

76048

Dealing with Governance and Anticorruption (GAC) Issues in Fragile and Conflict-Affected States:

Ten Things Team Leaders Should Know



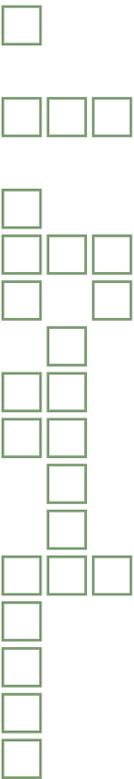
Public Disclosure Authorized

Public Disclosure Authorized

Public Disclosure Authorized

Public Disclosure Authorized





Dealing with Governance and Anticorruption (GAC) Issues in Fragile and Conflict-Affected States:

Ten Things Team Leaders Should Know

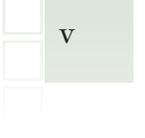
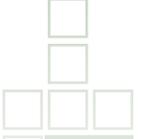
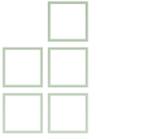
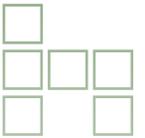


Contents

Abbreviations and Acronyms	iv
Acknowledgments	v
Dealing with GAC Issues in Fragile and Conflict-Affected States: Ten Things Team Leaders Should Know	1
1. Understanding the “Drivers of Stress”: Gaps, Traps, and Foreign Aid	3
2. Delivering Services/Restoring Trust : The Imperatives of Peace and Progress	5
3. Dealing with Corruption : What (NOT) to Do	7
4. Understanding Realities on the Ground: The Need for Political Economy Analysis	9
5. Picking Up the Pieces: The Use of Social Assessments and Value Chain Analysis	11
6. Dealing with Trade-offs: Balancing Speed, Risks, and Results	13
7. Laying the Foundation: “Smart Project Design”	15
8. Applying the “TAP” Principles: Emerging Good Practices	17
9. Building Capacity: A Results-Based Learning-by-Doing Approach	19
10. Choosing the Right Instrument: The Special Role of Community-Driven Development Projects	21
Annex A.	23

Abbreviations and Acronyms

CSO	Civil society organization
FCS	Fragile and conflict-affected state
GAC	Governance and anticorruption
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
M&E	Monitoring and evaluation
NGO	Nongovernmental organization
PMU	Project management unit
TAP	TAP Principles – Transparency, Accountability, and Participation
TTL	Task team leader
WDR	World Development Report

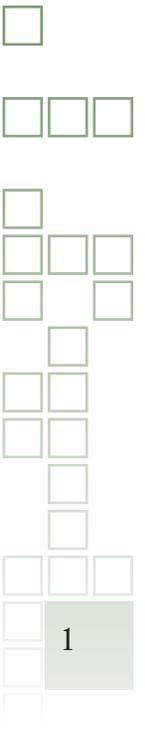


Acknowledgments

This note complements a recent paper—Dealing with GAC Issues in Project Lending: The Special Case of Fragile and Conflict-Affected States—sponsored by Africa Region Core Operations Services (AFTOS), and the Global Center on Conflict, Security and Development (OPCFN), under the direction of Sahr Kpundeh, Adviser on Governance and Anti-Corruption (AFTOS), and Stephen Ndegwa, Adviser, OPCFN. The earlier paper takes stock of our current thinking on the intersection of two major streams of Bank work—the governance and anticorruption agenda as it affects Bank operations, and the fragile and conflict-affected states agenda as reflected in the 2011 World Development Report, Conflict, Security, and Development.

This note extracts from that larger study the key points that task team leaders should bear in mind as they work on Bank-financed projects in the fragile and conflict-affected states of Africa. The hope is that making the key operational implications more accessible to those task team leaders will contribute to improved development outcomes through better project design, more effective implementation support, and more efficient use of supervision resources. In recognition of the important role played by country and sector managers, additional points that they should keep in mind are contained in an attachment to the main text. Given the purposely abbreviated content of this note, interested readers may wish to consult the larger paper for additional information and perspectives.

The principal author of both pieces was Richard Calkins (Consultant).



Dealing with GAC Issues in Fragile and Conflict-Affected States:

Ten Things Team Leaders Should Know

Over the past several years, to improve development outcomes, the Bank has developed new and more effective tools and approaches for dealing with governance and anticorruption (GAC) issues at the country, sector, and project levels. At the same time, the Bank has increased its focus on fragile and conflict-affected states (FCS), as reflected in the 2011 World Development Report (WDR): Conflict, Security, and Development. Helping these countries achieve their development objectives—including the Millennium Development Goals—is a critical part of the Bank’s mission to reduce poverty. This note focuses on the intersection of these two efforts.

While the GAC agenda is motivated by the desire to improve development outcomes, the agenda itself is fundamentally about managing risks—governance and corruption risks—to the achievement of those outcomes. Therefore, the Bank’s GAC in Projects Group has defined the operational agenda around the following four key elements—each of which is especially relevant to FCS countries:

- **Understanding the country context**
- **Improving the assessment of risks**
- **Expanding the options for risk mitigation**
- **Strengthening project supervision and implementation support.**

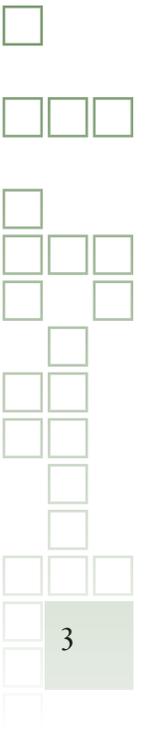
On a parallel track, the Bank is working to strengthen its support to the FCS. The approach includes both near-term policy and procedural changes to improve the Bank’s operational effectiveness, and the preparation of a more comprehensive strategy for longer-term engagement—building on the analysis and recommendations of the 2011 WDR.

