Meeting the Challenge of Reconstruction and Development in Fragile States: Lessons from Aceh, Haiti, and South Sudan

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ABSTRACT
Reconstruction and development in poor, fragile countries present a double challenge: tackling the issues of poverty and underdevelopment as well as the constraints posed by instability, poor governance, and weak capacity. This context generates a range of problems that include: insecurity, insufficient planning, inadequate implementation capacity, poor financial management, misprocurement, corruption, a volatile fiscal environment, ineffective donor coordination, and negative environmental and social impacts. The paper draws lessons from positive and negative experiences in meeting these challenges in three conflict- and/or disaster-affected cases: Aceh Province, Indonesia (postdisaster reconstruction and postconflict development following the tsunami and earthquakes of 2004), Haiti (postdisaster recovery following the earthquake of 2010), and South Sudan (postconflict development following independence in 2011). These lessons are then organized in an assessment framework of risks and mitigation measures to assist academics and practitioners to understand and address the challenges of reconstruction and development in fragile states.

Keywords: reconstruction, development, poverty, fragility, conflict, Aceh, Haiti, South Sudan, risks, mitigation

1. WHAT IS THE CHALLENGE OF RECONSTRUCTION AND DEVELOPMENT IN FRAGILE STATES?

This paper is an effort to guide practitioners and theoreticians to understand and address the challenge of reconstruction and development in fragile states. The first section provides a brief review of the literature on fragile and conflict-affected states in the developing world. The following section draws on the author’s experiences with reconstruction and/or development in three fragile contexts: the province of Aceh in Indonesia, Haiti, and South Sudan. The final section presents a risk assessment and mitigation framework that draws lessons from both the literature and individual experience as a useful instrument to promote recovery, growth, and poverty reduction in situations of fragility and conflict.

A first step is to define what we mean by fragility. While there is no standard definition of fragility, the most commonly referenced meaning is provided by the Organisation for Economic Co-operation and Development (OECD): “a state with weak capacity to carry out the basic state functions of governing a population and its territory and that lacks the ability or political will to develop mutually constructive and reinforcing relations with society” (OECD, 2007). Fragility is, in fact, a continuum with violent conflict and/or complete state failure on one end and varying degrees of poor governance and/or violence at different points along the continuum (Agborsangaya-Fiteu & Wam, 2009).

When applying this definition, at least a quarter of the world’s people live in fragile and conflict-affected situations (Asian Development Bank [ADB], 2012; World Bank, 2013c). As these can occur both at the level of the state as well as the subnational level, the ADB has characterized four types of situations: fragility, conflict, transitional status, and subnational fragility and/or conflict (ibid). The annex to this paper provides a current listing of states with such situations. All but three of these states are amongst the most poverty-stricken (per capita incomes below $1,205 per year), thus making them eligible for concessional financing from the International Development Association and other development agencies.

Recent research has focused on the linkages between poverty and fragility (Collier, 2007) as well as violence (World Bank, 2011). Seventy percent of fragile states have experienced some form of violent conflict since 1989 while poverty rates in these states average 54% as compared with 22% for all low-income countries (World Bank, 2013c). Fragile states have not benefited from the global decline in poverty, and the share of the world’s poor living in fragile states has increased (Kharas & Rogerson, 2012).
Beyond these sad numerical relationships, what else do we know about the dynamics of fragility and development? The UK Department of International Development recently conducted a review of research on governance and fragile states undertaken during the first decade of this century. The synthesis notes that the inability to prevent conflict or provide basic services takes a human toll, prevents generations of households from escaping poverty, and traps countries in a cycle of aid dependency. It draws four main conclusions: (1) stakeholder participation helps to both improve service provision and build more effective, accountable governments; (2) security is a precondition for development; (3) conflict is more likely in situations where there are high levels of inequity between different religious and ethnic groups; and (4) effective taxation policies are critical to build viable states that can move beyond aid dependence (DFID Research and Evidence Division, 2010).

