

Implementing a Results-Based Approach to Strengthen IDA Support for Fragile States

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Fragile and conflict-affected countries (FCCs) pose a great development challenge. As summarized in a number of studies, their needs are great and their development progress is slower and more halting than that of other developing countries.¹

1. Studies include the World Bank, *World Development Report 2011: Conflict, Security, and Development* (Washington, 2011) and the World Bank, *Global Monitoring Report 2007: Millennium Development Goals; Confronting the Challenges of Gender Equality and Fragile States* (Washington, 2007). For a comparison of the MDG deficit between FCCs and other developing countries see *Global Monitoring Report*, table 2.

This is of particular concern to the International Development Association (IDA), the concessional lending arm of the World Bank. With the prospective graduation of better-performing countries, FCCs are likely to constitute a larger share of IDA's clients in the future.² There is therefore an active debate among IDA stakeholders over how

2. Todd Moss and Benjamin Leo, "IDA at 65: Heading Toward Retirement or a. Fragile Lease on Life?" Working Paper 246, Center for Global Development, Washington (2011).

Summary

Fragile and conflict-affected countries (FCCs) pose a great challenge to the development community as a whole and to the International Development Association (IDA, the concessional lending arm of the World Bank), in particular. How much financing should IDA provide to these countries? How can it strengthen incentives for development results? Such questions are on the agenda for IDA17, the upcoming round of replenishment, but they will only become more important in the future as better-performing countries graduate from needing IDA's assistance and FCCs constitute a larger share of its clients. To strengthen its support for FCCs, IDA needs additional flexibility to scale up successful projects. One way to do this would be to supplement the country-level performance-based allocation (PBA) with a results-based allocation (RBA). Doing so would provide a strong incentive to focus on results and provide good monitoring and evaluation. It would also bridge the gap between IDA supporters who argue for increased and more flexible allocations to FCCs on the basis of need and IDA supporters concerned not to sacrifice effectiveness or to dilute the PBA system that is at the core of IDA's principles. This brief outlines how to implement a results-based approach in a way consistent with the bank's recent experience with results-based disbursement, including its approval of the new Program for Results (PforR) instrument.

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best to support them. The IDA16 midterm paper *Progress Report on IDA Support to Fragile and Conflict-Affected Countries* considered a number of alternative ideas for modifying the IDA allocation system for these states.³

Allocations to FCCs are now determined under two types of regimes.⁴ The first is the normal performance-based allocation (PBA), which includes a minimum country allocation. The second is a set of exceptional time-bound regimes for postconflict and reengaging countries as well as a special postcrisis allocation for Haiti, which provide higher levels of assistance. The total allocation to FCCs is affected by entries into and exits from the category but has been around 14 percent of total IDA. Per capita allocation averaged \$8.1 in IDA 15. Barring any adjustments to the system, the allocations to FCCs are set to fall in IDA 17 mainly because of the phasing out of eligibility of countries for special allocations. This fall is set to continue.⁵

Several factors are causing this framework to be reexamined:

- The 2011 World Development Report concluded that FCCs typically make slow progress toward a sustainable exit from fragility. Their financing needs should be considered as a long-run issue. But the WDR also recognized that it was necessary to be able to respond rapidly to windows of opportunity with enhanced financing.⁶
- Research and operational experience show that, while it is more difficult to achieve good project outcomes in difficult environments, increased management attention to project implementation and performance can have a

positive impact on the achievement of development objectives.⁷

- Some of IDA's donors are pressing for more expansive allocations to FCCs on the basis of need and have proposed modifications to the allocation system to shift more resources to them. Others are concerned about diluting the strong signaling link between IDA allocations and country performance as specified by the PBA which is important in sustaining support for IDA. They are also concerned about improving the development effectiveness of IDA, especially under difficult country conditions.

The options set out in the 2012 progress report include revising the PBA system to increase the weight of nonperformance factors, further extending the duration of the exceptional regimes, and supplementing them by a turnaround facility. The options involve a set of trade-offs. Reducing the weight of country performance is thought by some to undermine the emphasis on governance and economic management which is built into the PBA and is a central feature of IDA, especially if there are not, at the same time, more incentives for development impact. The exceptional regimes have already been extended; indefinite extensions, consistent with the concern to support FCCs in the long run, undermine the principle of a common system. Extending the special regimes on a case-by-case basis runs the risk of increasing discretion in allocations and opening them up to political bargaining, something the PBA system was intended to

3. IDA, *Progress Report on IDA Support to Fragile and Conflict-Affected Countries* (2012), available at <http://documents.worldbank.org/curated/en/2012/10/16913858/progress-report-ida-support-fragile-conflict-affected-countries>.