In attempting to integrate the GAC and FCS agendas, it is clear that we have much to learn. We know, for example, that governance and corruption risks pose a serious threat in many of the FCS, not just to the achievement of development objectives but to the prospects for sustaining peace and building more accountable state institutions. However, emerging good practice GAC tools and approaches may not work in FCS, or at least they will need to be adapted to FCS circumstances.

This note aims to share what we’ve learned so far about some of the practical things that task team leaders (TTLs) should take into account in designing and supervising Bank-financed projects in FCS.

Ten Things TTLs Should Know

1. Understanding the “drivers of stress”: fragility and conflict.
2. Delivering services/restoring trust: the imperatives of peace and progress.
3. Dealing with corruption: what (not) to do.
4. Understanding realities on the ground: the need for political economy analysis.
5. Picking up the pieces: the use of social assessments and value chain analysis.
6. Dealing with trade-offs: balancing speed, risks, and results.
7. Laying the foundations: smart project design.
8. Applying the “TAP” principals: emerging good practice.
9. Building capacity: a “results-based” learning-by-doing approach.
10. Choosing the instrument: the special role of community-driven development projects.



1. Understanding the “Drivers of Stress”:

Gaps, Traps, and Foreign Aid

Failing to understand the underlying causes of fragility and conflict in a country can lead to interventions that exacerbate the stresses affecting the country, its government, and its people. By understanding the “drivers of stress,” TTLs can take them into account in the design and implementation of projects. There is a growing literature on the causes of fragility and conflict within this diverse set of countries. Most are referred to as gaps or traps—low-level equilibriums for which there is no quick or easy solution.

The Capacity Gap. Fragile states generally suffer from a lack of institutional capacity in various functions and dimensions—especially in post-conflict situations, where civil war may have destroyed not just physical infrastructure but many of the key institutions of the state, the private sector, and civil society. Countries with weak institutions are simply not capable of establishing and sustaining the balance of power among competing interests that is necessary for peace and political stability, and therefore they are prone to repeated cycles of conflict and violence.

The Natural Resources Curse. Dependence on natural resources increases the risk of fragility and conflict. Even countries that are rich in exportable oil, diamonds, or other minerals grow more slowly and have a higher potential for internal conflict. Those in charge may divert enormous sums of money to their own pockets, while “lootable” natural resources become a focus for factional fighting and a source of funding for rebel forces.

The Expectations Trap. Governments that are forced to seek public sector revenue primarily by taxing their citizens are likely to be more responsive and accountable than those with an alternative source of income, such as exportable natural resources or even large inflows of foreign aid. Without such accountability, the result may be a social compact that encompasses minimal expectations on both sides (basically, “we won’t bother you, and we don’t expect you to bother us”)—an attitude that is not uncommon in the 17 FCS in Africa.

Ethnic Issues. Ethnic diversity compounds the challenges of development in low-income countries, and increases the risk of conflict. The existence of various ethnic groups, each with powerful loyalties, may complicate the achievement of political equity, especially in the case of

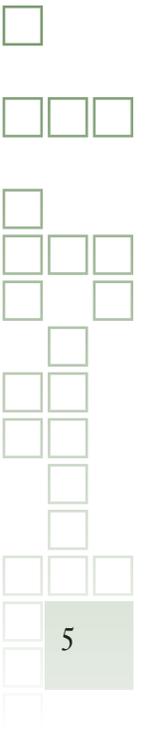


electoral systems with a “winner takes all” outcome (where the majority group can control the outcome of elections).

The Governance Gap. Many FCS suffer from weak governance, including a lack of transparency, accountability, and inclusion in their approach and in their institutions.

The Conflict Trap. Countries that are engaged in conflict, and even post-conflict situations, represent a special challenge for the donor community. The unfortunate reality is that roughly half of all countries that have endured a civil war will revert to conflict within a decade.

For TTLs, the starting point should be to understand the specific drivers of stress as they have played out over time in the particular country in which they are engaged. Ideally, Bank-financed projects should be designed and implemented to help reduce some of those sources of stress. At a minimum, they should avoid making things worse!



2. Delivering Services/ Restoring Trust:

The Imperatives of Peace and Progress

The greatest challenge for the donor community arises when peace comes to a country that was formerly in conflict. The peace process gets competing interests to the bargaining table, but that is only the start of the process. Other elements include the need to establish political stability, restore security, establish justice, and achieve a “peace dividend.” Underlying the entire process is the need to restore confidence and trust in the public sector. And, given the possibility of repeated cycles of conflict and a persistent risk of violence, issues of trust and confidence will be a perpetual concern.

Need for Accommodation. When competing interests are not resolved by a clear winner on the battlefield, resolution of the conflict will involve compromise and accommodation. Leaders of militias that may have caused untold bloodshed and trauma, and financed their efforts through criminal activity, may now become part of a governing coalition. Their followers will need to “share in the spoils” through the assignment of various ministries, which will be staffed by former combatants.

Governance Challenges. Not surprisingly, regimes that come to power through conflict often suffer from governance challenges. While this is not an ideal outcome, peace is absolutely essential for socioeconomic development. Indeed, the need for political stability and peace trumps both state-building and socioeconomic development when conflicting priorities arise.