Table 1. Areas of intervention for conflict prevention and peacebuilding

<table>
<thead>
<tr>
<th>Socio-economic Development</th>
<th>Good Governance</th>
<th>Reform of Justice &amp; Security Institutions</th>
<th>Culture of Truth, Justice, Reconciliation</th>
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<tbody>
<tr>
<td>Balanced physical reconstruction</td>
<td>Civil society development</td>
<td>Security sector reform (police, military, intelligence)</td>
<td>Enhancing nonviolent dispute resolution systems</td>
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<tr>
<td>Sound and equitable economic management</td>
<td>Freedoms of expression, association, press</td>
<td>Small arms and light weapons reduction</td>
<td>Dialogue among conflicting groups</td>
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<td>Equitable distribution of development benefits</td>
<td>Media development</td>
<td>Nonviolent accompaniment</td>
<td>Prejudice reduction or diversity training</td>
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<tr>
<td>Gender equality</td>
<td>Power sharing</td>
<td>Community policing</td>
<td>Trauma healing</td>
</tr>
<tr>
<td>Equitable access to services</td>
<td>Participatory processes</td>
<td>Peacekeeping</td>
<td>Conflict resolution skills training</td>
</tr>
<tr>
<td>Repatriation/reintegration of displaced persons</td>
<td>Improved access</td>
<td>Nonviolent observers</td>
<td>Peace education</td>
</tr>
<tr>
<td>Sustainable use of (and equitable access to natural resources)</td>
<td>Democratization</td>
<td>Disarmament, demobilization and reintegration of ex-combatants</td>
<td>Transitional justice</td>
</tr>
<tr>
<td></td>
<td>Electoral processes</td>
<td></td>
<td>War crimes trials</td>
</tr>
<tr>
<td></td>
<td>Transparency and accountability</td>
<td></td>
<td>Reparations</td>
</tr>
<tr>
<td></td>
<td>Anti-corruption and good governance programs</td>
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<tr>
<td></td>
<td>Human rights protection</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>Rule of law</td>
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</tbody>
</table>

Source: OECD, 2008, p. 2

The OECD’s Development Assistance Committee has translated this and other findings into a framework for responding to situations of fragility and conflict along four dimensions: socioeconomic development; good governance; reform of justice and security institutions; and a culture of truth, justice, and reconciliation. These are presented in Table 1.

2. LESSONS FROM THREE EXAMPLES

This section draws on the author’s professional experience working in three fragile contexts: Aceh Province (Indonesia) from 2004–2009, Haiti from 2010–2014, and South Sudan from 2013–2014. Aceh represents a hybrid case of reconstruction following natural disasters and postconflict development. Haiti focuses on postdisaster recovery within a fragile state. South Sudan portrays the development challenges in a postconflict setting. Relevant lessons are drawn from each case to inform the following section on risk management. A caveat—these lessons are not comprehensive or universal but rather drawn from the author’s specific experiences stemming from designing and/or managing multidonor funds in each setting.

2.1. Aceh Province

The Indonesian province of Aceh was hit by a massive earthquake (9.1 Richter scale) on December 26, 2004, which unleashed a series of tsunamis that destroyed much of the province and had an impact throughout the Indian Ocean. An estimated 230,000 people in 14 countries were killed, millions were left homeless, and billions of dollars in damages and losses were incurred.

Aceh suffered the brunt of this impact. There were more than 120,000 fatalities, another 90,000 people were missing, and nearly 500,000 survivors lost their homes out of a provincial population of 4.25 million. The already fragile local government lost 3,000 civil servants, 2,275 were reported missing, 669 government buildings were destroyed, records and databases were lost, and equipment was destroyed (Government of Indonesia, 2005b). Economic damages and losses amounted to US $5 billion, equivalent to 109% of provincial GDP (Government of Indonesia, 2005a).

At the time of the disaster, Aceh was at the tail end of a 30-year conflict between separatist rebels and the central government that had claimed up to 25,000 lives, displaced over 400,000 people, destroyed much of the productive sector, undermined the delivery of basic services in many areas, weakened institutions, eroded the social fabric, traumatized a large portion of Acehnese society, and created deep political fault lines.
between Aceh and Jakarta (Government of Indonesia et al., 2009). Aceh had been under 18 months of martial law and civil emergency following the collapse of peace negotiations between the central government and the Free Aceh Movement. The province was effectively closed to most international aid agencies, with only the International Committee of the Red Cross, the UN Office for the Coordination of Humanitarian Affairs, and a small number of locally staffed NGOs maintaining activities (Tsunami Evaluation Coalition [TEC], 2007).

The author arrived in Indonesia about three months before the earthquake and tsunami to serve as the World Bank’s environment coordinator. I was immediately tasked with calculating the environmental damages and losses from the natural disasters during the first two weeks of 2005. I was then asked to outline the design of a multidonor fund to help finance the reconstruction and ended up managing the $650 million Multi-Donor Fund for Aceh and Nias for its critical first 18 months of operation.

