CENTER FOR GLOBAL DEVELOPMENT

Multilateral Development Banks in Fragile and Conflict-Affected Situations

Overview of Key Policy, Financial, and Operational Issues

KOLDO ECHEBARRIA

Abstract

This paper presents an overview of significant policy, financial, and operational challenges encountered by multilateral development banks (MDBs) in fragile and conflict-affected situations (FCS). The data indicates that MDBs have increased their involvement in financing FCS compared to bilateral and other multilateral donors, with the World Bank playing the most significant role. This is explained by financial and operational comparative advantages inherent in the MDB business model, despite their implicit biases and constraints. The paper reviews the strategies and framework documents adopted by MDBs to address FCS as a distinct development challenge, highlighting the complexity of translating knowledge advancements and lessons learned into operational categories and clear priorities. It also examines how MDBs are placed regarding the recommendations of the "peace-humanitarian-development nexus," which is central to the international consensus for addressing FCS. The evolution of the financial capacities of MDBs and the criteria for resource allocation in response to the needs of FCS are analyzed. The paper concludes by posing a set of questions that MDBs and their shareholders should consider as they develop reforms to meet FCS-specific requirements and strengthen performance and outcomes.

POLICY PAPER 347 • DECEMBER 2024

Multilateral Development Banks in Fragile and Conflict-Affected Situations: Overview of Key Policy, Financial, and Operational Issues

Koldo Echebarria

Non-Resident fellow, Center for Global Development

Koldo Echebarria. 2024. "Multilateral Development Banks in Fragile and Conflict-Affected Situations: Overview of Key Policy, Financial, and Operational Issues." CGD Policy Paper 347. Washington, DC: Center for Global Development. https://www.cgdev.org/publication/multilateral-development-banks-fragile-and-conflict-affected-situations-overview-key

CENTER FOR GLOBAL DEVELOPMENT

2055 L Street, NW Fifth Floor

Washington, DC 20036

1 Abbey Gardens

Great College Street

London

SW1P 3SE

www.cgdev.org

Contents

Figures

1. Background

Fragile and conflict affected situations (FCS)[1] present the toughest development challenge of our time. According to the last OECD States of Fragility report,[2] a quarter of the world's population living in 60 fragile contexts are home to 73 percent of those living in extreme poverty, and that number is expected to rise to 86 percent by 2030. World Bank (WB) projections on a more limited list of 39 countries, estimate that the proportion of the extreme poor in FCS would surpass that of non-FCS by 2024 and reach about 60 percent by 2030.[3] Experience also shows that FCS are far more vulnerable to outside shocks like pandemics, wars, or adverse climate change events, that have come together in recent years to drive emergency situations to a record level and drastically worsen human development indicators in these contexts. More than two thirds of refuges and internally displaced people and a growing share of illegal migration originate in FCS, which also host 95 percent of those in need of humanitarian assistance.[4]

It has been more than 20 years since the international community recognized FCS as an actionable problem category. Nevertheless, despite increased financial and political support, the attempts to prevent and overcome fragility have shown uneven results on the ground. Approximately 20 nations from the original OECD and WB lists are still considered fragile, trapped in a highly dysfunctional equilibrium that has persisted despite significant international assistance. Most of these countries are in Africa, although Afghanistan, Yemen, Myanmar, and Haiti are well-known cases in other continents. Some nations, like Ethiopia or Nigeria, had managed to avoid fragility but war or serious internal strife have caused an unravelling. In contrast, a sizable number of nations—Bangladesh, Bolivia, Bosnia-Herzegovina, Cambodia, Colombia, Ivory Coast, Liberia, Nepal, Paraguay, or Rwanda, to mention a few—have managed to emerge from fragility or substantially alleviate it within the past 20 years. Many other nations like Indonesia, Morocco, or Peru, have managed to prevent fragility thanks to the combination of sound economic policies and dedicated support from the international community. When it comes to confronting fragility, there is plenty to be learned from both success and failure.

This paper is not about the notion of fragility, or the various methods used to measure and classify it. A substantial body of academic research offers a thorough and nuanced analysis of the concept's rationale and evolution as well as its advantages and disadvantages for policymaking. Think-tanks and international organizations have created analytical frameworks for the detection and classification of fragile situations by measuring and comparing them. Theoretical progress has been remarkable, offering a variety of analytical tools that not only deepen our understanding of FCS but also broadens and increases the options available to decision-makers.[5] The international community

1 For the sake of simplicity, we follow the FCS acronym used by the World Bank (WB) and the African Development Bank (AFDB). The Asian Development Bank (ADB) uses FCAS for the same denomination. Fragility, Conflict and Criminal Violence (FCCV) is the variant chosen by the Inter-American Development Bank (IDB).

2 OECD, *States of Fragility* 2022.

3 World Bank, 2020, *WB Group Strategy for Fragility, Conflict and Violence, 2020–2025*.

4 United Nations Office for the Coordination of Humanitarian Affairs, *Global Humanitarian Overview 2024*.

5 See Ines Ferreira, 2023, "Current conceptualizations and measurements of state fragility: recent developments and remaining limits," *Handbook of Fragile States*, Elgar Publishing, Chap. 4 (53–72).

has integrated these advances in knowledge through several flagship reports that share a similar framework and show a high degree of consistency in policy recommendations.[6]

However, converting learned lessons and recommendations into successful field strategies and operations has been an enormous challenge. First, as the Commission on Fragility concludes, "international actors have radically overreached their competence in addressing the challenges of state fragility."[7] Unsatisfactory results are largely the product of unrealistic mandates and expectations, politically motivated priorities, and inadequate (although not always insufficient) financial resources. Second, fragility contexts have put to the test the organizations and instruments that the international community has gradually established through specialized agencies to handle the needs of development, security, and humanitarian relief. Fragility and conflict have called into question their operating assumptions, but institutional adaptation has been gradual and piecemeal, creating a gap between objectives and implementation capabilities. This paper will focus on the role of key Multilateral Development Banks (MDB) that play an increasingly central role in the international efforts to address fragility.

2. Objective and scope

Over the past two decades, MDBs have gradually expanded the breadth and depth of their interventions in FCS, solidifying their position as a major player within the international community. MDBs are well-resourced multilateral organizations, which have an unparalleled pool of seasoned professionals, strong financial capabilities, and nearly universal affiliation. Their development mandate has been progressively enlarged to address emerging needs. As one of the most pressing global issues, FCS have become one of their corporate priorities. The fundamental premise is that, with appropriate use of their knowledge and financial resources, MDBs can have a significant impact on FCS.

This paper aims to present an overview of a selection of significant policy, financial, and operational issues arising from the role played by MDBs in FCS. The study is grounded in a literature review encompassing various assessments, and evaluation reports generated by Multilateral Development Banks (MDBs). This analysis does not aim to assess the relevance and effectiveness of MDBs' contributions to FCS, nor does it provide policy recommendations at this stage. The paper will discuss the following topics:

- The evolving proportion of MDB funding to FCS, in comparison to other bilateral and multilateral donors, as well as the underlying trends.
- The comparative advantages of MDBs in working in FCS.

6 See, 2011 *World Development Report: Security, Conflict and Violence* and the 2018 UN-WB joint report *Pathways for Peace: Inclusive Approaches to Preventing Violent Conflict.* Also relevant is the 2018 Report *Escaping the Fragility Trap* by the Commission on State Fragility, Growth and Development.

7 2018, *Escaping the Fragility Trap*, p. 8.

- The strategic definitions that provide guidance and set the bases for accountability: FCS definition and classification, scope of intervention, sector priorities and visions of success.
- The place of MDBs within the humanitarian-development-security nexus and the coordination needs with domestic and other international actors.
- The financial resources available and the allocation mechanisms, compared with needs and priorities.
- The adaptation of the MDB operating model to meet the special demands of FCS: diagnostic tools, programming cycle, financial instruments and modalities of delivery and oversight.

The MDB reform process, driven by new leadership and shareholders, serves as the contextual framework for this review. Currently, new strategies are being developed with an emphasis on both old and new corporate priorities; financial resources are being optimized through balance-sheet reforms, concessional windows replenishments, and shareholder contributions; results frameworks are being updated to strengthen accountability and reinforce impact commitments; and operational changes are being planned and executed. Concentrating on the most pressing global development issues to deliver impact at a larger scale is the goal. This paper will highlight some of the issues that MDB reforms could consider given FCS specific requirements.

Due to their connection to governance arrangements that extend beyond performance factors, two issues are excluded from the study. First, it does not address the suspension of membership of member countries due to breaking internal regulations or for other reasons (such as human rights abuses or a de facto situation) that shareholders, following statutory rules, deem incompatible with taking advantage of MDB resources. Disengagement is a typical occurrence in FCS and may have a significant impact on MDB operations, but it cannot be treated as a performance issue. Second, for the same reason the analysis will not consider the effects of national governments' and international organizations' sanction regimes. They may also render MDB assistance with governmental bodies unfeasible or severely limit the goals and means to be employed.

The scope of the analysis will cover the oldest so-called non-borrower led MDBs,[8] including the World Bank (WB), the Inter-American Development Bank (IDB), the Asian Development Bank (ADB) and the African Development Bank (AFDB).[9] The European Bank of Reconstruction and Development (EBRD) and the European Investment Bank (EIB)[10] will not be considered even if they have also been more recently involved in FCS, due to deteriorating conditions of their original borrowers (EBRD) or to their enlarged mandate in developing countries (both EBRD and EIB). The Islamic Development Bank (ISD)[11] and the more recently established Asian Infrastructure Investment Bank (AIIB) and

8 This is not strictly related to shareholding distribution. Both AFDB and IDB have majority borrower shareholders, but non-borrowers have strong influence through supermajorities, veto power and in the case of the African Development Fund (AFDF) majority voting power.