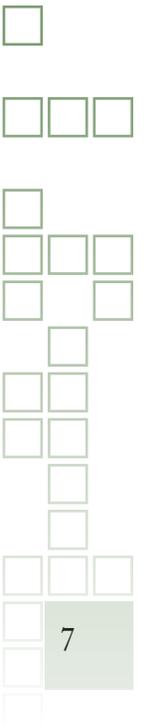
High Expectations. Expectations for change—for “a new deal”—may be extraordinarily high. In most cases, those expectations will not be met. At a minimum, progress on security and justice will allow a transition from emergency relief and humanitarian aid to reconstruction and development. Indeed, the real peace dividend (hopefully) will be the rapid restoration of basic services, the creation of new jobs, and growth in incomes.

Restoration of Confidence and Trust in the Public Sector. Research indicates that trust comes primarily through improvements in social well-being—which in turn arise from three key elements: the protections afforded by security and the rule of law; the availability of basic services; and growing incomes. These same factors contribute to a sense of optimism about the future, and thus encourage private sector investment (and reverse capital flight). Therefore, improvements in the delivery of basic services can become part of a new “virtuous circle” of socioeconomic development.



Government Functions. Fully meeting these expectations will require the creation of resilient institutions able to carry out the essential functions of government: political, security, and rule-of-law functions; management of public finances; delivery of basic services; and support for socioeconomic development. Creating such institutions, however, is never easy, and is especially difficult in FCS. A major challenge involves the trade-offs between the immediate objective of restoring basic services as quickly as possible and the longer-term objective of building the capacity of public institutions to plan and manage the delivery of those services. However, achieving just two or three significant outcomes during the first year of the peace process is often enough to begin to generate trust.

TTLs should be aware of the connections between service delivery and trust issues, and take them into account in designing project support.



3. Dealing with Corruption:

What (NOT) to Do

Dealing with governance and corruption issues in FCS is both more important than in non-FCS, and more difficult. Good governance is generally associated with faster, private-sector-led growth and with more pro-poor development outcomes. Poor governance has the opposite effects and provides greater scope for corruption to occur. In fragile states, where governance is (by definition) poor, corruption may be both a cause and a consequence of armed conflict. War itself provides the need and the opportunity to loot natural resources and to develop criminal networks trafficking in arms, drugs, and people. In a post-conflict setting, widespread corruption has negative consequences for growth and poverty reduction and is likely to generate resentment and frustration among the disadvantaged, sowing the seeds of future conflict. Even in the absence of conflict, poor governance and corruption reduce confidence and trust in the public sector—not just among citizens, but within the donor community as well, with serious implications for the level and continuity of financial support.

Roots of Corruption. Unfortunately, we seem to know more about what NOT to do than what TO do in this area. We know that the roots of corruption lie in dysfunctional state institutions, often complicated in conflict-affected states by the war's legacy of corruption. So the obvious solution is to strengthen state institutions, focusing on the development of rule of law (police, courts, and prisons), and oversight institutions (parliaments, audit agencies, and specialized anti-corruption agencies).

Careful Approach Needed. However, as the 2011 WDR makes clear, (a) it takes decades for these institutions to be fully effective; and (b) a rules-based, frontal attack on corruption, in the absence of rule of law and effective oversight institutions, will fail. In fact, such an attack may backfire, destabilizing political and security conditions. At best, false expectations will be raised and subsequently dashed, increasing public cynicism and reducing trust. At worst, those in power may use the effort against their political opponents, threatening the prospects for peace.

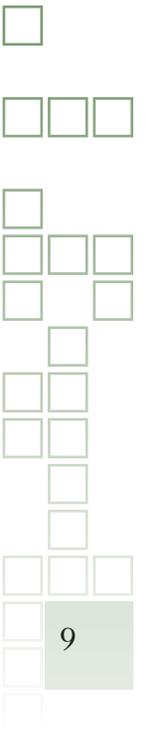
Dangers of Ignoring Corruption. However, ignoring corruption, especially in the early period of a new peace accord, is equally dangerous and likely to be destabilizing in the medium term. Unchecked, corruption becomes entrenched, and a culture of impunity is embedded in the institutions of the state, making it even more difficult to root out later.

What TO do About Corruption? The prospects for success are greatly enhanced when the donor community is willing and able to speak with one voice, and to take a hard line on corruption issues. Tackling grand corruption at the national level can have a positive impact on both public



sector integrity and fiscal revenues (e.g., demanding greater transparency and accountability in the management of revenues from key natural resources). That is not to suggest that petty corruption, which affects every citizen almost daily, is less important; but when you can't do everything at once, it may be better for donors to target their attention to where the fiscal payoffs are highest—or where unchecked corruption is likely to create the greatest threat to security and political stability.

Over time, it should also be possible to improve governance and reduce corruption at the local level through donor-financed sector- and project-level interventions.



4. Understanding Realities on the Ground:

The Need for Political Economy Analysis

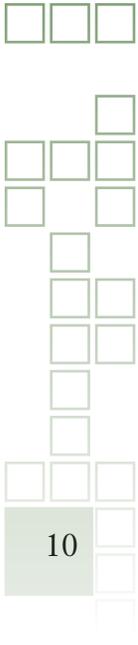
In both the GAC and the FCS agendas, politics matter. Political conditions determine both the nature of the GAC issues and the potential for resolving them. Therefore, while an understanding of country context is important for working in all member countries, it is absolutely critical in FCS. These countries are not normal: while their political structures vary, and while some governments may be politically powerful, governance is notoriously weak and public sector institutions are dysfunctional; corruption is often rampant, and development outcomes are uniformly poor. Both civil society and the private sector are likely to be severely underdeveloped, and, in conflict-affected states, the security situation may involve substantial risk and uncertainty. Donor support needs to reflect those realities and be informed by the political factors underpinning them.

