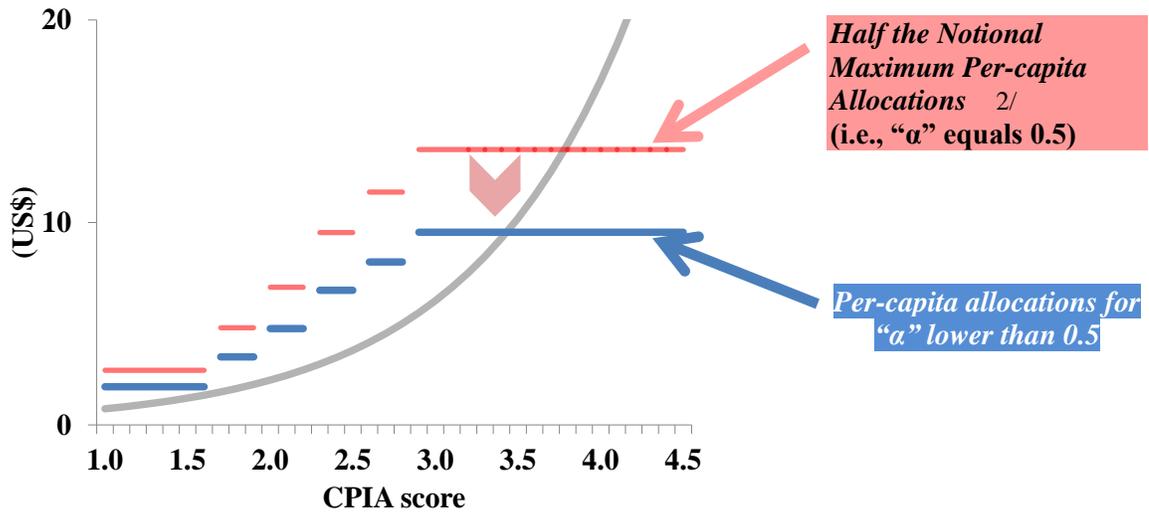
<sup>44</sup> Reflects an indicative broad correspondence between PCPI scores of 5.0-6.0 and CPIA scores of 3.0-3.5. To simplify the presentation, the chart does not reflect the full performance index (i.e., it does not include the PPR).

<sup>45</sup> Allocation curve for the regular PBA system has been estimated based on parameters underpinning the IDA country allocations for FY14 and reflecting the revisions to the regular PBA system formula proposed for IDA17.

### Annex 6: Exceptional Turn-around Regime. Illustrative Country Case

The below illustrates the case of a country where the scale factor “ $\alpha$ ” is below 0.5. This could be the case of a country with low absorption capacity or that has already benefited from exceptional turn-around support for a long period and is reverting gradually to the regular PBA system.

Matrix of Per-capita Allocations for an Illustrative Country Case 1/



Notes:

- 1/ The gray line shows the PBA allocation curve. The red one shows half the notional maximum per-capita allocations under the exceptional turn-around regime (i.e., “ $\alpha$ ” is 0.5). The blue line presents the per-capita allocations for a country where “ $\alpha$ ” is below 0.5.
- 2/ Reflects an indicative broad correspondence between PCPI scores of 5.0-6.0 and CPIA scores of 3.0-3.5. To simplify the presentation, the chart does not reflect the full performance index (i.e., it does not include the PPR).