9 WB, ADB, AFDB and IDB have specific guidance documents to deal with FCS.

10 The EIB has a 2022 *Strategic Approach to Fragility and Conflict*.

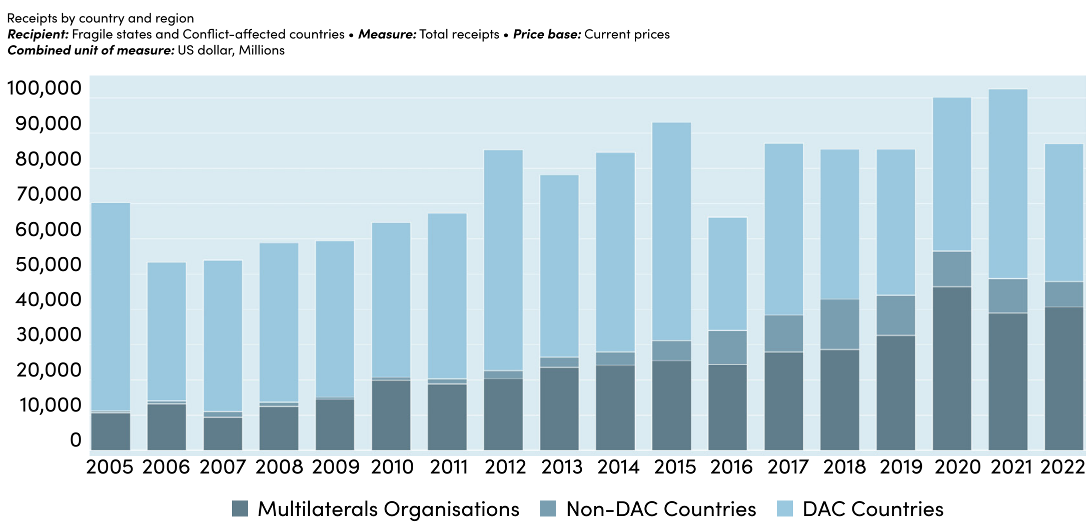
11 The ISDB has a 2019 *Fragility and Resilience Policy*.

New Development Bank (NDB), although also starting to be active in FCS, will not be included in the review.

3. Evolving MDB support to FCS relative to bilateral and other multilateral donors

The growth in financial flows to FCS countries shows the increased attention the international community is paying to them. The graph below shows that, in 2021 total official flows (concessional and non-concessional) to FCS reached a peak of U$ 102.5 billion. Official development assistance (ODA) for FCS in the same year accounted for U$ 87.8 billion, over 60 percent of ODA allocations to all developing countries.

FIGURE 1. Total bilateral and multilateral flows to FCS (2005–2022)

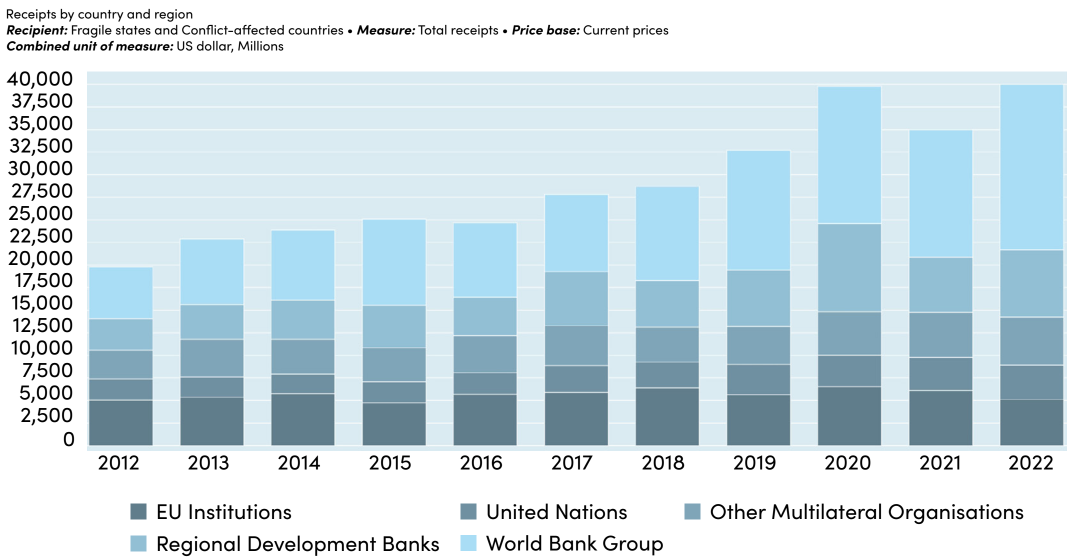


Source: OECD.

The following trends can be seen in the evolution of donors' financing shares to FCS: (i) over the past seventeen years, multilateral institutions have quadrupled their contributions to FCS in current prices, making them equal to funding provided by traditional donors and accounting to around of 45 percent of total receipts. The increase in multilateral contributions has been more pronounced in the last ten years; (ii) bilateral donors flows have shown more volatility over the years, but have kept under a certain range of funding that has remained largely unchanged for the last seventeen years; (iii) new donors have ramped up flows in a very short time peaking 14.2 billion in 2018, about a third what was provided by traditional donors that year, although most recent data show a sharp decrease from that figure.

Looking at the last ten years, we can see that the increase in multilateral assistance has concentrated in MDBs with the remainder organizations showing a more stable volume of contributions. The growth experimented by MDBs has meant that in 2022 they accounted for more than 60 percent of multilateral receipts, with the WB Group leading with almost 50 percent of all multilateral contributions.[12] UN organizations, particularly those handling humanitarian affairs, show a little increase recently, due to the need of emergency response to recent crisis. UNICEF is the largest contributor to FCS, with almost two thirds of all UN funding coming from it, followed by UNRWA (which only operates in the West Bank and Gaza), IFAD, UNDP, and the World Food Program. A significant amount of the growth in Other Multilateral organizations can be attributed to the expansion of vertical funds. About 70 percent of it comes from the Global Fund, which when combined with GAVI will make up 90 percent of this group. The remaining 10 percent is almost entirely made up of green funds, indicating untapped growth potential for FCS, that produce very little in the way of emissions but experience disproportionately high rates of climate change-related events.

FIGURE 2. Multilateral flows (EU, UN, RDB, WB and Other Multilaterals) to FCS (2012–2021)



Source: OECD.

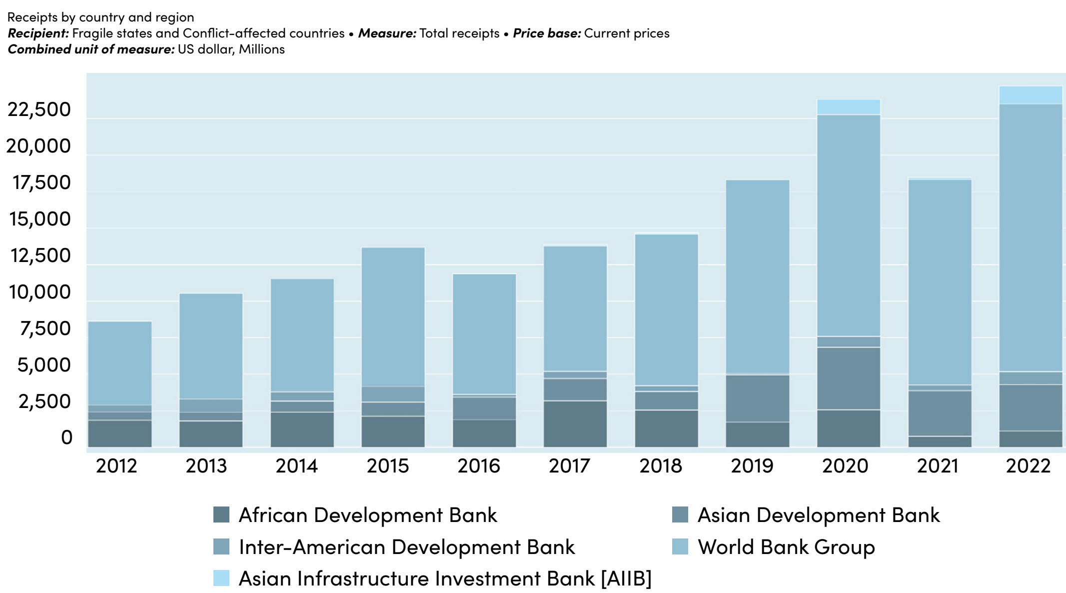
The progression of each MDB's disbursements during the same time is depicted in the graph below. The stream of flows from Regional Development Banks (RDBs) has been more erratic, which is related to the availability and use of concessional resources. Up until 2019, the AFDB was the second-largest contributor among RDBs; however, due to a fall in concessional resource availability, contributions decreased. Up until 2021, when assistance for Afghanistan was halted, the ADB had been increasing its contributions consistently. The small number of FCS recognized as such in the Latin American and Caribbean region explains the IDB's small contribution.[13] With the

12 When looking at WB data on FCS, the picture is somewhat different picture because only 39 countries are classified as FCS by the WB versus 60 by the OECD.

13 OECD, *States of Fragility*, 2022 lists Haiti, Venezuela, Honduras, Guatemala and Nicaragua as fragile countries. Only Haiti, Honduras and Nicaragua can access IDB concessional resources.

IDA18 financial reforms that significantly increased available resources and gave FCS funding priority, there has been a notable increase in WB flows. By itself, the WB provided over two thirds of all MDB support to FCS in 2022. Finally, it is worth noting how the AIIB starts being a significant contributor in 2020, with Bangladesh and Pakistan being the beneficiaries of most commitments made in 2020 and 2022.