4. *ibid.*, paragraph 38.

5. *ibid.*, paragraph 41.

6. World Bank, *World Development Report 2011: Conflict, Security, and Development* (Washington, 2011).

7. Cevdet Denizer, Dani Kaufmann, and Aart Kraay, "Good Countries or Good Projects: Macro and Micro Correlates of World Bank Performance," World Bank Policy Research Paper 5646, Washington (2010). See also the evidence for the Africa Region (Cecile Ramsey) cited in Alan Gelb, "How Can Donors Create Incentives for Results and Flexibility for Fragile States? A Proposal for IDA," Working Paper 227, Center for Global Development, Washington (2011).

minimize. Other proposed approaches can shift allocations between FCCs in unpredictable ways.⁸

While the main question raised in the progress report was whether and how to modify the allocation system to avoid an imminent decline in support to FCCs and perhaps to increase it further, the real concern for IDA is longer-term. How can it support countries with difficult conditions effectively? As noted above, the problem of FCCs is not about to vanish any time soon. A 2010 proposal to enhance the system of IDA allocation to FCCs by embedding a results-based component in the overall envelope was not developed in detail.⁹ IDA's 2012 midterm report did consider the idea of factoring project performance more directly into allocation levels and raised some questions about the approach.¹⁰ This brief sets out a specific proposal, drawing on the further development of results-based instruments,¹¹ and responds to questions and concerns raised in the 2012 midterm report.

8. It should be recalled that the original intention of the postconflict allocation was to support turnarounds in countries devastated by conflict, in the anticipation that recovery could be initiated within a relatively short period. The extension of the timeframe for this allocation shows that this expectation has often not been met. This creates ambiguity in the treatment of countries—how long should one FCC continue to benefit from postconflict status and receive a larger allocation than another because it experienced a conflict many years previously? How to avoid a turnaround facility—useful in allowing some discretion in levels of short-term support—from morphing into another long-term allocation arrangement? The proposed changes to the allocation system in the direction of emphasizing vulnerability do introduce a new conceptual basis for allocation but can shift allocations between FCCs in sometimes unexpected ways depending on how various factors are measured and weighted.

9. Gelb, "How Can Donors Create Incentives." While there is a component for portfolio performance within the PBA, its weight in allocation is negligible. Gelb notes that the initial principles for allocating IDA had placed considerable weight on project performance but that this had been eroded in the current allocation system. The suggestion to reemphasize project performance is therefore not new. However, the proposed approach of tying financing directly to specific project outputs (or as far as possible to outcomes) is different to the current approach of including the overall portfolio rating as a (weak) allocation variable in the PBA system. Especially for FCCs with uncertain project performance, simply increasing the weight on portfolio performance as measured is not an appropriate way to link allocation to results.

10. IDA, *Progress Report*, paragraph 47.

11. For an overview of the World Bank's Program for Results instrument see World Bank, "Projects & Operations," <http://go.worldbank.org/5XN35BS9CO>, last accessed March 7, 2013. The approach of Cash on Delivery (COD) aid is set out at Center for Global Development, "Cash on Delivery: A New Approach to Foreign Aid," www.cgdev.org/section/initiatives/_active/codaid.

A Proposal to Link Allocations to Project Performance

The core of the present proposal is to create a results-based allocation (RBA) for FCCs as a supplement to a "performance-based" country allocation. To ensure transparency, any proposed approach to allocation should be as simple as possible. It is with this in mind that this particular proposal is made. It could be scaled up or down depending on IDA's preferences. It could be used to supplement allocations for all FCCs, or as a way to shift countries emerging from temporary exceptional regimes toward a longer-run arrangement which provides a range of flexibility to supplement the normal PBA and also emphasizes development effectiveness.

- **The RBA constitutes a separate supplement to the PBA.** Each year a country receives the PBA and an RBA. Commitments and disbursements are monitored separately.
- **The RBA is set as a percentage addition to the PBA.** For specificity, consider an increment of 30 percent.¹²
- **The PBA provides "venture capital" for the RBA.** The RBA is available for scaling up specified results-based development projects. Any up-front advances for these operations (advance payments on results) would come out of the PBA.