Political Economy Analysis. Political economy analysis is an important tool for understanding realities on the ground. In FCS, however, more is required than the standard analysis that identifies the “key players,” the “rules of the game,” and the “winners and losers” of possible reforms. What is needed is a more in-depth analysis of the underlying causes of fragility and conflict—such factors as historical legacies, religious or ethnic grievances, internal economic incentives, and external political (and possibly criminal) influences.

Need for Speed. In post-conflict settings, the international community must work quickly in supporting the peace process, including establishing security arrangements, providing emergency relief, and making initial plans for socioeconomic development. In the interests of speed, therefore, teams should take advantage of whatever political economy analysis already exists, and share that analysis among all of the key players. In particularly sensitive areas (e.g., intelligence assessments of the security situation, and relationships among various political factions), the Bank may need to rely on others who are better placed to provide that information.

New Assessments. When new assessments are required—whether at the outset or in response to rapidly changing circumstances—teams should make every effort to collaborate with other key actors on their design and implementation. In addition to the obvious economies of scale and specialization, joint assessments minimize the burden on country counterparts from every donor wanting to carry out its own diagnostic work.

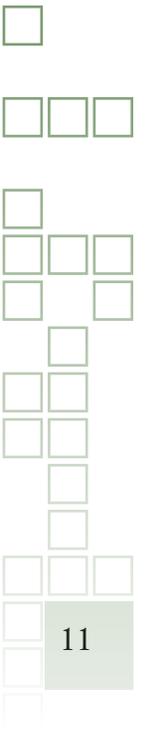
Focus of Analysis. Political economy analysis may be focused at the national, sectoral, or project level, or on a specific issue or theme. If the outcomes are likely to be politically sensitive (as in the assessment of corruption issues at the country and sector levels), a major conundrum is the



extent to which the findings can or should be widely shared. A related issue involves the possibility that politically sensitive reports may be leaked if shared beyond a very limited number of people.

Collaboration. Ideally, political economy analysis targeted to specific issues of concern to both the donor community and the government would be carried out collaboratively. Such an approach helps ensure that the results fully reflect local realities, have the support of all parties concerned, and feed into to a country-led strategy for resolving issues.

TTLs should familiarize themselves with whatever political economy analysis may already be available, and should consider applying political economy analysis to key issues in their sectors and projects.



5. Picking Up the Pieces:

The Use of Social Assessments and Value Chain Analysis

Civil wars are the antithesis of development: they shatter lives and livelihoods, destroy physical and institutional infrastructure, create hordes of refugees and internally displaced people, and generate hatred and mistrust between communities and ethnic groups. Internal conflict is one of the most common causes of fragility: of the 17 FCS countries in Africa, 8 have had UN peace-building/peace-keeping missions in the past three years. In countries torn by internal conflict, it is especially important for development programs to be informed by social assessments—at the country, sector, and community levels—with an initial focus on identifying the drivers of stress.

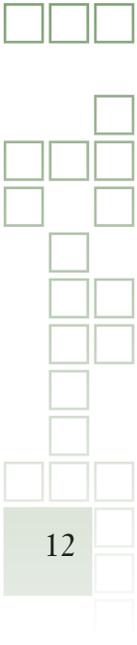
Need for Trust. The creation of critical public goods, such as security, public sector accountability, and rule of law, requires a combination of public spirit, mutual sacrifice, and collective action. These behaviors are possible only where there is a basic level of trust—trust within and between communities, trust between citizens and the public sector, and trust in the future, all of which may be in rather short supply in the aftermath of violence.

Existing Assets. In view of the challenges of reestablishing the capacity for justice and rule of law, teams should assess the availability of traditional or community-level institutions with a capacity for dispute resolution. Or, where the capacity of public sector agencies to deliver basic public services (education, health, water supply, etc.) is very weak, it may be best to contract out the delivery of some of those services to nongovernmental organizations (NGOs). It may also be useful to engage civil society organizations (CSOs) in project planning, monitoring and oversight.

Survey. Therefore, social assessments and institutional mapping should include a stock-taking of the country's social capital—what's available to build on—including various NGOs and CSOs. It is easy to underestimate (by a considerable margin) the number of such organizations; thus a thorough survey is needed.

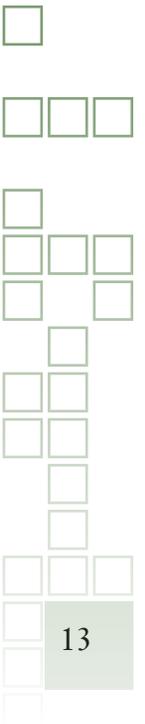
Value Chain Analysis. Value chain analysis (also referred to as supply chain analysis) has proven to be an extremely useful tool for identifying sector-level governance and corruption risks to achieving development objectives. TTLs can use this tool to identify key points of GAC risk or vulnerability, and then apply political economy analysis both to understand what is really behind the issue and to identify potential “entry points” (see the GAC in Projects How-To Note on Value Chain Analysis).