FIGURE 3. Multilateral development banks (WB, AFDB, ADB, IADB and AIIB) flows to FCS (2012–2022)

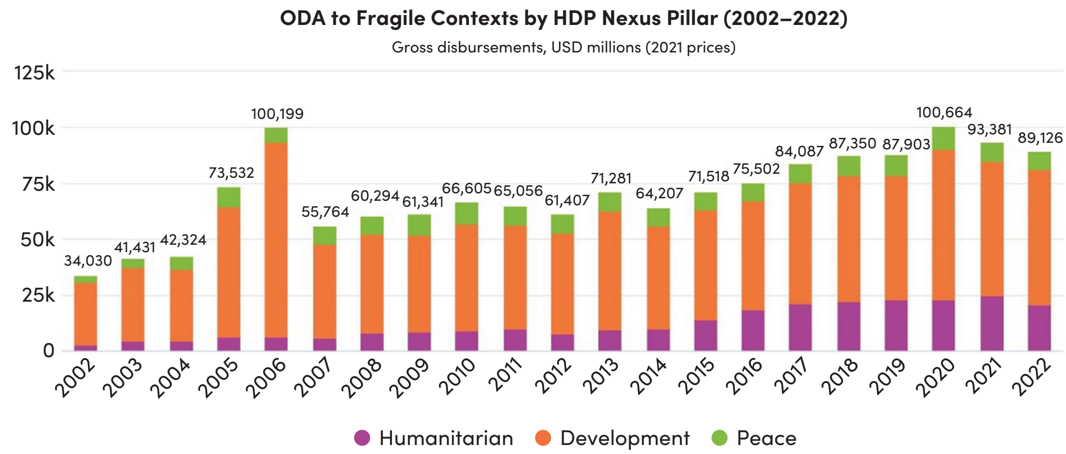


Source: OECD.

It's also important to consider how funding for FCS is allocated to the humanitarian, security, and development sectors. According to OECD data shown below and covering only ODA commitments across both bilateral and multilateral agencies, over 60 percent of the resources are allocated to development, with the remaining 25 percent going toward humanitarian assistance and the remaining 15 percent going toward security and peace. As little as 3.8 percent of all assistance is provided for conflict prevention, which is a subset of security and peace.[14] Donors have increased humanitarian support in fragile environments in recent years due to the surge in emergencies. Additionally, statistics reveal that over 40 percent of FCS development funds are allocated to social infrastructure and services,[15] some of which may be humanitarian in nature in fragile situations.

14 OECD, *Peace and Official Development Assistance*, 2023, p. 7.
15 OECD, *States of Fragility, 2022*.

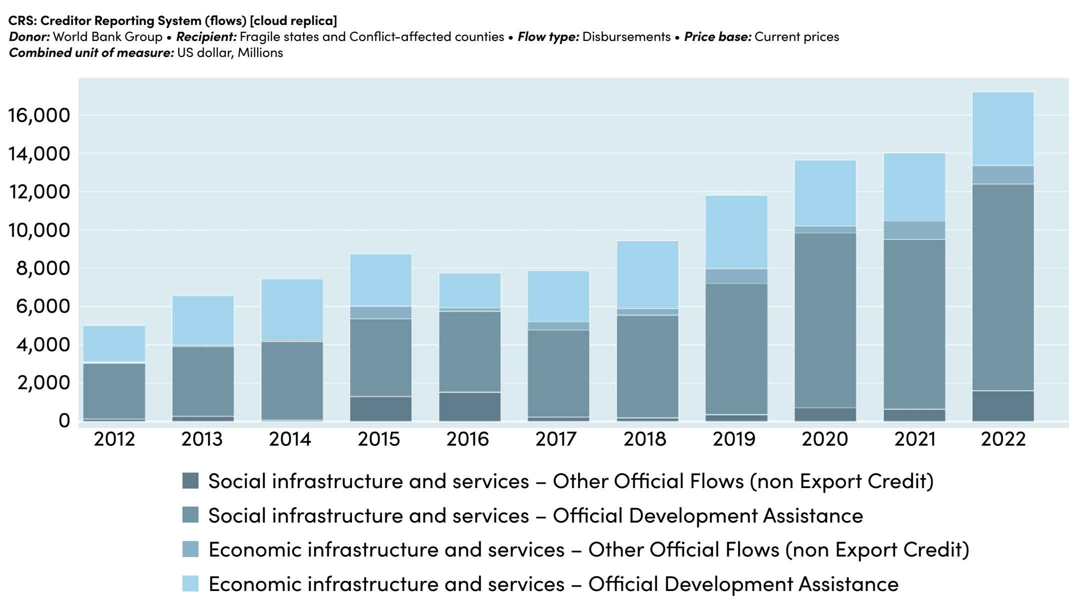
FIGURE 4. Evolution of humanitarian, development and peace ODA to FCS (2002–2022)



Source: OECD.

The data showing how MDBs allocate funding to FCS by sector is consistent with the increased priority given to human well-being relative to other development priorities. As can be seen in the graph below, WB concessional and non-concessional flows to FCS show a sharp increase in social infrastructure and services compared with economic infrastructure, accounting for 56,9 percent of all receipts in 2022. Health, education and social protection are the subsectors that present higher comparative growth. This conclusion is also applicable to the ADB and IDB receipts. Only the AFDB shows a certain preference for investment in economic infrastructure from both concessional and non-concessional resources.

FIGURE 5. Evolution of WB flows to FCS in social infrastructure and services and economic infrastructure and services (2012–2022)



Source: OECD.

4. MDBs comparative advantages in FCS

MDBs were created to provide financial and technical resources to developing nations, mainly through capital investment projects. Their operating model was based on two pillars: (i) first, MDB function as cooperatives whose members are both shareholders and borrowers until they graduate. Countries are represented by their acting governments with little regard for how lawfully they came into power or how effectively they exercise it, and resources are disbursed through governments institutions and agencies. Both governance and delivery mechanisms create a “state-centric” model that relies on a long-term collaboration between developing country governments and MDBs. Despite being acknowledged as important players in development, subnational governments and civil society organizations are treated as subordinate to government authorities that must authorize MDB relationships with them. If the government does not object, only commercial corporations are allowed to borrow directly from private sector windows; (ii) second, MDBs operate as technical institutions. All articles of agreement include what is known as the “non-political” clause that limits decision-making processes to economic factors. MDBs gather economic evidence and design their interventions based on established good practices, often minimizing the influence of specific political and social contexts. For MDBs to operate effectively with developing countries, it is crucial to have a group of professional technocrats as counterparts who adhere to a similar model of rational policymaking and hold sway in governmental decisions.

This model has largely remained unchanged and serves as the foundation of MDB’s comparative advantages in FCS, which can be summarized as follows:

Country based long-term relationship

The country-based long-term engagement through established government bodies is highlighted by all MDB strategies in FCS as a source of comparative advantage. Without strengthening core state institutions there is no way out of fragility, and MDBs are in an advantageous position to do so within the parameters of their engagement model. However, it is also true that governments in FCS are not always reliable partners, unable or unwilling to carry out their responsibilities as development actors. The MDB state-centric model gives governments a lot of residual power in the definition of priorities, the allocation of resources or the implementation modalities. As a result of it, when governments are more part of the problem than the solution, MDBs are confronted with limited options and difficult choices.

Financial capacity

The second advantage of MDBs, when compared to other multilaterals, is their financial muscle. They are renowned for their ability to multiply resources by leveraging the contributions of donors in the capital markets. Also, they have a strong record in delivering funding even in the most demanding crisis situations. This also carries some risks. The incentives can be primarily on disbursements rather than the ultimate outcomes to be attained and the fragility of public institutions and the associated fiduciary risks in FCS encourage delivery arrangements that take short cuts and may end up weakening local capacities. MDBs expediency and financial self-sufficiency may also compromise the desirable coordination with other actors when development, humanitarian, and security concerns are intricately linked. MDBs are strong functional entities but they are used to operating independently.

Technical expertise

MDBs are staffed by first-rate specialists with an active presence in most developing countries, acknowledged for their policy-oriented knowledge in economic development. They follow a technical approach based on international benchmarking of what is empirically proven to work. This technocratic concept is in line with the "non-political" character of the institutions. Once more, what appears to be a benefit can also become a disadvantage. The kind of technical elite MDBs are used to interacting with have not the same standing or power in FCS. Weak institutionalization transforms every issue—especially those affecting resource allocation—into a political power struggle. MDBs often minimize the context-specific conditions of the countries in which they operate. The extent to which insufficient understanding of the political and social context of FCS correlates with lack of achievement is a pertinent question. MDBs work in FCS requires a more politically sensitive approach, more context-specific analysis, and a blend of knowledge perspectives beyond economics to be effective.

Convening power

MDBs have a wide range of global and/or regional memberships and can rally shareholders and a variety of stakeholders in favor of ambitious initiatives. While the WB can take advantage of its worldwide advantage, RDBs highlight their distinct regional perspective and close partner governments relationship in this regard. But interventions in FCS have become increasingly susceptible to intricate geopolitical variables. Powerful shareholders have asked MDBs to adopt their preferred political agendas and strategies, which has caused them to lose their advantage in objectivity and neutrality. We have witnessed over the past years how emerging donors are contesting the West influence in old MDBs and new MDBs have emerged that represent a different power coalition, while posing as more suited to the needs of emerging nations. With fragile countries again becoming an area of geopolitical competition, the strength of old MDBs' convening power is unclear.

MDBs have demonstrated strong comparative advantages when engaging in FCS. Because of these capabilities, they have gradually become more relevant in FCS, channeling an increasing share of development assistance. However, comparative advantages can be seen as a double edge-sword, reinforcing or undermining relevance and effectiveness depending on where, when, and how they are used. Strategies are needed not only to highlight interventions with greater potential for impact but also to prevent MDBs from getting involved in situations in which they are ill-equipped to support transformational change. Regretfully, MDBs' strategies to FCSs have tended to overlook the other side of comparative advantages. More guidance is needed on what MDBs are not well suited to do in FCS and when total or partial disengagement is the most reasonable course of action.

5. Strategy framework: Categorization, scope, priorities, and vision of success

Despite being established with a mandate for both development and reconstruction, MDBs focused mostly on the former. Prioritizing creditworthy emerging countries at first, assistance was later extended to less developed countries with the creation of concessional windows.[16] Countries affected by extreme instability and conflict were not considered to be part of the development mandate. Before investments could be deployed effectively, certain prerequisites for peace and stability had to be met, with a neat distinction made between security, humanitarian, and development interventions.