I personally learned a series of lessons related to: (1) addressing the financing gap between reconstruction needs and immediately available finance; (2) filling the gap between what is known locally and internationally about reconstruction; (3) accelerating the pace of recovery through coordination, cooperation, and removal of barriers; (4) strengthening institutions so that they are more capable of managing the recovery; and (5) improving governance by giving voice to stakeholders in both recovery planning and implementation (Leitmann, forthcoming). This final section of the chapter characterizes each type of value added and draws lessons for managing partnerships.

2.1.1. Addressing the Financing Gap

One notable difference between recovery in low-income countries and developed economies is the lack of formal insurance coverage by households and businesses. For example, about half of losses resulting from Hurricane Andrew in Florida and the Northridge earthquake in California were covered by formal insurance, while less than 15% of losses resulting from the Indian Ocean tsunami were covered (Woodruff, de Mel, & McKenzie, 2010). In the public sector in developing countries, very little money is usually set aside in anticipation of disasters but, for major events, there is often a massive inflow of assistance from the international community. Often, though, the supply of external financing does not match recovery needs and, thus, there are sectoral and geographical financing gaps.

• Lessons
  o Reconstruction can be delayed if adequate financing is not available: This can be overcome by: (a) reconfiguring existing projects and programs in the disaster-affected area; (b) drawing on government sources of standby financing; and (c) mobilizing external assistance from donors and NGOs that can flow outside of the government budget to support government policies and programs.

2.1.2. Filling the Knowledge Gap

When reality gets turned on its head after a disaster or following a conflict, good information is at a premium—it is needed urgently and it is hard to obtain. Partnerships can help fill the knowledge gap right from the outset with the preparation of a Postdisaster (or Postconflict) Needs Assessment, which now combines the ECLAC-style damage and loss economic analysis with a more survey-based approach to basic needs. During the reconstruction, financial tracking combined with monitoring of a results framework and/or reconstruction standards can be used to gauge the ongoing performance (efficiency and efficacy) of reconstruction activities and the recovery program as a whole. Finally, important knowledge can be generated for the future by conducting a postreconstruction evaluation to both assess final performance and learn lessons for reducing the risk and responding to future disasters.

• Lessons
  o Build communities: The initial rush to provide shelter can result in rebuilding structures not communities. In addition to structures, attention must be paid to local infrastructure (water, sanitation, transport, electricity, waste management), livelihoods, and social and religious facilities.
  o Pick the right partners: Partners should be chosen based on their proven ability to deliver good practices. Conversely, inexperienced but perhaps well-financed partners can actually reduce the quality and pace of recovery.

2.1.3. Accelerating the Speed of Recovery

The pace of reconstruction can be hindered or hampered depending on how well partnerships are
managed. For example, the lack of local-national coordination in the initial post-Hurricane Katrina response was later reflected in various aspects of the recovery phase and contributed to making rapid reconstruction problematic. On the other hand, countries that have established effective coordination mechanisms for local, national and even international coordination have fared better in implementing a swifter recovery, e.g. the role played by the Recovery Agency (BRR) in Aceh.

- Lessons
  - Coordinate partnerships: A multitude of well-meaning partners may want to contribute to the recovery process but, if uncoordinated, they can work at cross-purposes. These potential roadblocks to speedy recovery can be overcome by formal and informal coordination mechanisms.
  - Incorporate disaster risk reduction: Resilience to the next disaster can be increased at a relatively low cost by building disaster risk reduction into the recovery process, including greater public awareness, early warning systems, more resilient infrastructure, more responsive services, better siting of facilities, and institutional coordination for disaster response.

2.1.4. Strengthening Institutions for Recovery Management

Local institutions often suffer from severely reduced capacity following disasters, often losing staff, buildings, equipment, and records as happened in Aceh. National institutions can be similarly affected from catastrophes, as was the case following the January 2010 earthquake in Haiti. In order to ensure the long-term sustainability of recovery and ensuing development, partnerships must incorporate a focus on strengthening institutional capacity.

- Lessons
  - Involve local authorities: Local governments, along with communities and NGOs, are often the first-responders following a disaster and they are accountable for eventual management of the reconstruction process. Strong local governments should be acknowledged leaders in the recovery while weaker local governments may require significant capacity building. When reconstruction is “handed over” from stronger partners to local government, the local authority must be prepared to receive, manage and maintain assets that are being transferred.