Based on the profile of typical results-based operations, advance payments typically constitute up to 25 percent of total project funds. Applying this ratio, the initial disbursements of the results-based operations would take up about 10 percent of the PBA with the remaining 75 percent of the project coming out of the RBA.
- **Performance with appropriate safeguards.** Disbursement of the results-based tranches would be conditional on well-monitored outputs (and, if possible, outcomes).

12. If the intention is to shift the country toward a normal PBA allocation over time, the RBA should be set as a percentage of the normal PBA rather than an exceptional temporary allocation.

Disbursement-linked indicators (DLIs) could include physical targets (roads or bridges rehabilitated), social targets (girls educated), and measures of institutional progress. In many cases the approach would be pay-for-performance, with payments graduated to levels of achievement, but they could also include some threshold conditions linking disbursements to a specified level of achievement.

The projects would need to include an adequate monitoring and evaluation (M&E) framework signed off at the start and adequate arrangements for accurate and timely monitoring and reporting. There would be a premium on independent verification or at least audit of results, possibly on a random basis. These principles are compatible with the structuring of PforR operations (see box).

Bank safeguards, including fiduciary, social, and environmental, would apply as appropriate, recognizing that capacity is usually low in FCCs, but also that disbursement-by-results can ease the need for input-based controls in some circumstances.¹³

- **Use it or Lose It.** Undisbursed commitments within the RBA for any operation could be restructured to support exceptional progress by another results-based operation, but would not be available to supplement disbursements through the PBA.¹⁴ As with other operations, major changes in disbursement conditions would require approval from the board.

The maximum undisbursed balance in the RBA account would be the sum of the four previous years RBA allocations. Funds above that level would be returned to IDA for reallocation.

13. If disbursements are pay-for-performance and related to properly costed outputs and outcomes, there should be less need for tracking and monitoring inputs, activities, and the flow of funds. However, the proposal does not prescribe any particular financing instrument.

14. This provision blocks transfers from the PBA to the RBA. Embedding a results-based project within a country performance-based allocation leaves open the possibility that failure to deliver results still enables the country to receive the resources through restructuring the portfolio. The provision eliminates this possibility. There is still the risk, however, that pressure to disburse up to the maximum will overwhelm the intention to link disbursements to results. This could be eased by setting aside only a part of the aggregate RBA funding (say 80%) to anticipate expected delays and failures.

Discussion of the Proposal

The proposal seeks to balance a number of objectives and address a number of risks associated with an intensified focus on results as a basis for country allocations. The main objective is of course to strengthen the link between project performance—what IDA's funds are contributing toward recovery and development—and resource allocation. This will provide an incentive within the bank for more management attention to implementation, performance, results, and good M&E. It will also send a clear signal to FCCs that successful efforts to absorb development funds will be rewarded with more financing, as well as reassurance to donors that a more expansive approach toward FCCs will be reflected in proven achievements. Many of the most successful projects implemented in FCCs, including some noted in the IDA16 midterm report (box 1) have been of the type that could be supported under the RBA proposal, which would provide additional financing flexibility to roll out such projects.¹⁵

Four concerns on the results-based project performance approach were expressed in the IDA 16 paper:

1. **The need not to complicate the IDA allocation process.** The RBA allocation, while distinct, involves a minimal complication, and takes pressure off other, potentially more complex and contentious approaches to tweaking the PBA approach that do not always address the long-run nature of the problem.
2. **The time lag between implementation and evaluation.** This is clearly an issue if considering evaluation within the timeframe of Independent Evaluation Group reports, but is far less so if considering the types of monitoring systems needed to implement operations along the lines of PforR. These cases envisage monitoring and relatively rapid feedback to enable annual or biannual disbursements. The approach is not appropriate for every type of operation, but is well suited to service programs that can be rolled out sequentially.