Application in FCS. In FCS, although many years of civil war may have destroyed all outward evidence of a country's physical and institutional infrastructure, donors should not assume that they face a blank slate when it comes to rebuilding institutions. Individuals may still be around who previously served in a given public sector function and simply need to be “discovered.”



While former staff, their “culture,” and their business processes may have been problematic in the past, they at least have a sense of how to function as an agency in that country. Experience suggests that it is better to build on the remnants of a previous institution than to try to create a new one from scratch.

In FCS, therefore, TTLs should use social assessments and value chain analysis to map the existing social and institutional assets at the country, sector, and community levels—so that they may be put to good use.



6. Dealing with Trade-offs:

Balancing Speed, Risks, and Results

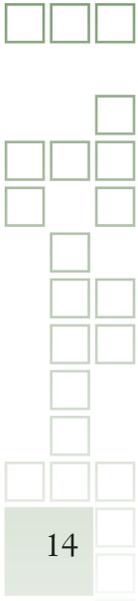
For countries emerging from conflict, time is “of the essence.” Many things need to happen almost simultaneously to consolidate peace, establish political stability, make progress on justice and reconciliation, and launch a socioeconomic development program. The risks—and the costs—of failure are high: a failure in any one of these areas risks failure in all, and may result in a return to conflict. Thus, the government and the donor community face a number of difficult but unavoidable trade-offs arising from competing, and sometimes conflicting, objectives. For donors, one of the most critical trade-offs is between restoring the delivery of essential services in the short term and building capable and accountable public sector institutions that have earned the trust of the communities they serve—a longer-term effort.

Short Term vs. Long Term. Achieving immediate results in the delivery of basic services may require implementation arrangements that seriously impede longer-term capacity building. A common practice in the past has been for donors to establish separate implementation arrangements for their projects. These project management units (PMUs) are justified by the need to achieve timely results and protect donor funds in the face of weak public sector capacity and a propensity for corruption. The PMUs hire the best local talent at salaries well above public sector wage rates, leaving the public sector agencies bereft of resources and competent staff and thus destined to remain weak and unaccountable.

Seeking a Balance. Under the Bank’s new paradigm for assistance to FCS, however, task teams are expected to balance the need to restore service delivery with the need to develop capable and accountable institutions. In this effort, the two most important factors to consider are (a) the current capacity of both regulatory agencies and service providers, and (b) the government’s commitment to reform how these institutions operate, especially with respect to GAC issues.

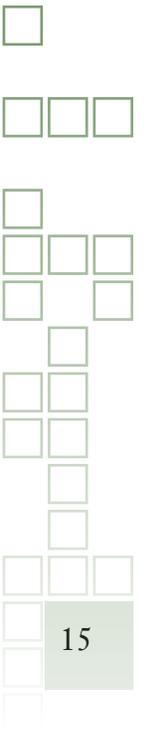
Government Commitment. Without government commitment, reforms will fail. Optimism is a necessary element of development work, especially in FCS, but wishful thinking and naiveté will lead to wasted resources, and may even do harm. In considering the options, therefore, TTLs need to combine the results of their country-, sector-, and community-level “asset mapping” efforts with the results of their political economy analysis to determine the most appropriate modality of support under the four basic scenarios they may encounter:

- **Moderate to strong political will combined with modest institutional capacity:** Go through government, but with systematic attention to capacity building and reform.
- **Moderate to strong political will combined with little or no institutional capacity:** Go with government—rely on contracting out, but include transition/handover plans and a clear exit strategy.



- **Weak to nonexistent political will combined with modest institutional capacity:** “Ring-fence” projects, with special attention to fiduciary controls.
- **Weak to nonexistent political will combined with little or no institutional capacity:** Where possible, engage with NGOs and other local actors until prospects for reform improve.

Working through (or at least with) government is the preferred option, but it may not be successful. That is the nature of the trade-off, and thus it remains one of the most serious issues for the donor community.



7. Laying the Foundation: “Smart Project Design”

Smart project design is a good practice approach to incorporating governance and corruption risks and mitigation measures in the design of Bank-financed projects. It has six key elements, each of which is relevant for TTLs working in FCS.

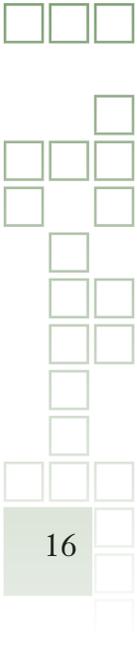
Pursue sector-level governance and corruption issues through both project and nonproject activities. TTLs should use value chain and political economy analysis to identify the key GAC impediments to achieving sector-specific development objectives. Those impediments should then be divided into two sets of issues: those that can be tackled through project-level interventions, and those that can't. For the latter, TTLs should outline a “parallel track” approach to resolve them: additional diagnostic work, policy dialogue with government, a public sector management project, and so on.

Having identified the key points of GAC risk and vulnerability at the sector level that can be tackled under the project, TTLs should take a results-based approach to project design. The idea is to combine capacity-building support for the delivery of basic services with an emphasis on achieving measurable results. Measures to deal with GAC risks should focus on strengthening transparency, accountability, and participation. The outcome should be improved governance, reduced corruption, and more responsive public sector service providers.