After the end of the Cold War, FCS ceased to serve as arena for geopolitical rivalry, marking the beginning of a strategy shift. MDBs became almost universally affiliated and began to take a more proactive part in post-conflict and reconstruction efforts. The intervention carried out by the WB in Bosnia-Herzegovina was seen as a key example of how MDB skills could be effectively deployed for stabilization and reconstruction when they are timely sequenced with the peace process and coordinated with the rest of the international community.[17] Few years later, the response to 9/11 provided a significant impetus for the "fragility" agenda, which was designed to address the root causes of conflict and weak statehood rather than just reconstruction, with MDBs progressively assuming a bigger role. In addition to providing technical and financial support, MDBs worked jointly with the OECD to normalize the category,[18] take stock of the lessons learned, and develop policy recommendations and guidelines for intervention.[19]

16 The IDB Fund for Special of Operations (FSO) established in 1959 was the first MDB concessional window, followed by the WB International Development Association (IDA) in 1960. The African Development Fund (AFDF) was created in 1972 and the Asian Development Fund (ADF) in 1974.

17 World Bank, 2004, *Bosnia and Herzegovina. Post Conflict Reconstruction and the Transition to a Market Economy.* An OED Evaluation of WB Support.

18 See Olivier Nay, "International Organizations and the Production of Hegemonic Knowledge: how the WB and the OECD helped invent the Fragile State Concept," in *Third World Quarterly*, Vol. 35, No. 2, pp. 210–231.

19 In 2003, the OECD established the Fragility States Group and in April 2007 OECD-Development Assistance Committee (DAC) members endorsed the "Principles of Good International Engagement in Fragile States and situations" and created the International Network on Conflict and Fragility (INCF). In November 2011, the International Dialogue on Peacebuilding and State Building (including INCF, a group of fragile countries called the g7+ and a group of civil society organizations endorsed the "New Deal for Engagement in Fragile States," an attempt to adapt development effectiveness international agreements to FCS.

Since then, the MDBs' designation of FCS as a development priority has only grown in importance. It is seen as a crucial development challenge in corporate strategies,[20] and a major theme in the agreements to replenish MDB concessional windows.[21] Informed by evaluation reports on prior performance,[22] MDBs have also approved specific strategies and frameworks to deal with FCS as a distinctive development challenge.[23]

Evolving understanding of fragility and administrative definitions

Comparing the notions behind current strategies with the initial MDB assumptions regarding fragility reveals a considerable evolution. This is the result of a significant amount of research and learning, with landmark documents that have influenced shifts in viewpoints and methods for approaching FCS. Three trends can be highlighted in this regard:

(i) First, fragility has changed from being a dysfunctional statehood syndrome to a multifaceted phenomenon with underlying social, political, and economic factors. This has been useful in distinguishing the causes of fragility from its effects and in the search for long-term policy solutions rather than short term fixes. The more complex idea of fragile contexts or situations has replaced the expression of fragile states, which had an implicit stigma associated.

(ii) Second, low-income economies, conflict, and weak institutions do not always go hand in hand. There are fragile environments unaffected by conflict as well as violent and fragile middle-income nations. As a result, our grasp of FCS typologies has improved, and it is now recognized that even if they share some common features, each fragile situation has a distinct context that calls for careful examination.

(iii) Ultimately, evidence from many nations has demonstrated that, while escaping fragility is feasible, it is a laborious, nonlinear and lengthy process with roots in domestic dynamics and actors. Implementing idealistic western policies and institutional models could be counterproductive. External actors need to build upon solid and long-lasting internal coalitions to succeed. A realistic and empirically supported action theory is the only one that stands a chance of succeeding.

20 WB, 2022, *Evolving the WB Group's Mission, Operations and Resources: A Roadmap*; ADB, 2018, Strategy 2030, *Achieving a Prosperous, Inclusive, Resilient and Sustainable Asia and the Pacific*. AFDB, 2024, *Seizing Africa's Opportunities for a prosperous, inclusive, resilient and integrated continent (2024–2033)*; IDB, 2024, *IDB Group Institutional Strategy: Transforming for Scale and Impact*.

21 IDA20, 2022, *Building Back Better from the Crisis: Toward a Green, Resilient and Inclusive Future*; AFDF16, 2023, *Fostering a Climate-Smart, Resilient, Inclusive and Integrated Africa*. ADB, 2024, *Asian Development Fund 14 Donors' Report*.

22 These are the most recent evaluation reports: WB-IEG, 2021, *World Bank Engagement in Situations of Conflict. An Evaluation of FY 10–20 Experience*; ADB-IED, 2022 *Annual Evaluation Review. Fragile and Conflict Affected Situations and Small Island Developing States*; AFDB-IDEV *Evaluation of the AFBD's Strategy for Addressing Fragility and Building Resilience (2014–2019)*.

23 AFDB, 2022, *Bank Group's Strategy for Addressing Fragility and Building Resilience in Africa* (2022–2026); ADB, 2021, *Fragile and Conflict-Affected Situations and Small Islands Developing States Approach*; WB, 2020, *World Bank's Group Strategy for Fragility, Conflict and Violence 2020–2025*. IDB, 2024, *Framework to Support Populations in Situations of Fragility, Conflict and Criminal Violence, 2024–2027*.

However, it has been costly to translate this conceptual evolution into MDBs working strategies and operations. They have elaborated specific categories and administrative criteria to detect fragility and allocate resources. Most MDBs have opted for the identification of FCS in country lists.[24] This method has developed to be more sophisticated and account for FCS subcategories, separating fragility from conflict (WB), recognizing small island states as a special group (ADB), or conceptualizing territories affected by criminal violence as different from political conflict (IDB). However, closed country lists are still problematic for at least three reasons:[25]

(i) First, fragility is foremost a matter of degree, being dynamic in nature. It will make more sense to identify a spectrum of countries in fragile conditions, from extreme to moderate as it is done by the OECD *States of Fragility* or the Fund for Peace, *Fragile States Index*.[26] The problem is that this change will put pressure on already scarce resources and further complicate the allocation process.[27]

(ii) Secondly, fragility as a problem is not always well framed by national boundaries. There are both pockets of resilience among fragile states and pockets of fragility within comparatively non-fragile nations. Only the IDB Framework focuses on pockets of fragility at the subnational level and is working on a specific quantitative-qualitative approach to classify them.[28] Additionally, external drivers can push nations into fragility, making regions instead of countries the appropriate unit of analysis and response. Both the WB and the AFDB have regional programs that recognize this development.

(iii) Thirdly, fragility definitions of all MDBs are reliant on policy and institutional assessments (CPIA) that, although useful, do not capture all dimensions of fragility. CPIAs suffer from the MDBs technocratic bias and can overrate countries with apparently stronger technical counterparts, while having difficulty to capture emerging political shifts and opportunities. Qualitative multidisciplinary expert criteria could be used complementarily to refine detection and prediction of fragility conditions.

Scope of intervention

MDB strategies encompass a broad and ambitious range of interventions related to FCS. The WB Strategy identifies four engagement pillars: (i) preventive interventions to contain conflict and fragility; (ii) continuing to engage in countries affected by extreme fragility and conflict; (iii) assisting nations in moving past fragility; and (iv) mitigating spillovers from fragility in cross-border areas. Preventive, palliative, transitional and regional initiatives are also covered by AFDB and

24 This has evolved from the original 2006 of less developed countries under stress, to the harmonized list with the AFDB and the ADB since 2011. Nowadays each MDB adopts its own list, although they are mostly coincidental.

25 The ADB-IED, 2022 *Annual Evaluation Review. Fragile and Conflict Affected Situations and Small Island Developing States* offers a good summary of the most controversial aspects of current classifications, p. 59–60.

26 https://fragilestatesindex.org.

27 See Michael Woolcock, 2014, *Engaging with Fragile and Conflict-Affected States*, CID Working Paper no. 286.

28 IDB *Framework*, p. 10–11.

ADB programs. MDB strategies do not contain an assessment of resource requirements across the different intervention modalities.

The question is whether MDBs comparative advantages are equally suited to the entire spectrum of interventions. Continuous engagement through humanitarian assistance, for example, is essential to protect vulnerable populations but cannot contribute to transformative change, unless in the presence of a strong internal political coalition and security conditions in place. In line with lessons learned, MDBs have indicated a "pivot to prevention"[29] through their strategies and leadership statements. They argue that these interventions are the most cost-effective, saving US$ 16 in conflict costs for every dollar invested.[30] The use of countercyclical resources to safeguard fiscal capacity during times of crisis is an effective way to avoid fragility. Evaluation documents, however, question the extent to which MDBs are focusing enough on prevention and building resilience to avoid setbacks.

This brings us to the old issue of MDBs' mission creep given the limitation of resources available. It can be argued that it is complex to estimate how overall efforts should be divided and that the only realistic approach is to leave more specific definitions to the country level. The problem is that when strategy guidance is that wide, there is an implicit incentive for fragmentation of effort and blurred accountability. As the scope is currently defined, any action including the addition of a "development rationale" can be justified as relevant for MDB involvement, avoiding a more thorough consideration of comparative advantages and donor division of labor.

Intervention priorities

FCS strategies are in line with the lessons learned when defining intervention priorities. All MDBs emphasize three themes: (i) bolstering core governmental institutions; (ii) attending to fundamental human needs; and (iii) promoting economic opportunities, through job creation and private sector investment. Based on their own experience, each MDB strategy paper shows certain preferences. The ADB focuses on public financial management and infrastructure, while the AFDB emphasizes sustainable infrastructure. The WB integrates efforts from both public and private sectors to create jobs. The IDB, leveraging its extensive experience in citizen security projects, prioritizes the institutional strengthening of citizen security and justice sector capacities, as well as the protection of vulnerable populations from conflict and crime. As a key element of their involvement in FCS, all MDBs have evolved toward emphasizing human needs and the defense of the most vulnerable.