15. These projects include roads rehabilitation in Liberia and the National Solidarity program in Afghanistan.

Box 1. The Structure of the First Four PforR Operations

The first four PforR operations (Nepal Bridges, Uruguay Roads, Morocco Human Development, and Tanzania Urban Local Government) provide insights into the working of IDA's results-based allocation. These operations include a mixture of physical and social disbursement-linked indicators (DLIs) such as bridges reconstructed, roads rehabilitated, and girls graduating together with a range of DLIs reflecting institutional and systems improvements. The proportion of funds varies across these types of DLIs. For the Nepal operation, 85 percent of disbursements are against DLIs in the area of maintenance and construction of critical bridges and 15 percent against improvements in contracting, timely management, and dealing with complaints. The Uruguay road rehabilitation operation has a similar mix. For Morocco, social DLIs accounted for about 56 percent and system/process DLIs for 44 percent of total funding. Tanzania is unusual, with development objectives and DLIs almost all institutional. On average, the initial advance payment on results can be up to about 25 percent.

The projects set out indicative targets for several years with annual, or at most biannual review; the feedback loop between achievements and disbursements is in the range of one to two years. In most cases disbursements are proportional to achieved results, but one case (Tanzania) has compliance with minimum eligibility conditions to receive funds as a threshold condition for disbursements.

The operations would be expected to include (and fund) adequate provision for monitoring and data analysis, something that would also have spillovers to FCCs looking to rebuild their statistical capacity.

3. **The possibility of increasing the volatility of financing.** Any performance-based approach, whether at country or project level, involves some financing uncertainty. Risk is mitigated under the proposal by the fact that a substantial component can be disbursed as an advance, prefunding the results that are to drive subsequent disbursements. The provision that the undisbursed balance in the RBA account can be restructured across the designated operations but cannot exceed four years' allocations is intended to strike a balance between flexibility and sustaining

pressure for implementation.¹⁶ Countries may progress more or less slowly than expected in their DLIs but the proposal does not introduce budget uncertainty in an arbitrary way; it simply allows disbursements to respond to implementation.

4. **The possibility of altering incentives toward easier but less critical areas at the expense of neglecting critical core areas, mostly related to governance.** At the project level this can be addressed by having an appropriate mix between different types of DLIs to include a focus on systems and sustainability. Indeed, the PforR operations do exactly this, particularly when specific policy reforms or institutional changes are needed for the expected material investment or service improvements (see box). Especially in the

¹⁶ If a typical project takes six years to disburse and disbursements are linear over the project period, the average undisbursed balance in an RBA account would be three years of average allocation. The proposal to extend this to four years is made to introduce a margin of flexibility in timing.



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context of FCCs, a focus on relatively simple and tangible achievements, and a “small-g” approach to building momentum for better governance,¹⁷ should be a useful way to go for at least part of the IDA portfolio.¹⁸

In addition at the overall envelope level, because the RBA is set as a percentage of the PBA, progress in critical yet difficult areas such as governance is reflected on the RBA through the PBA with exactly the same weight. Countries therefore cannot be funded to support an arbitrarily large project portfolio while failing to address core governance or policy concerns.

Conclusion

A results-based financing facility along the lines suggested here would do more than ease the tension between need and effectiveness that characterizes the current debate on funding levels for FCC. It would change the conversation around allocation levels, sending a signal to both the countries and to those managing the programs for IDA that the constraints of the traditional country-based allocation system can be exceeded if it is possible to deliver tangible benefits to people living in these countries.

As a final comment, if the proposal is useful for FCCs allocations, why not extend such a system for IDA in general? As momentum builds in favor of results-based disbursement, this could be a logical way to go.

17. Analytical work on governance reforms distinguishes “small-g” and “big-G” entry points. The former includes focused efforts to foster participation in and oversight of the provision of public services by stakeholders with strong incentives to achieve good results. The latter strengthen national-level institutions (elected legislatures, the judiciary, centralized auditing authorities, ombudsmen, a free and vigorous media, and the like) that hold government to account. In settings with weak institutions the “small-g” approach can provide opportunities for leaders to build islands of effectiveness and support for better governance from the bottom up. For more discussion see Brian Levy, “Moving the Governance Agenda Forward: A New Blog on Development,” blog posted to *Governance for Development* (The World Bank), October 21, 2010, <http://blogs.worldbank.org/governance/moving-the-governance-agenda-forward-a-new-blog-on-development>.

18. In the absence of a strong results framework the alternative to having some straightforward DLLs is also not necessarily to have complex DLLs. One concern relevant to the PforR program was that a combination of traditional safeguards and results-based disbursement could make operations less attractive to client governments and would also constrain the application of the bank’s safeguards to a small portion of a large program. In cases where countries may have a choice between traditional and PforR operations the first concern might be valid, but not in this case since the results-based operations open the way to additional financing beyond the PBA.



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