2.2. Haiti

Haiti was struck by a 7.0 magnitude earthquake on January 12, 2010, with its epicenter only 25 west of the capital, Port-au-Prince. The government estimated that 316,000 people were killed, more than 300,500 people were injured and up to 1.5 million left homeless (2010 Haiti earthquake, n.d.), making it the largest urban disaster in recent world history.

Prior to the disaster, Haiti was already the poorest country in the Western hemisphere with a fragile, with a history of fragile, often unstable governance. The earthquake damaged or destroyed 60% of the country’s administrative and economic infrastructure, 20% of its schools and 50% of its hospitals (2010 Haiti earthquake, n.d.; Office of the Special Envoy for Haiti, 2012). The official post-disaster needs assessment estimated the value of damage and losses at $7.8 billion, slightly higher than the country’s gross domestic product (GDP) in 2009 (Government of Haiti, 2010). Seventy per cent of these losses were suffered by the private sector, with housing being the most severely affected sector.

Days after the earthquake, the author was asked to advise the Latin America/Caribbean team at the World Bank on options for establishing a multi-donor fund for recovery, based in part on the Aceh experience. After two months of discussion and planning, the World Bank was asked to establish the Haiti Reconstruction Fund (HRF) and I became its manager in May 2010. The HRF has now raised almost $400 million of which three-quarters has been used to finance twenty strategic reconstruction projects (HRF, 2013). The following lessons are drawn from that experience.

2.2.1. Designing Development Finance

Prior to the earthquake, Haiti was emerging from a long history of poverty, inadequate governance, uneven foreign assistance, corruption, and instability. The disaster exacerbated all of these factors. These challenges had to be taken into consideration when the HRF was designed so that it could operate effectively in a very difficult post-disaster environment.

- Lessons
  - Table 2 summarizes the key issues that were faced, the needs that arose from the challenges and the lessons that were applied in the design of the HRF.
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Table 2. Design factors that enable the HRF to operate effectively in Haiti

<table>
<thead>
<tr>
<th>Issue</th>
<th>Need</th>
<th>Design Lessons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Damage from earthquake affected every sector of society and economy</td>
<td>Ability to respond to a wide range of reconstruction needs, including budget support</td>
<td>Diversify by working with Partner Entities that have a broad set of comparative advantages (IDB, IFC, UN, World Bank)</td>
</tr>
<tr>
<td>Government capacity seriously weakened at all levels</td>
<td>Build capacity and authority by putting the Government in a leadership role</td>
<td>Reinforce national leadership: the Haitian Government chairs HRF Steering Committee and sets the priorities for financing</td>
</tr>
<tr>
<td>History of corruption and inefficiency</td>
<td>Need for transparent and accountable procedures</td>
<td>Minimize risks by controlling financial flows: funds flow through Partner Entities who appraise and supervise each activity</td>
</tr>
<tr>
<td>Previous aid did not always produce sustainable, high-quality results</td>
<td>Apply international good practice for project design, financial management, procurement, environmental and social safeguards, monitoring, etc.</td>
<td>Enhance quality by using the policies and procedures of the Partner Entities, embodying international standards, for each activity</td>
</tr>
<tr>
<td>Many reconstruction needs are urgent</td>
<td>Ability to make funding decisions and transfer resources quickly</td>
<td>Improve efficiency and response capacity by adhering to tight performance standards</td>
</tr>
<tr>
<td>Capacity to implement is hampered by many factors</td>
<td>Need to work with entities that have a proven capacity to deliver results</td>
<td>Increase flexibility by allowing financing to go to a range of implementing agencies (Govt., NGOs, UN, private sector, etc.)</td>
</tr>
</tbody>
</table>

Source: HRF, 2011

2.2.2. Implementing Development Finance

The HRF was designed in early 2010 using the lessons and design elements listed in Table 2. It then became operational in mid-2010 after the first contributions were received and the government, along with the international community, had established a reconstruction coordination body known as the Interim Haiti Recovery Commission (IHRC). The IHRC was the HRF’s counterpart for its first 18 months until the Commission’s mandate expired. The counterpart role then took on a more conventional tone in the form of the Ministry of Planning and External Cooperation, an arrangement that continues to the present day.