MDBs choose to take a conservative approach to the security sector needs, notwithstanding its importance in FCS. MDBs have historically excluded the security sectors because of possible conflicts

29 The 2018 joint UN-WB Report *Pathways for Peace* is considered the landmark in the pivot to prevention.
30 *WB Strategy on FCS*, p. 21.

with the "non-political" clause. Some MDBs have supported institutions that uphold the rule of law and justice and are gradually expanding their involvement through knowledge products in tandem with other partners as well as targeted operations pertaining to crime prevention. The IDB has led an agenda on issues of crime and justice for more than two decades. The IMF's strategy both emphasizes the significance of the security sector and allows for restricted participation in public expenditure reviews,[31] due to FCS's high levels of security spending in comparison to their budgets. In the most extreme FCS building security is essential to create a transformative context. MDB's comparative advantage in core state-building can be useful in addressing security sector governance and linking preventive with coercive dimensions of security.

Finally, evaluation documents signal two shortcomings when MDBs try to narrow down priorities at the country level. First, there has been the temptation to put everything right at once with resources fragmented into a wide scope of sectors, lacking much needed scale and potential for impact. FCS require concentrated action in a few clear and interrelated priorities, instrumental to support political and economic transformation. Secondly, there appears to be a gap between strategy aims and country portfolio decisions. The more conventional sectors that provide observable outcomes, such as infrastructure and, more lately, social protection, continue to dominate investment preferences in FCS, making over two thirds of MDB portfolios. The proportion of aid allocated to fortifying institutions or fostering job opportunities is proportionally low,[32] and does not align with the MDB "comparative advantage in supporting core governance functions."[33]

To sum up, MDBs appear to favor expenditures that address the capacity component of state fragility—the provision of services—paying less attention to legitimacy and authority, which are related to the extent of support and acceptance of power and the coverage and efficacy of state power, respectively. Research indicates that overcoming fragility is more a result of growing legitimacy and authority than of capacity.[34] Increasing services provision is not always correlated with more legitimacy, and authority strengthening—which strengthens coercive security, as preferred by bilateral donors in highly conflictual environments—is not likely to be sustainable in the long run without legitimacy.

An elusive definition of success

Good strategies are supposed to include a definition of success, spelled out in a results framework to assess performance, and make accountability feasible. Historically, MDBs have taken a cautious approach to results, resisting goals that go beyond financial metrics such as approval and disbursement volumes, on the grounds that they cannot be held responsible for end results as they

31 *IMF Strategy for Fragile and Conflict States*, 2022, p. 40.
32 WB, *Mid-Term Review of the WBG Strategy for Fragility, Conflict and Violence (2020–25)*, October 2023, p. 17.
33 *WB Strategy for FCS*, p. 9.
34 See David Carment and Yiagadeesen Samy, 2019, "Aid Targeting to Fragile and conflict States and Implications for Aid Effectiveness," in *Politics and Governance*, Vol. 7, Issue 2, pp. 93–102.

are affected by factors outside their control. Gradually, shareholders have achieved the inclusion of output and outcome metrics in corporate scorecards at least to track MDB contributions. Due to their unstable circumstances and not always reliable government counterparts, FCS are an especially challenging environment to measure and attribute results. It is also true—as evaluation reports have shown—that emphasizing quantitative performance metrics of material delivery may not be the most relevant outcomes to follow when trying to prevent, contain, or transition from fragility.[35]

A lengthy list of internal indicators is used to gauge the organizational effort put forth in FCS. This includes, among other actions, risk assessments completed, projects using a conflict-sensitive methodology, cooperative efforts with other parties or increases in staffing. Though they do not reveal much about outcomes, they are pertinent input measurements to monitor how MDBs are adjusting to the unique FCS demands. The general corporate output and outcomes produced in sector priorities are broken out by FCS in MDBs' results frameworks. The recently released WB results framework adds an indicator to account for assistance provided to displaced populations.[36] The AFDB is the sole organization tracking advancements made in FCS institutional development, following the evolution of fragility assessments and CPIA indicators, and including a target to improving environmental policy and financial management in a select group of nations. No institution tracks the outcomes in relation to the preventive, palliative, transitional or spill-over streams of interventions.

FCS present very context-specific challenges that can be difficult to identify and capture using standard output or outcome metrics at the corporate level. It is more reasonable to concentrate on defining and assessing success at the country level, with quantitative and qualitative measurements of performance, including higher-end outcomes of prevention and transition. This should offer sufficient bases for guidance and accountability, concentrating incentives on the point where it counts most. Unfortunately, according to evaluation and review documents, objectives in country strategies are "rarely formulated through the application of an FCS lens"[37] and prefer to track the achievement of more easily measured material output and outcome results as in other developing countries.

6. MDBs in the humanitarian-security-development nexus

Experience has shown that to make progress in FCS, intervention strategies must take mutually reinforcing actions and address the security, political, and economic aspects of fragility simultaneously. Stronger security that enables political actors to garner support and create opportunities, inclusive power distribution arrangements, and financial incentives to defuse conflict

35 IEG,2021, *WB Engagement in Situations of Conflict*, p. xv.
36 WB, 2024, *New WB Group scorecard FY24–FY30. Driving Action, Measuring Results.*
37 WB, *Mid-Term Review*, p. 4.

and frame positive-sum political settlements can all work together to create a virtuous cycle. Unlike the conventional sequential path of development, economic interventions in unstable situations may be essential before full stabilization and must be consistent with the timeline of political processes and security measures. The term "peace-humanitarian-development nexus" refers to this action interdependence, which aims to synchronize traditionally separate actions by the international community.[38]

The "triple nexus" is mentioned by all MDB strategies for FCS. Working in unstable situations requires finding consistency across humanitarian, development, and peace and security initiatives, as the World Development Report highlighted as early as 2011. IDA20 Mid-Term Review maintained on the same point twelve years later: "WB interventions can yield results in FCS when they are conceived and implemented as a part of a broader effort that also includes political, security, and humanitarian efforts."[39] The same fundamental principle is reiterated in other MDB policies, declarations, and assessment reports.

Nevertheless, progress has lagged, and strategy commitments have encountered obstacles in implementation. It is not a coincidence that the IMF and the MDBs are not signatories of the OECD-DAC Recommendation on the triple nexus. The still-dominantly conservative reading of the "non-political" provision has made the connection with the peace and security dimension hesitant by MDBs. There has been more progress in the humanitarian component, where the combination of high demands and low funding available to traditional humanitarian agencies has made it possible to partially lift previous policy limitations on MDBs' ability to assist in humanitarian efforts.[40]

Two of the most important triple nexus policy recommendations remain challenging for MDBs: country ownership and strong coordination across peace-humanitarian-development efforts.

Country ownership

The country ownership principle emphasizes the primacy of local forces as the driving force out of fragility. External actors can only play a transformational role when associated with an emerging virtuous political settlement. After a war or intense conflict, this would appear to be a peace accord or long-lasting victory for one of the parties involved. In low intensity contexts or situations of chronic fragility, opportunities can appear after internal or external shocks. Events such as natural disasters, periods of institutional collapse, or societal mobilizations, have the potential to bring about a change in dynamics, opening a transitional window. In these "pivotal moments" as defined by the Fragility Commission, transformative change is possible, and the international community should

38 See OECD, 2019, *Recommendation on the Humanitarian-Development-Peace Nexus.*

39 IDA20 *Mid-Term Review*, 2023, p. 36.

40 See *Updated World Bank Policy, Development Cooperation and Fragility, Conflict and Violence.* The IDB Framework still excludes the institution's involvement in humanitarian interventions according to its Charter.

"encourage and support leaders that seize this opportunity," but refraining from "imposing their own policy preferences."[41]

For MDBs, identifying and working with country ownership in FCS presents two difficult issues. The first is the requirement for a thorough political awareness of the forces at work and the ability to step aside in the face of dysfunctional circumstances. This requires acknowledging that working in FCS entails exercising political power, which goes against MDB normative principles. The second is that following country ownership may in some situations not be the same as adhering to the will of government authorities.[42] Mistakes can be made if too much space is given to bad leaders that may entice MDBs into a comfortable zone or have the backing of the international community for the sake of geopolitical interests. The WB Strategy for FCS indicates that when government action is responsible for causing fragility, the WB may maintain a "low-key engagement," including dialogue with relevant stakeholders.[43] However, WB policies stipulate that this can only take place with state authorities' consent.

Coordination across peace-humanitarian-development interventions

The second pilar of the peace-humanitarian-development nexus is that external support must adhere to a closely coordinated strategy based on country needs and priorities. Coordinating foreign donors is made simpler in the presence of a legitimate and at least partially functional government. The most successful nations to emerge from fragility—like Rwanda, Liberia, or Côte d'Ivoire—have been in this situation. It is more frequent, though, that authorities have difficulty setting clear priorities and lack capacity to coordinate donors along the triple nexus.

Efforts to integrate humanitarian and development support closer together in instances of prolonged crises have progressed, establishing locally based more sustainable delivery models. However, the joint dynamics of peacebuilding and development have often been neglected in favor of bilateral and multilateral security initiatives, favoring a narrow "train-and-equip" military strategy.[44] In many conflict affected countries, development efforts have been subordinated to military objectives or have been inconsistently planned and executed. A recent report on the implementation of the triple nexus initiatives to incorporate the peace component across the HDP nexus remain marginal," and "collective financing strategies are still largely missing."[45] The recent IDA20 Mid-Term Review, says

41 *Escaping Fragility*, p. 27.

42 38 of the 59 authoritarian governments in the world, according to the OECD, are found in FCS countries, while 19 more are either imperfect democracies or half-authoritarian regimes. See Sarah Cliffe et al. (2023), *Aid Strategies in "politically stranged" settings. How donors can stay and deliver in fragile and conflict affected states*, Chatham House international Security Program.

43 *WB Strategy for FCS*, p. 17.

44 *Towards Better Security Governance: Learning from the Road Travelled*. An Independent review of UN support to security sector reform in peace operations, 2014–2020.