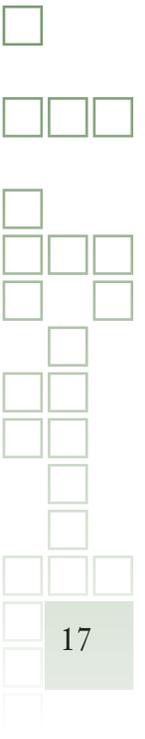
Strengthen internal accountability using supply-side tools and approaches. Internal controls are intended to ensure that funds are used for the intended purposes, that business processes are efficient and effective, and that planned outcomes are actually achieved. Wherever possible, TTLs should rely on the country's own systems. In FCS, however, this may not be advisable without first establishing additional controls. In some cases, it may even be necessary to contract out the accounting, auditing, and procurement functions. In other cases, TTLs should consider introducing some of the emerging good practices in public sector financial management (discussed in # 8).

Strengthen external accountability through constructive engagement with civil society. Where internal accountability mechanisms are weak, the constructive engagement of project beneficiaries, through a variety of demand-side tools and approaches, can improve development outcomes by strengthening the accountability relationship between service providers and their customers (see #8).

Build effective project oversight mechanisms into the project at the design stage. Increasingly, the Bank expects the focus of project supervision to shift from borrower compliance with Bank policies and procedures to implementation support. However, this will be possible only if more effective arrangements for project oversight (including oversight of financial management, procurement, and project outputs/outcomes) are built into the project at the design stage.



Develop a communications program to reinforce the project's focus on governance and corruption risks. Tackling GAC issues requires a strong “signaling” function during both project design and implementation. Within government, champions of reform can play a critical role, but substantial progress requires the development of a broader coalition for change involving a wide range of sector stakeholders. All of these elements should be incorporated in the design of a project-specific communications strategy and plan.



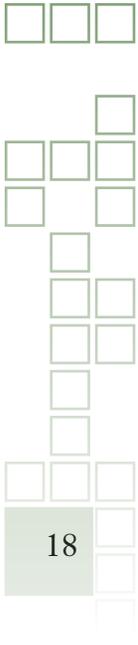
8. Applying the “TAP” Principles:

Emerging Good Practices

The Bank’s approach to mitigating governance and corruption risks at the sector and project levels rests on the “TAP” principles: transparency, accountability, and participation. Transparency implies openness, and is the foundation upon which both accountability and participation are built. Accountability has both internal and external dimensions: internal accountability implies integrity, efficiency, and effectiveness in the use of public resources; external accountability reflects the extent to which a government is responsive to citizens’ needs and aspirations. Participation (or inclusion) is important on principle and in practical terms: the involvement of civil society in every stage of development (including the design and implementation of Bank-financed projects) can improve development outcomes and reduce fraud and corruption. Good practice tools and approaches that incorporate these principles apply to both the supply side and the demand side of governance.

Supply Side. The supply side refers to things the government can do to strengthen integrity, efficiency, and effectiveness in the delivery of public goods and services. Information in the public domain is the “currency” of transparency and, together with open and visible decision-making processes, signals that there is nothing to hide. Transparency facilitates good governance, while its absence provides cover for conflicts of interest, self-serving deals, bribery, and other forms of corruption.

Open Information. The starting point for transparency involves citizens’ right to information. Putting into the public domain information about sector development priorities, annual budgets, procurement plans, and so on supports both citizen engagement and public sector accountability. Making information public about sector-level outcomes is especially important for strengthening accountability.



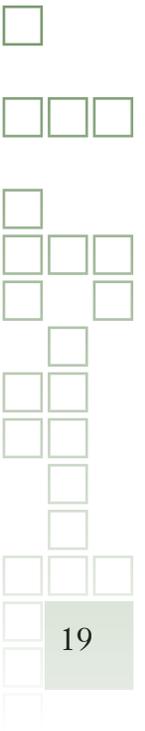
Supply-side Good Practices. Emerging good practices on the supply side include things like:

- Using websites, radio, and TV to make project information available to the public.
- Introducing e-procurement to enhance the transparency of the tendering process.
- Extending the audit process to include technical and/or “value for money” audits.

Demand Side. The demand side refers to initiatives that support the constructive engagement of citizens in improving development outcomes. The engagement of project beneficiaries and affected communities can help to improve development outcomes, especially for community-level projects (see #10). More broadly, strengthening citizens’ “voice” can strengthen the accountability relationship between public sector service providers and the customers they are supposed to serve. Opportunities for citizen engagement span the entire project cycle, from contributions to project design during the planning stage, to project oversight during implementation, to participation in project monitoring and impact evaluations.

Demand-side Good Practices. Emerging good practices include things like:

- Use of “user groups” to engage project beneficiaries in design and implementation.
- Use of consumer satisfaction surveys, citizens’ report cards, and citizens’ scorecards to encourage service providers to be more responsive.
- Development of well-publicized complaints handling mechanisms to encourage the reporting of “irregularities” during project implementation.



9. Building Capacity:

A Results-Based Learning-by-Doing Approach

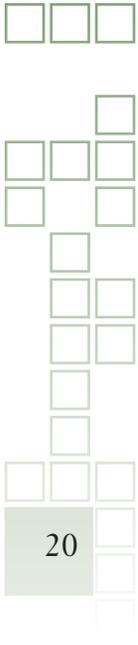
One of the most daunting challenges in FCS is the need to build capable and accountable public sector institutions. Both the legitimacy of the government and the achievement of the desired peace dividend will depend on the government's capacity to restore urgently needed public services. Sustained legitimacy will require that public sector institutions be responsive and accountable to the citizens they serve. For the Bank, the challenge is to build into projects a strategy and a plan for strengthening institutional capacity—something we have not been notably successful at in the past. Experience suggests that capacity development is driven by learning—by how knowledge and information are used to enhance organizational efficiency and effectiveness.