Lessons

- Thus, the HRF has nearly four years of operational experience during which the following lessons were learned about implementing development finance in a fragile, postdisaster context:
  - Streamlined procedures facilitate a rapid response: Because the HRF has efficient procedures, tight performance standards, good lines of communication, and a decision-making process that is coordinated with the government, it can respond quickly to new policy initiatives and requests for financing. This was evidenced in July and August 2011 when the HRF received, reviewed, allocated, and transferred US $30 million in a month to kick-start President Martelly’s flagship “16/6” camp resettlement program.
  - Working through Partner Entities ensures that funds are effectively spent: The HRF’s Partner Entities apply international standards of good practice in financial management, procurement, environmental and social safeguards, project design, and monitoring and evaluation for the use of HRF financing.
  - An efficient structure minimizes administrative costs: The HRF has one of the lowest expense ratios (under 5%) of any postdisaster multilateral trust fund. This can be attributed to well-established Partner Entities, a modestly sized Secretariat, an efficient Trustee, and a clear division of labor between them.
  - Government leadership poses tradeoffs: the HRF has clearly benefited from the Government of Haiti’s leadership in chairing its Steering Committee and setting priorities for financing. The downside is that government instability resulted in a slower pace of allocation as priority setting and replacement of the IHRC as the HRF’s counterpart have proven to be challenging for the GoH when legitimacy is in doubt.
  - An independent governance structure is invaluable: The HRF was able to continue operations during a period of political instability in Haiti in part because it has a governance structure that is independent. Thus, while the IHRC stopped functioning after the expiration of its mandate, the HRF Steering Committee, Secretariat, Trustee, and Partner Entities continued to operate.
A return to “normal” arrangements was warranted: The lengthy process of agreeing on a new counterpart and procedures resulted in a system that relies on normal government procedures and institutions. While more time consuming than the initial arrangements with the IHRC, this should strengthen GoH capacity as well as the legitimacy and ownership of financing requests to the HRF.

Donor preferencing poses tradeoffs: On the positive side, the expression of preferences by some donors about the use of their contributions increased the total amount of funding available to the HRF. On the downside, reserving funds in order to guarantee that preferences are met has reduced the flexibility and availability of HRF financing and is at odds with the goal of enhancing government ownership as well as alignment with government priorities. (HRF, 2012; 2013)

2.3. South Sudan

South Sudan is the world’s newest country, achieving independence from Sudan in 2011. The signature of a comprehensive peace agreement (CPA) in 2005 ended five decades of war which cost over two million lives. Since then, South Sudan has experienced relative peace, though it remains deeply fragile. Exacerbated by its historical and geographical isolation, the period of heightened tensions between South Sudan and Sudan, and internal episodic violence, the legacy of economic underdevelopment, and institutional deficits contribute to the fragility of the country. The governance structures are largely concentrated in former garrison towns such as the capital of Juba in a landlocked area about the size of Afghanistan with a population of 11.8 million people (Knopf, 2013). In mid-December 2013, tribal violence erupted once again.

Despite South Sudan’s great resource wealth, its population is one of the most deprived, with extremely poor social indicators and dramatic gender disparities. Outside a few oil enclaves and underutilized fertile soils, South Sudan remains a relatively undeveloped subsistence economy. Oil revenues are also associated with poor governance and corruption, which have started to color the population’s perceptions of their state and threaten to undermine its legitimacy. The most significant stress factors include: possible future tensions with Sudan; internal conflicts resulting from contestation among different social and economic groups over access to power, resources, and services; ineffective governance, corrupt public financial management, continued draining of oil revenues without capital investment or improved welfare; underdevelopment of the nonoil economy; and extreme economic deprivation of the population (World Bank, 2013b).

In mid-2013, the author was asked to advise the Africa region of the World Bank with options for creating a partnership fund to help finance development and capacity-building initiatives in South Sudan. In September 2013, the GRSS asked the World Bank to design a South Sudan Partnership Fund (SSPF), and I was named to head the design team. Work on the design process, along with most development assistance, came to a halt in mid-December 2013 with the outbreak of ethnic conflict in various parts of the country that has continued through the first quarter of 2014.

2.3.1. Designing Development Finance in a Fragile, Postconflict State

The SSPF is building on the experience gained during World Bank management of the Multi-Donor Trust Fund for South Sudan (MDTF-SS) from 2005–2012. While there were important accomplishments during this period, the international community overestimated government capacity and had an uneven record in building the capability of the GRSS. Instead, the providers of financial assistance relied heavily on NGOs for service delivery. Thus, despite the US $4.2 billion spent during the CPA period, the assistance did not have the expected impact on what should have been its priority—mitigating the sources of conflict in South Sudan and building systems to ensure that oil revenues would be used to improve the population’s economic and social welfare.