45 International Network on Conflict and Fragility, *Report on the implementation, dissemination and continued relevance of the humanitarian-development-peace nexus*, 11 March 2024, p. 35.

that security, development, and humanitarian issues are discussed comprehensively for "the first time" in top-up transition and preventive eligibility documents.[46]

Evaluations reports continue to point out that coordination efforts have been insufficient, uneven, and heavily reliant on each country's unique circumstances. MDBs strategies in FCS highlight the critical importance of coordination and the role that partnerships play in achieving it. Partnerships, however, have not been designed so much to align and, if necessary, integrate interventions. Their main objective has been to cover for capacity limitations, to outsource tasks to other institutions that are better positioned to deliver. The focus of inter-agency coordination has been on operational measures such as shared implementation structures, co-financing agreements or country coordination committees. True joint strategies, supported by financing compacts and shared delivery structures are still exceedingly rare.

Not even within the more homogeneous MDB community has there been much accomplished. Although an agreement was reached in 2007 with the goal of enhancing cooperation and alignment in FCS, it has never been completely put into practice. The simpler aspects, such as harmonization and information exchange, have made some progress, but the more demanding objectives, such as joint analysis and assistance strategies and programming, have not lived up to expectations.[47] The G-20 Independent Expert Report makes several recommendations on this regard, requesting MDBs to really work as a system and adopting new country based operational models suitable for scaled up activity. Nowhere these reforms are more relevant and urgent than in FCS settings.

7. Funding capacities and resource allocation mechanisms

MDBs' financial model has been key to explain their greater involvement in FCS. Their increasing share of FCS financing is due to the potential to multiply available resources by leveraging shareholder contributions in the capital markets. This model has proven resilient over time, but it will face difficulties if needs increase much more quickly than resources. There have been recent changes made to maximize MDB financial capacity, and more are soon to be implemented, but the future looks uncertain. Sound development banking ultimately depends on countries graduating or at the very least not needing concessional resources and leaving space for less developed countries. Chronic fragility in a sizeable portion of the world could test the MDBs' financial model's underlying assumptions of sustainability.

46 IDA20 *Mid-Term Review*, 2023, p. 14.

47 http://www.iadb.org/en/news/news-releases/2007-10-20/development-banks-commit-to-closer-collaboration-working-in-fragile-situations,4092.html. MDBs also share since 2019 a Fragility Conflict and Violence Working Group, including the WB, ADB, IDB, AFDB, EBRD, EIB and ISDB.

MDB resources for FCS primarily originate from three sources: (i) concessional windows for less developed countries; (ii) ordinary capital resources for middle-income FCS countries; and (iii) trust funds and special facilities that earmark resources for specific countries or groups of countries and for FCS related themes. Since the majority of FCS are low-income, they are eligible for concessional windows, which make for most of the available funding. First, we will look at funding capacities of concessional windows, second to their allocation mechanisms and third we briefly consider other sources of funding.

MDBs' concessional windows replenishments

To support FCS, concessional windows—WB IDA in particular—are essential. Their financial capability is, however, not determined by needs to be attended. According to IDA20's estimates, recipients' total funding needs throughout its timeframe would be almost eight times greater than IDA replenishment resources.[48] The G-20 Independent Experts Group Report recommended making a connection between international mandates and goals such as the SDGs and climate targets and sustainable MDB financial capacities. The proposal suggests tripling the size of IDA with donor contributions reaching U$ 30 billion and achieving an extra U$ 60 billion in annual flows for concessional resources by 2030.[49]

There is not an overall estimate for FCS needs. These are the countries that have seen a more noticeable reversal of development gains because of recent combined shocks.[50] It is in fragile nations, where poverty and extreme poverty are growing faster and where impacts of climate change are being suffered more acutely. Also, debt sustainability in FCS has gotten worse, returning to pre-HIPPIC levels of stress. This has led to a rise in the demand for grant-only or softer loan terms from concessional windows. Between IDA18 and IDA20, the percentage of grants in the FCS envelope increased from 54 percent to around 80 percent.

WB IDA is by far the largest MDB funding source, reaching more than U$ 90 billion in IDA20.[51] Greater reflows and increased borrowing in the financial markets are behind the recent capacity increases, while donor contributions have dropped (by 25 percent in real terms since 2009). Since IDA15, FCS has been a Special Theme, and from IDA16 to IDA20, funding for FCS increased by five. According to OECD data, IDA provided around 75 percent of all MDB commitments (concessional and non-concessional) for FCS in 2022. The most recent IDA review shows growing demand and strong absorption capacity in FCS. The proportion of undisbursed balances has been gradually declining despite a notable rise in commitments.[52]

48 IDA20, *Building Back Better from the Crisis to a Resilient and Inclusive Future*, p. 9.
49 Independent Expert Group, *A Roadmap for Better, Bolder, Bigger MDBs*. Second report. 23 September 2023, p. 52.
50 See Tomy Chrimes et al., 2024, *The Great Reversal. Prospects, Risks and Policies in IDA Countries*. World Bank.
51 At the time this document is being written, IDA is in the process of its 21st replenishment, with pending decisions on the volume of resources, policy conditions or allocation modalities.
52 IDA20, *Mid-Term Review*, November 2023, p. 10.

Resource allocation and management has become more complicated and fragmented because of IDA's growth. The Mid-Term Review states that IDA20 involves five Special Themes, five windows, four cross-cutting concerns and forty-one policy commitments requiring more than a thousand activities.[53] This is a burden to low capacity receiving nations, especially FCS, that must focus on numerous policies, procedures, and short-term regulations that may divert attention and resources away from long-term goals. In order discuss process and architectural simplifications WB management has launched the "SimplifIDA" initiative to be discussed during IDA21 negotiations.

AFDB and ADB concessional windows are also replenished on a periodic basis and involve donors' contributions being subject to policy commitments. They have never been as large, though, and they lack the same IDA's ability to expand by leveraging their assets. The Asian Development Fund (ADF) combined its assets with the Asian Development Bank (ADB) in 2017, to become a grant-only window that benefits a small number of regional FCS and small island development states. Replenished every four years, it benefits from a solid backing from regional donors such as Japan and Australia. The most recent replenishment, agreed upon only recently, reached U$ 5 billion, a 20 percent increase from the previous one, with a 35 percent increase in resources from the bank's operating income.

Replenished every three years, the African Development Fund (AFDF) is a concessional lending window for low-income countries. The most recent replenishment was U$ 8.9 billion in 2022, almost half from internally generated resources, including reflows and operating income. IDB operates a concessional window without a dedicated fund benefiting just three countries. The concessional fund was last replenished in 1992, and the residual assets were merged in 2017 with the ordinary capital balance sheet. The U$ 2.2 billion grant facility approved in 2010 to support Haiti after the earthquake for a decade was fully financed by operating income.

It is worthwhile to look at recent resource allocations to illustrate the relative sizes of the concessional windows.[54] IDA authorized U$ 17,476 million in commitments in Eastern and Southern Africa in FY22, whereas the AFDF (including North Africa) approved U$ 1,818 million. This implies that large African FCS nations, such as Ethiopia or the Congo Democratic Republic, may receive ten times as much funding from IDA as from the AFDF, while they can also access ordinary AFDB resources in limited amounts. While not as high, the ratio still accounts for five to seven times in small and medium-sized nations. For a long time after the earthquake, the IDB was the main multilateral contributor to Haiti, the only FCS in Latin America in the WB list. IDA has taken the lead over the past two years, allocating three times the amount of the IDB for the FY22 and FY23 period, while the IDB has cut almost by half its post-earthquake yearly envelope. In Asia, the size of ADF and IDA envelopes for small island nations are similar, thanks to a large ADB special allocation.[55] It is worth mentioning that the same as the AFDB, ADB lends to IDA eligible countries like Afghanistan

53 IDA20, *Mid-Term Review*, p. 6.

54 Figures have been taken from annual reports and concessional resource allocation documents in the case of IDA and the IDB.

55 ADB, 2024, Asian Development Fund's 13 Donors Report, p. 36.

and Bangladesh through its ordinary capital window. Ultimately, as the AFDB strategy acknowledges, RDB concessional windows can only function as complementary to IDA.[56]

RDBs have struggled to keep the concessional windows funded with donors' contributions. The allure of the vertical funds, and the more efficient IDA leveraged model have been tough competitors, while donors have been pressed by shifting geopolitical priorities. It is not a clever idea, nevertheless, to move away RDBs from FCS for financial efficiency. In highly political FCS contexts, RDBs regional advantage and their complicit connection with receiving countries can be of great value. Future RDB concessional fund replenishments will need to be convincing about how these advantages are effectively utilized and how external contributions can be combined with internal resource commitments for greater scale and impact.

Concessional resource allocation criteria and FCS

The entire concessional resource allocation model is still based on criteria established prior to the FCS category gaining the current level of prominence. To distribute funds, MDBs' concessional windows follow the Performance-Based Allocation (PBA) system, in which the primary factor is need (population and per capita income), adjusted by performance to reward good policies and institutions and project execution records. Each nation's level of concessionality is contingent upon debt sustainability analysis, with highly stressed nations only eligible for grants. Most of the funding goes to large nations, but smaller and medium-sized nations receive larger per capita allotments. Although the performance logic has been called into doubt for obvious reasons in FCS, it is seen as a foundation of the entire model and has remained untouched. To adapt for FCS needs concessional windows have established complementary allocations through special windows and top-ups, which have taken an increasingly larger share of overall financing relative to the basic PBA allocations.

FCS IDA allocations are especially intricate. The PBA formula is used to determine basic allocations. Since IDA19, FCS countries are also eligible for top-up allocations, up to 75 percent for prevention (PRA) and 125 percent for transition (TAA); top-ups for remaining engaged during conflict (RECA) are determined using the same formula as their PBA. Top-ups are administered through one-time eligibility per cycle and yearly review process. If countries have not reached predetermined milestones, prevention and transition top-ups allocations may be terminated. A precise mechanism for the phase-out of top-ups is still lacking, raising a resource flow sustainability issue. Although the IDA20 Mid-Term Review is positive with the top-up experience,[57] it is still soon to conclude whether the incentive mechanism will be effective in the long run. Its rationale, like that of the previous policy conditionalities, is predicated on optimistic assumptions about the influence of outside development actors in fragile environments.