Define Results. The process begins by defining the desired results and specifying measurable indicators of progress (covering both physical outputs and institutional capacity). Monitoring and evaluation (M&E) data are then used to evaluate progress, enhance accountability for results, guide midcourse corrections during implementation, and inform the design of future programs. This assumes, of course, that the organization's leaders are committed to improved performance; that line managers and staff have (or can acquire) the necessary skills and experience; and that the right incentives are in place to motivate performance—none of which is often the case in FCS.

Commitment and Flexibility. These concepts are still relevant in FCS, if there is sufficient commitment to change in the organization, and if the Bank is sufficiently flexible to support a “learning-by-doing” approach to implementation. In the short term, where government capacity is weak or nonexistent, it may be necessary to contract out the service delivery function—but the process should include plans for the eventual transition of the service provision function back to the public sector.

Parallel Track. However, sector-level policy and regulatory functions cannot be contracted out. It may be necessary to pursue them on a parallel track (e.g., through economic and sector work). Key institutional challenges:

- **Policy formulation**—deciding what services to offer, to whom, through which channels, and according to what standards of service.
- **Accountability and oversight**—monitoring sector outcomes, providing incentives for good performance, and holding service providers accountable for results.

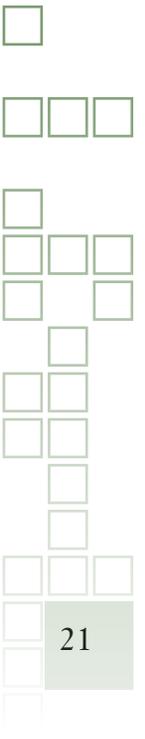


- **Sector**–level institutional support—from operating rules to “culture,” from staffing to leadership, from systems to skills.
- **Control of corruption**—in procurement, in accounting, and auditing, taking into account political factors and the lack of effective oversight institutions.

Monitoring and Evaluation. M&E is a crucial element of a results-focused learning-by-doing approach. An effective M&E system can be a powerful tool for strengthening both institutional capacity and project results:

- If you do not measure results, you cannot tell success from failure.
- If you cannot see success, you cannot reward it, and you cannot learn from it.
- If you cannot recognize failure, you cannot correct it and you may end up rewarding it.
- If you can demonstrate results, you can win public support.

It is especially important, therefore, for Bank TTLs and government counterparts to have a clear understanding of what data need to be collected, and how best to collect them.



10. Choosing the Right Instrument:

The Special Role of Community-Driven Development Projects

TTLs working on FCS are finding innovative ways to combine the TAP principles with enhanced incentives for strengthening service delivery at the community level, and in the process are improving governance, reducing corruption, and building capacity. Development policy operations can stimulate important public sector reforms while providing much-needed budget support. Investment lending has focused on public financial management reforms, community-driven development (CDD) projects (single- and multi-sector), and conditional cash transfer and emergency (in-kind and cash) social protection projects, along with more traditional sector investment projects in health, education, water supply, energy, and transportation. Results-based lending is beginning to be used in the FCS of Sub-Saharan Africa, but additional experience will be needed before wider adoption. CDD-type projects are often seen as especially well-suited to FCS, and, in many cases, they have performed remarkably well.

Origin. Community-driven development emerged in response to concerns about the failure of “top down” development programs to reduce poverty, especially in rural areas, along with a growing recognition of the virtues of empowering citizens to take charge of their own development. The development objectives for CDD projects include:

- Tangible outputs, generated by subproject investments in infrastructure and basic services that provide economic and social welfare impacts, especially when local labor is used for their construction.
- Qualitative goals such as community empowerment, an outcome of the results-based learning-by-doing approach to capacity-building that can help to build social capital at the community level.
- Institutional capacity building, by involving local governments/service providers in project design and implementation and thus strengthening them.

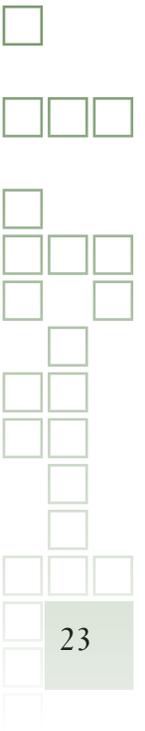


Peace Dividend. CDD projects are often used in post-conflict countries to help deliver the peace dividend: restoring basic services, creating employment opportunities, developing social capital at the community level, building capacity at the local government level, and, through all of these effects, helping to restore public confidence.

Not a Panacea. However, CDD projects are not a panacea:

- Important socioeconomic impacts are generally achieved cost-effectively, but there is little evidence that such investments are better maintained;
- Communities are able to come together for collective action in support of project objectives, but this does not necessarily extend to actions beyond the scope of a specific CDD project; and
- Local governments/service providers may become more responsive and accountable, but that may take many years and is neither assured nor automatic.

While the basic concepts of a CDD project are simple, getting them right, on the ground, is neither simple nor easy. A number of highly interdependent pieces have to come together to make it work as intended. When they don't, bad things can happen—both to project funds and to the achievement of the development objectives. Indeed, because of the nature of these highly decentralized projects, their risk profile and the challenges of project implementation and oversight are different from those of the Bank's traditional investment operations. For that reason, TTLs should be aware of the special requirements attached to project design, oversight, and supervision.



Annex A.