Lessons:

- An evaluation of the South Sudan Multi-Donor Trust Fund (Fafo Institute for Applied International Studies, 2013) drew the following lessons that were the most relevant to the establishment of the SSPF:

  - The fund’s governance body must manage the interaction between political aspirations and expectations and fund operations
  - The World Bank has an important responsibility to assess technical feasibility against the fund’s contextual and political reality
  - The recipient execution modality depends on government leadership and capacity
The key performance variable is government leadership, with donors and the fund aligned behind the government’s agenda.

The highest level of the fund’s governance system should minimize its involvement in operational details.

Successful projects have strong national leadership; are well prepared; have a simple design and realistic development objectives, scope and implementation schedules; and do not exceed the capacity of national implementing institutions.

A limited number of activities can be done “quick and well” while other projects can only be done “well” with time.

Procurement policies need to be more flexible in response to institutional capacity constraints, local market conditions, and other risks.

In addition to these South Sudan-specific lessons, the World Bank has learned from its extensive global experience about how to improve the design and operation of partnership funds, especially in fragile and conflict-affected states (Leitmann, 2013). Some of these lessons that are applicable to the SSPF include: (a) design for simplicity with expectations that are realistic for the context; (b) clarify the role of each stakeholder at the outset; (c) engage other development partners such as the UN and NGOs; (d) draw on and scale up existing effective operations; (e) prepare for higher preparation and operating costs in fragile states; (f) do things in parallel to save time and resources; and (g) develop a strong communications strategy.

The proposed design for the SSPF embodies these lessons by:

- Acknowledging government leadership of the Fund (governing body, secretariat, preparation of activities) while providing significant support for capacity building
- Supporting a straightforward development objective and limited set of priority sectors
- Allowing for flexibility through the application of the World Bank’s policies for fragile and conflict-affected states
- Using a streamlined grant-approval process with clear and measurable performance standards
- Establishing a division of labor between the governing body, the SSPF’s administrator, the Secretariat, government authorities, and implementing agencies
- Seeking to use the comparative advantages of a range of implementing agencies
- Anticipating the need to support the costs of preparing activities and integrating maintenance issues in the design of activities.

3. RISK MANAGEMENT FOR FRAGILE AND CONFLICT-AFFECTED SITUATIONS

3.1. Risk Management Framework

Risk assessments are a key input to the World Bank’s decision whether or not to go forward with the preparation of a new investment project financing operation, helping to determine and maintain an adequate balance between the expected results of an operation and its risks. At the project level, these assessments are a key tool to (1) identify risks that can be mitigated adjusting the project’s scope/design to improve the likelihood of achieving the expected results; (2) define an action plan to manage the risks, establishing specific risk mitigation measures as well as capacity-building activities to address those risks; and (3) determine the level of Bank implementation support for the project based on its risk profile. In addition, the risk-based approach is designed to assist in deciding on the processing speed based on risk and in allocating resources to the areas that are burdened with the greatest risk.

A central tool of the risk-based approach is the Operational Risk Assessment Framework (ORAF). The ORAF helps managers and all members of project and country teams look in a systematic, holistic, and integrated manner and in real-time at risks to achieving project development objectives (PDOs). Teams are expected to use the framework to achieve the following:

- Identify and describe the most relevant risks to the project, rate those risks based on their relevance, and establish management measures when required;
- Track progress regarding the implementation and effectiveness of risk mitigation/risk management measures;
- Update the ORAF over the life of the project; and
- Adjust project design as necessary to support the achievement of the project development objectives.
The ORAF is an integrated and nested risk framework that pulls together key risk areas that may affect the achievement of the PDO of an operation. Four different levels of risks, broken down into 10 risk areas, are considered under the ORAF:

- **Stakeholder-level risks**: Project teams assess risks to the Bank’s relations with borrowers, donors, and other key stakeholders, who might question or even oppose the project in a manner that could affect the achievement of its development objectives. Project teams need to be aware and mitigate where possible.

- **Operating environment-level risks**: This level includes country risk and sector/multisector risk. These risks are related to the environment in which the project operates and not to the PDO. Project teams need to be aware of these risks even though they cannot generally be mitigated by the project. Teams are expected to take into account the impact of those operating environment risks on the development objectives of the specific project, in the relevant risk section (for example, the implementing agency-level or project-level risk).

- **Implementing agency-level risks**: This level includes capacity risk and governance risk (which includes a fraud and corruption risk subcategory). These risks are related to the specific agencies that implement the project. There is scope to influence the risk level over the course of the project through mitigation measures and project design. Given the sensitivity of rating fraud and corruption, fraud and corruption risks are treated differently in terms of public disclosure.