56 AFDB, 2022, Bank Group's Strategy for Addressing Fragility and Building Resilience in Africa (2022–2026), p. 18.
57 IDA20, Mid-Term Review, p. 15.

The IDA windows can also provide FCS with additional funding for crisis response, refugee and host community support, regional programs, scale-up, and private sector assistance. The allocation may also be affected by the debt-distressed countries policy, which implements an incentive-based framework with discounts and set-asides to the yearly PBA.

Even though they are less complicated, other MDBs also add specific windows and thematic funds to the basic PBA allocation. The AFDB has the Transition Support Facility, which tops up PBAs for FCS countries. It also funds initiatives that address fragility issues through a window open to all borrowers and finances regional and subregional fragility related initiatives. The ADF provides small island nations an additional vulnerability premium on top of their PBA allocations and Afghanistan also benefited from a special envelope until operations were stopped in 2021.

Other funding sources for FCS

Middle-income FCS have access to resources from the MDBs' ordinary capital. Additionally, they can take advantage of special grants and facilities designed to ease standard lending requirements and support specific fragility-related needs, such as refugees and internal displacement. The WB also applies concessional resources to lower MDBs' lending charges for middle-income countries that host massive inflows of refugees. Special contingent financial instruments to support countries affected by natural disasters can also benefit FCS.

Whereas the WB provides more than 80 percent of its funding to FCS through IDA, ADB and AFDB more limited concessional resources make the ordinary capital window relatively more important. Out of the U$ 3 billion that the ADB provides to fragile countries in 2022, more than U$ 2 billion were ordinary capital lending. In the case of the AFDB more than half of the U$ 1.1 billion destined to FCS were funded through the ordinary capital window. The IDB, due to the small number of FCS beneficiary countries, mostly fund them with concessional resources. This could change in the case Venezuela, also categorized as fragile by the IDB, resumed lending operations.

As mentioned above, fostering private sector investment is considered key by all MDB strategies to stimulate growth and employment in FCS. Private sector windows have been set up by IDA and RDBs to reduce risk exposure and increase lending appetite of their non-sovereign guaranteed operations. A recent WB-IEG evaluation demonstrates positive but limited progress by the IDA dedicated window in FCS.[58] Experience shows the difficulty of attracting investment to FCS even with grant support. Most FCS lack the well-developed business organizations capable of partnering with MDB private sector windows and many international investors keep FCS countries on a negative no-go list. Apart from improving financial incentives, to make an impact in FCS through private sector investment, MDBs need to reinforce coordination between non-sovereign and sovereign

58 IEG, 2024, *A Focused Assessment of the IDA's Private Sector Window*, p. 37. A total of 20 projects have benefited from the window in FCS, that is 67 percent of IFC projects and all 5 MIGA projects.

guaranteed windows.[59] Countries like Rwanda and Bangladesh have demonstrated great success with growth-oriented strategies centered around integrated efforts to improve the business climate, provide infrastructure and human capital, and make financial resources available.

Finaly, trust fund allocations supplement concessional and ordinary capital resources. These are resources allocated by donors to MDBs for specific countries or groups of countries, or for thematic goals. Trust funds are unrelated to contributions made through concessional windows, have no financial leverage, and must adhere to donor preferences and internal guidelines that drive up administrative expenses. However, trust fund resources may enable more flexible client engagement and support, be better suited for innovative solutions and supplement scarce budgetary resources. Multi-donor country trust funds have also been useful to coordinate donors, integrate resources into national programs, reduce red tape and scale up interventions.

8. Working differently in FCS: Adapting to operational challenges

Since MDBs were established, they have operated a work cycle centered on the investment project as its primary intervention instrument.[60] The project tool—originally designed for capital investment—has withstood waves of development thinking and continues to be the fundamental MDB management technology. Projects are ideal tools for solving well-understood problems with standard technologies in relatively predictable contexts. Development progress in health, education, transportation, energy or water and sanitation in developing countries has benefited enormously from project driven work.

Project work is divided between tasks completed before approval and tasks completed following approval. The tasks associated with preparation have grown significantly from the initial years. To gain a deeper understanding of country needs and improve project selectivity, knowledge work and strategy and programming exercises are conducted prior to project identification and design. To meet a lengthy list of policy requirements, more resources have also been allocated to project preparation. Work on implementation has increased as well, but far less than that on preparation. Ensuring compliance with fiduciary standards and more complex monitoring and assessment systems account for a sizable portion of the increased work during implementation. Both official and informal MDB incentives emphasize analysis and planning over execution, indicating a gap in funding, managerial attention, and status for the latter.

The "state-centric" MDB partnership model aligns well with this working method. Theoretically, MDBs do not prepare projects; rather, they merely appraise them after submission by developing countries. Local authorities decide on project objectives or funds needed and project implementation

59 WB, *Mid-Term Review*, p. 31.
60 See Charles Kenny, 2012, *An End to the Investment Project?* Center for Global Development.

is carried out through national institutions. The project technology requires contextual stability and predictability, which the partnership with established government authorities is supposed to offer. However, when institutional stability and technical capacity are compromised, the project chain ceases working smoothly, objectives are much harder to achieve, and projects need to constantly adapt to unexpected or changing conditions. These are challenges that MDBs must confront when working in FCS.

MDBs have put a lot of effort into adapting their operating model to FCS to deal with an uncertain environment and less reliable counterparties. They have done it using their standard change management incremental approach, adding tiers of new tasks to the project's cycle while maintaining its core components. They have attempted to develop an FCS-proof project technology while sidestepping the much more difficult issue of the tool's fundamental suitability. This is a summary of some of the adjustments MDBs have made to confront the FCS working context:

- *Risk and resilience assessments* are conducted,[61] occasionally in collaboration with other bilateral and multilateral donors, to identify the drivers of fragility. The purpose of them is to provide analysis and recommendations for country strategy, programming, and portfolio reviews. Evaluation documents note that as the assessments' quality has increased, so has their influence over decisions about priorities and resources allocation. *Recovery and Peace Building Needs Assessments* done along with bilateral and multilateral partners have also expanded, offering valuable advice for coordinated strategy and financial programming. Furthermore, there has been an increase in knowledge work related to FCS, including multidisciplinary studies that aim to identify the underlying social and political patterns in fragility. There are also plenty of valuable analyses that draw lessons from both successful and unsuccessful country interventions.[62]
- *Country partnership and engagement documents* have also changed to better reflect FCS conditions. According to evaluation reports, this has led to enhanced project selectivity and scaled up resource concentration to have a greater impact.[63] Additionally, planning timing has grown more context-sensitive, with shorter cycles enabling reevaluation and the use of scenario tools to explore various future directions. To gain a more comprehensive knowledge of the problems and opportunities, stakeholder discussions have also been extended to actors beyond central government authorities. Subnational governments,

61 *Risk and Resilience Assessments* is the WB terminology; the ADB calls them *Fragility and Resilience Assessments*; the AfDB prefers *Resilience and Fragility Assessments*; the IDB uses *Fragility and Resilience Assessments and Political Economy Analysis*.

62 As an example, there are two outstanding papers on the lessons learned from the WB experience in Afghanistan: Tobias Hacque et al. 2023, *Tackling Fragility and Building Institutions. Lessons from Afghanistan*, World Bank and Tony Verheijen et al. 2022, '*Through the Looking Glass*': *Lessons from the WB Afghanistan Portfolio for FCS Engagement*, World Bank.

63 For scale up requirements and examples in FCS, see Laurence Chandy and Johannes Linn, 2011, *Taking Development Activities to Scale in Fragile and Low-Capacity Environments*, Global Economy & Development Working paper 45, Brookings Institution.

businesses, civil society and even refugees and diaspora representatives are regularly contacted for dialogue.

- *Coordination* among development partners in FCS has benefited from an expanded number of partnerships, joint analysis and assessments, co-financing and working thorough shared implementation structures. Country platforms have helped coordination with development partners. Their scope and involvement may differ, but their aim is to enhance national ownership through a shared decision-making framework that establishes priorities, divides, and coordinates work among donors, and harmonizes implementation methods. They have been used for country-wide initiatives or more limited high-priority areas like climate change.[64]
- *Project preparation* has also changed to be more sensitive to FCS. This includes the use of political economy analysis to gain better understanding of non-technical issues.[65] Risk assessments have also become more thorough and multifaceted, making it possible to identify mitigation strategies. There has also been an effort to simplify project design, reducing the scope and targeting more specific results. To prevent delays in implementation, project readiness has been strengthened through specific plans that identify potential bottlenecks and measures to mitigate them. Financial flexibilities have also been made available: contingent emergency response components, higher levels of preparation advances and higher limits for retroactive financing.[66]
- *Project implementation frameworks* have also been modified to consider local capacity constraints. The traditional approach of implementing projects through official, established government departments or agencies is frequently impractical in FCS. MDBs have traditionally relied on project implementation units (PIUs), that remain at arms-length of permanent government structure, get financing directly from donors, and follow accepted international standard procedures. The disadvantage is that they hurt local ownership and accelerate the decline of permanent structures by attracting the best professionals away from them. There have been attempts to establish longer-lasting, locally based organizations with governance structures protecting them from political capture.[67] In the most extreme cases, the international community has adopted a co-management role participating in agency leadership and co-sign decisions.[68] As a last resort, in the most extreme fragility conditions, implementation responsibilities have been assigned to international non-governmental organizations or other multilateral organizations.

64 See Rachel Calleja and Sarah Rose, 2023, "Coordinating aid in fragile states: the promise of country platforms and principles for effective aid architecture", in David Carment and Yaigadeesen Samy (Ed.), *Handbook of Fragile States*, Elgar, (385–400).

65 IEG, 2021, *WB Engagement in Situations of Conflict*, p. x.

66 See WB, *Mid-Term Review*, p. 9.

67 See Tessa Bold, Paul Collier and Andrew Zeitlin, 2009, *The provision of Social Services in Fragile States: Independent Service Authorities as a New Modality*, University of Oxford.