Five Things Country and Sector Managers Need to Know

Portfolio reviews by QAG and by the Africa Region's Quality Unit have highlighted a number of critical issues surrounding the design, implementation, and supervision of Bank projects in FCS. Both country and sector managers should be aware of these issues and take them into account when making decisions on projects, staffing, and budgets.¹

1. FCS are Different—for TTLs and Their Managers

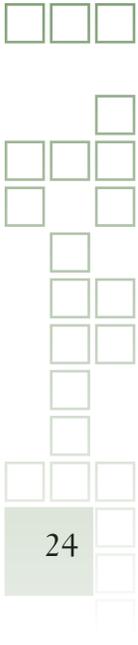
As the WDR 2011 noted, the Bank's business processes are based on the assumptions of basic security, functional institutions, and competitive markets—which often do not exist in FCS. Not surprisingly, therefore, Bank-funded projects in FCS perform less well than projects in other countries. While projects in the IBRD portfolio are expected to achieve (on average) an 80% rate of satisfactory outcomes, and the IDA portfolio is expected to achieve 75%, the standard for the FCS is only 70%. Recent portfolio reviews suggest, however, that it will not be easy to meet even that lower standard: only one-third of the projects in the sample were expected to meet their objectives. The main reasons were (a) failure to align project design with implementation capacity, and (b) inadequate quality of project supervision.

Compared with other Regions, African FCS have lower CPIA scores, and their human development indicators are considerably lower. Even among African FCS, there are significant differences: some face deteriorating governance conditions, while others are in prolonged political crises or post-conflict transitions, and others are gradually improving. Indeed, conditions are never static, as the WDR 2011 makes clear—the potential for repeated cycles of violence and the long-term challenges of creating capable and resilient institutions make for a complex and ever-changing environment. The challenge is to take these factors into account in designing, implementing, and supervising Bank-financed projects.

2. Quality at Entry: The Need for Realism

In quality of design, only 43% of projects in FCS Bankwide received a satisfactory rating, compared with 81% in non-FCS. Key design issues include project complexity and readiness for implementation. The point for FCS is that the capacity of public sector agencies to manage and implement even projects of relatively low complexity may be severely constrained by institutional weaknesses, compounded by the effects of poor governance. Depending on project

¹ Note: The focus of the QAG and AFR Portfolio Reviews was strictly on the FCS aspects, and did not include any specific reference to governance or corruption issues and concerns.



design, readiness for implementation may have a certain “chicken and egg” dimension that can be resolved only by fairly intensive involvement of Bank staff before project launch. Unfortunately, lack of realism in projected disbursements can lead to a premature project launch and mounting pressures on the TTL to “make disbursements happen.”

3. Quality of Supervision: The Need for Attention—and Resources

Bankwide, nearly 40% of projects in FCS were judged not to be receiving proper supervision. Particularly weak aspects included the following:

- A lack of candor and realism in implementation progress ratings (overall realism ratings were 51% for FCS projects versus 80% for non-FCS projects).
- Failure to calibrate Bank advice and proposed solutions to reality on the ground.
- Inadequate attention to GAC aspects, despite robust performance at the design stage.
- Insufficient action and attention by country and sector managers.

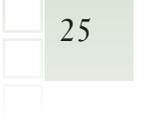
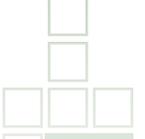
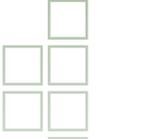
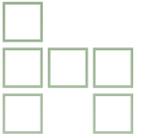
A review of supervision funding in the Africa Region confirmed that money matters:

- On average, successful FCS projects spent (Bank budget plus trust funds) 42% more for supervision than unsuccessful projects did (\$153,000 versus \$108,000).
- While projects in FCS require sustained high-quality supervision over the life of the project, supervision spending in the first 1-2 years of project implementation is especially important: supervision expenditure for the first full year was 36% higher for successful projects than for unsuccessful projects (\$144,000 versus \$106,000).

4. Staffing: Skills, Experience, and Location Matter

An analysis of TTLs in the Africa Region identified several areas of concern, including workload pressures on TTLs who work on several projects in different countries and the need for even experienced TTLs who are new to the Region to have special support and mentoring until they are up to speed with country conditions. Location also matters: the review found a strong correlation between country-based TTLs and satisfactory project performance. For the Region as a whole, 84% of projects managed by country office TTLs were rated satisfactory versus only 37% of those managed by TTLs based in Washington. For FCS projects, it was 63% for country office TTLs versus only 25% for Washington-based TTLs.

There was no discernible difference in performance by grade level of the TTL or in the performance of projects managed by locally recruited versus internationally recruited field-based staff.



The review did suggest that a “core skills” training program be developed for staff assigned to work on FCS in the Region, concluding that the following staff skills and experience are especially important:

- Understanding the country context
- Sensitivity to political economy issues
- Operations experience in FCS
- Analytic skills for institutional analysis and capacity building
- An open mind for candor in risk assessment
- Ability to design relevant and practical risk mitigation measures

5. Good Practices in Oversight and Support

The Africa Region’s portfolio review noted the importance of the following “good practice” elements of managerial support:

- Treating operations in FCS differently than those in non-FCS.
- Assigning the right task team—the right size, skills composition, and budget, matching the country context and the nature and level of project risks.
- Recognizing the need for frequent and intensive support during project implementation.
- Ensuring that some team members are available in the country office or in nearby hubs to provide hands-on mentoring and support to weak government counterparts.
- Providing proactive management support and guidance to help resolve difficult implementation issues.



THE WORLD BANK