- **Project-level risks**: This level includes design risk, social and environmental risk, program and donor risk, and delivery monitoring and sustainability risk.

Project teams also have the option to identify one or two additional risks (other risks) that may be specific to the operation if they are not captured in the existing list. This framework is presented graphically in Figure 1.

A separate and ongoing risk assessment is conducted for project-level financial management which occurs during project design and implementation as part of supervision work. This assessment looks at both inherent risks (the country’s public financial management system and the systems of the implementing agency) and control risks (project design, budgeting process, accounting, internal controls, fund flow, financial reporting, auditing). At the design phase, measures are integrated to address detected risks. During implementation, financial management risks are monitored and addressed during project supervision (World Bank, 2010; 2011a).

![Figure 1. Operational risk assessment framework. Source: World Bank, 2010, p. 2](image)

### 3.2. Realigning the Framework for Fragile and Conflict-Affected Situations

The framework presented in Figure 1 is generic and needs to be modified for each national or subnational context. The following areas may require more attention and emphasis in fragile and conflict-affected situations:

- **Stakeholder risk**: Relations with key government counterparts may need more intensive analysis as many FCAS situations are characterized by frequent changes in key officials or even entire administrations, as in Haiti and South Sudan.

- **Operating environment risk**: The categories listed above may need to be supplemented with political economy analysis (important in Haiti), the role of religious institutions (a factor in Aceh), an assessment of ethnic and tribal conflict (a key issue in South Sudan), or other context-specific dimensions of the operating environment.

- **Implementing agencies risk**: This is a critical area for FCAS and a complicated one as there are likely to be contradictory mitigating measures. To build capacity, the speed with which support is provided can be important. However, moving quickly may not be possible for risk-averse development partners that can be more concerned with controlling the risks of corrupt practices. These contradictory factors were addressed in the multidonor funds in Aceh, Haiti, and South Sudan by introducing rapid
procedures while simultaneously applying the policies and procedures of international agencies in keys areas such as financial management and procurement.

- Project risks: At the level of individual investments, the international community can apply special procedures for postdisaster and FCAS settings. For example, the World Bank has special policies for development cooperation and conflict as well as for rapid response to crises and emergencies that allow for flexibility in areas like procurement thresholds, environmental and social safeguards, fiduciary requirements, retroactive financing, and third-party implementation. This flexibility was introduced in both Aceh and Haiti, and is anticipated for South Sudan.

Realignment may also be necessary in the process of preparing the risk assessment, especially because of issues around the availability and quality of information. Ideally, the ORAF should be prepared quickly using secondary data. However, in fragile states, critical data may be missing, necessitating an investment in primary collection and analysis. For example, land tenure data in Aceh were lost after the tsunami so a community land readjudication program had to be implemented in order to facilitate reconstruction. This implies that completion of the ORAF in a fragile context may be more costly and time consuming than in a “normal” setting.

3.3. Considerations for Implementing the Framework

The World Bank’s Development Committee has identified six areas that are critical for operationalizing the findings of the 2011 World Development Report on conflict (World Bank, 2011b). These are also relevant considerations for applying the ORAF in fragile and conflict-affected situations. They are:

1. Making country strategies more fragility-focused: An ORAF can be an important input to guide the preparation of country partnership strategies by providing needed information on FCAS-specific risks as well as mitigation measures.

2. Strengthening partnerships on development, security and justice: The ORAF should generate information not only for development activities but also concerning the linkages between development and security as well as development and justice reform.

3. Increasing attention to jobs and private sector development: Here, the ORAF will need to consider labor-intensive employment opportunities, “quick win” public- and community-based job creation and private sector tools, such as microfinance, solutions for small- and medium-sized enterprises, and special economic zones.

4. Realigning results and risk management frameworks (see previous section)

5. Seeking less volatility in financing: the ORAF can be especially useful in this area by identifying modalities for delivering development assistance to mitigate the risks of deteriorating governance.

6. Striving for global excellence in fragile and conflict-affected states: International development partners could improve the quality of their engagement in FCAS by institutionalizing the use of the ORAF and by collaborating in its preparation.

The next consideration is the need to use assessment tools that can help address the knowledge gaps that were referenced in the previous section. The Asian Development Bank suggests that these include: political economy analysis; postcrisis needs assessment; public sector capacity development assessment; private sector assessment; social assessment focusing on the poorest, displaced, marginalized, and vulnerable peoples; conflict and disaster risk assessment; and climate risk assessment (ADB, 2012).