68 See John D. Ciorciari, 2021, *Sovereignty Sharing in Fragile States*, Standford University Press, Chapter 8.

- *Project administration rules*. To respond more quickly in emergency situations or in view of the extremely unfavorable market conditions in FCS, modifications have been made to procurement procedures and regulations. Administering safeguard policies in FCS can also be difficult, though certain operational flexibility is provided by the principles of proportionality and adaptive management. However, the necessity for a better adapted approach in FCS has been discussed. Lastly, MDB personnel may not be able to oversee projects directly due to security concerns. Third-party supervision has been implemented in extreme FCS, with favorable outcomes.
- *Project monitoring and evaluation* methods have also needed to adjust to FCS environments. Portfolio reviews have been conducted following fragility sensitive criteria to guide reallocation and cancellation decisions. Data collection is more difficult, and standard measures that rely on quantitative indicators to track performance might not be enough to identify issues in a timely manner. The use of direct feedback from perception surveys has allowed service recipients and beneficiaries a bigger say. Grievance tools and procedures need to be seen differently in FCS contexts and require extra resources to be effective. Modern technology is being used to track project activities and results.
- *Strengthening field staff capabilities in the field* has been a top priority. They include a variety of measures to increase the number and presence of employees in country offices and to align career incentives so that work experience in FCS is favorably evaluated. Better training is also being provided for employees who are assigned to FCS. More flexible security standards and aligning them with UN agencies is also being discussed to allow MDB staff to conduct more fieldwork directly rather than through outside contractors.
- *Communication and outreach* have been strengthened to support activities in FCS. Sharing expertise, lessons learned, and success stories, aims to increase awareness of and visibility for MDB work. To retain and grow support, special consideration has been given to the constituencies of donor countries, including oversight bodies and public opinion. Finally, reputational risks rank highly in FCS and necessitate both further proactive communication strategies and focused crisis management.

Recent reviews show that this resource intensive approach is beginning to pay off in improved project results. When compared to other developing countries, reports on the effectiveness of development projects in FCS have continuously revealed inferior ratings. According to an examination of a sizable data set spanning seven major donors between 1980 and 2012, the success rate of FCS is roughly 8 percent lower than that of other developing nations.[69] Nonetheless, MDBs report that project success rates in FCS have been steadily rising. Since FY18, 79 percent of WB projects in FCS have been rated as somewhat satisfactory or above, compared to 82 percent in

69 See F. G. Caselli and A. Presbitero, 2021, "Aid Effectiveness in Fragile States", in R. Chami et al., *Macroeconomic Policy in Fragile States*, Oxford University Press, (493–520)

non-FCS countries.[70] Disbursement rates in IDA countries have also picked up questioning previous assumptions on limited absorption capacities.[71]

Without a doubt, efforts at operational adaptation play an important part in this positive trend. MDBs are gradually preparing projects that are more appropriate for FCS, and implementation efforts are yielding greater returns. However, it remains worthwhile to inquire whether the greater success of projects is mirrored in greater overall impact at the country level. When compared to individual projects, country strategies receive lower success rates. For instance, it is paradoxical that a high percentage of projects in Haiti or Afghanistan have been rated as satisfactory, but strategies are evaluated as moderate unsatisfactory or lower and the overall international efforts to achieve stabilization and development have unquestionably failed. It could be that project assessment criteria are too narrow and don't cover enough for sustainability and long-term impact factors in FCS or that MDBs are focusing on easier tangible deliverables that can be accounted for, sidelining the more difficult drivers of fragility. Two questions follow from this reflection:

- The first is whether the stand-alone investment project instrument is the most appropriate instrument for the FCS operational environment. It is used to channel 90 percent of resources and more than two thirds of interventions in FCS.[72] Aside from their high transaction costs, stand-alone investment projects tend to produce a fragmented portfolio that does not match the long-term intervention strategy needed to deal with fragility drivers. The fundamental reason for investment project dominance is that it is the best instrument to track expenses closely, so fiduciary risks are kept under scrutiny. This is a relevant concern, but fiduciary risks can also be moderated by ring-fencing, budget tracking, co-signing and by contracting out oversight functions. Evaluation reports have long expressed preference for programmatic approaches to FCS and defend the relevance of budget support operations, although specific results of these interventions are also mixed. They can support strengthening public financial management and accountability, help achieve higher-level fiscal stability outcomes and send a strong signal to other development partners. Regretfully, as the same IEG report indicates, "the availability of WB budget support is determined by donor country politics and geopolitics."[73]
- The second question concerns the internal MDB authority distribution in FCS contexts. There is compelling evidence that decentralized authority is associated with better performance in settings with higher levels of complexity and uncertainty.[74] Local decision capacity enables both quicker response times and more accurate judgments that are tailored to specific circumstances. Nonetheless, the MDB culture has a mistrust of staff

70 WB, *Mid-Term Review*, p. 9.
71 IDA20, *Mid-Term Review*, p. 11.
72 IEG, 2021, *WB Engagement in Situations of Conflict*, p. 90.
73 IEG, 2021, *WB Engagement in Situations of Conflict*, p. 61 and 64.
74 See Dan Honig, 2018, *Navigation by Judgement. Why and When Top-Down Management of Foreign Aid Doesn't Work*, Oxford University Press.

"going local," designates international staff for short terms, and responds to a riskier environment by enforcing stricter controls and direct intervention from headquarters. This is hardly consistent with FCS engagement needs. More decision-making autonomy paired with longer mandates and clearer accountability frameworks might be better suited to the kind of higher level-outcomes expected in FCS.

9. Conclusions: Key questions for MDB reforms in FCS programs and operations

In the last two decades, MDBs have progressively broadened and deepened their interventions in FCS, establishing themselves as prominent actors in the international community. In 2022, MDBs comprised over 60 percent of total multilateral receipts to FCS, with the WB Group representing nearly 50 percent of all multilateral commitments and approximately 80 percent of total MDB funding. The financial reforms of IDA18 significantly enhanced contributions to FCS, while RDBs has maintained a more limited engagement in the absence of similar growth in concessional resources. The recent increase in funding from non-traditional bilateral donors and newly established multilateral development banks may progressively change the current landscape and introduce new coordination challenges. The analysis in this paper suggests the need for MDBs to address the following core questions as they consider and develop reforms to address FCS requirements.

How should the state-centric MDB model be adapted to countries subject to state capture by malign actors? How should MDBs engage with non-state actors that offer positive alternatives? The comparative advantages of MDBs are essential for understanding their increased prominence among international development actors. The MDBs examined in this paper have garnered substantial support from shareholders who value their combination of financial capacity, country-based engagement, and strong technical expertise. However, FCS conditions undermine the assumptions of relevance and effectiveness inherent in the MDBs' business model. Their state-centric approach relies heavily on government elites, who often contribute more to the problem than to the solution and the technocratic rationale of intervention tends to minimize the importance of context-specific knowledge. MDBs strategies tend to emphasize their institutions' comparative advantages in FCS, yet they insufficiently address the complexities of this dual-faceted issue.

How can MDBs deploy more selective interventions in FCS, shaped by a clear and realistic vision of what success looks like? All MDBs reviewed in this analysis have adopted targeted strategies or frameworks to address FCS as a distinct development challenge. These strategies illustrate the progress in understanding FCS conditions and the lessons learned over time, while also highlight the challenges of translating this knowledge into operational categories, clear policy priorities, or effective resource allocation guidance. Strategies establish an ambitious scope of intervention encompassing a wide range of sectors; however, priorities are not clearly aligned with the resource requirements in FCS and the available financial capacities, offering limited guidance on selectivity.

Strategies do not provide a clear definition of success in FCS, failing to establish specific outcomes targets across the different intervention streams.

How can MDBs collaborate on truly joint strategies with other actors, including those supporting peace and security? MDB strategies emphasize that effective interventions in FCS necessitate a strong alignment among the peace-humanitarian-development nexus. However, MDB "apolitical" mandate places limitations on the role they can effectively play in connection with the security and political dimensions of the nexus. Recent reviews indicate that although MDB operational coordination with other bilateral and multilateral actors has improved, true joint strategies, supported by financial compacts and shared delivery structures are still exceedingly rare. MDBs may have become the prominent actors in providing financial support to FCS, but their leverage to exert meaningful change remains limited in the most challenging security and political conditions.

Is growth in concessional resources keeping pace with donor expectations for the MDB role in FCS? Their increasing role in FCS has put a lot of pressure on both the financial and operational MDB models. In response to it, changes have been introduced in funding capacities, resource allocation rules and operational practices. IDA has been greatly expanded and given a strong mandate making FCS one of the special themes. Additionally, resource allocation criteria have been complemented with mechanisms to address specific FCS needs. The extent to which resources align with needs and are adequate to effect meaningful change in FCS remains uncertain. RDBs have experienced limited success in enhancing their concessional windows, resulting in a complementary role. However, their comparative advantages in regional perspectives and understanding local contexts render them well-suited for engagement in the FCS context.

Does MDB project success equal country-level success? MDBs have put a lot of effort into adapting their operating model to FCS to deal with an uncertain environment and less reliable counterparties. They have attempted to develop a FCS-proof project technology, adding tiers of additional tasks to the project cycle to better manage risks and local institutional weaknesses. This has led to a consistent rise in project success rates, approaching those of other developing nations. Nonetheless, it remains uncertain whether increased project success correlates with a heightened overall impact at the national level.

Should increasingly complex MDB managerial processes and centralized control be replaced by more decentralized and flexible authority for local MDB staff? MDBs have responded to the challenges of FCS by employing an incremental change management approach. This involves the addition of layers of rules and tasks to their core operating instruments, while failing to critically assess the fundamental appropriateness of these instruments within the FCS context. This has introduced significant complexity to resource allocation rules and elevated transactional costs, thereby reducing managerial discretion and flexibility, which is critical in adapting to volatile FCS contexts. The increasingly important role of MDBs in supporting FCS raises the question of whether incremental changes alone are sufficient to guarantee much needed relevance and effectiveness.