A final consideration is that one should not entirely focus on risks and corresponding mitigation measures. Postdisaster reconstruction can be an opportunity to “build back better” by improving on predisaster conditions while also building resilience to future calamities (Fan, 2013). This was largely realized in Aceh but only partially achieved in Haiti. Similarly, one can pursue specific opportunities for progress on postconflict settings, for example, working with champions of reform and seeking to develop economic capital for development and capacity building, for example, oil revenues in South Sudan. Thus, one would want to accompany the ORAF with an analysis of opportunities using a tool such as the SWOT (strengths-weaknesses-opportunities-threats) assessment.

4. CONCLUSION

The end of 2015 has been established as the deadline for achieving the Millennium Development Goals (MDGs). However, the majority of MDG targets will not be met by that time in fragile states. However, according to the latest analysis, there are some signs of progress: 20 fragile and conflict-affected states have now met one or more MDG targets and another six are on track to do so by the
2015 deadline. Importantly, 20% of fragile states have now met the target to cut extreme poverty in half ahead of 2015 (World Bank, 2013d). It is hoped that increased use of the ORAF approach can improve the quality and impact of development assistance for reconstruction and development in FCAS and, thus, help to reinforce this positive trend.

ANNEX: Harmonized List of Fragile Situations (FY14).

<table>
<thead>
<tr>
<th>Country</th>
<th>Average CPIA Score (ADB, AfDB, WB)</th>
<th>Peace-building/Peace-keeping Missions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low-income (IDA-eligible)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Afghanistan</td>
<td>2.9</td>
<td>Pb, Pk</td>
</tr>
<tr>
<td>Burundi</td>
<td>3.3</td>
<td>Pb</td>
</tr>
<tr>
<td>Central African Republic</td>
<td>2.8</td>
<td>Pb</td>
</tr>
<tr>
<td>Chad</td>
<td>2.9</td>
<td></td>
</tr>
<tr>
<td>Comoros</td>
<td>2.6</td>
<td></td>
</tr>
<tr>
<td>DRC</td>
<td>3.0</td>
<td>Pk</td>
</tr>
<tr>
<td>Congo, Rep</td>
<td>3.2</td>
<td></td>
</tr>
<tr>
<td>Cote d’Ivoire</td>
<td>3.1</td>
<td>Pk</td>
</tr>
<tr>
<td>Eritrea</td>
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<td></td>
</tr>
<tr>
<td>Guinea-Bissau</td>
<td>2.7</td>
<td>Pb</td>
</tr>
<tr>
<td>Haiti</td>
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<td>Pk</td>
</tr>
<tr>
<td>Kiribati</td>
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<td></td>
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<td>Pk</td>
</tr>
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</tr>
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<tr>
<td>Malawi</td>
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<td></td>
</tr>
<tr>
<td>Mali</td>
<td>3.7</td>
<td>Pk</td>
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<tr>
<td>Marshall Islands</td>
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<tr>
<td>Micronesia, FS</td>
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<tr>
<td>Myanmar</td>
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<tr>
<td>Nepal</td>
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<td></td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>3.3</td>
<td>Pb</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>3.2</td>
<td>Pb</td>
</tr>
<tr>
<td>Somalia</td>
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<tr>
<td>South Sudan</td>
<td>2.2</td>
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<tr>
<td>Sudan</td>
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<tr>
<td>Yemen</td>
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<tr>
<td>Territories</td>
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<tr>
<td>West Bank and Gaza</td>
<td>-</td>
<td>Pb</td>
</tr>
<tr>
<td>Blend (low/middle-income)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bosnia &amp; Herzegovina</td>
<td>3.6</td>
<td>Pb</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>2.2</td>
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</tr>
<tr>
<td>Middle Income</td>
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<tr>
<td>Iraq</td>
<td>-</td>
<td>Pb</td>
</tr>
<tr>
<td>Libya</td>
<td>-</td>
<td>Pb</td>
</tr>
<tr>
<td>Syria</td>
<td>-</td>
<td>Pb</td>
</tr>
</tbody>
</table>


1 Fragile situations have either: (a) harmonized average Country Policy and Institutional Assessment (CPIA) rating of 3.2 or less or (b) the presence of a UN and/or regional peace-keeping or peace-building mission during the past 3 years.

REFERENCES


Leitmann, J. (Forthcoming). Partnership systems to manage post-disaster recovery. In M. Di Bitetto, A. Chymis, & P. Anselmi (Eds.), Public management as corporate social responsibility. Heidelberg, Germany: Springer.


