



The World Bank

Check against delivery

DRAFT

**A Comprehensive approach to the conflict agenda:
Implementing lessons learned.**

Kazuhide Kuroda

**Conflict Prevention and Reconstruction Unit
Social Development Department, the World Bank**

For the Session "From Less than Zero: The Challenge of Rebuilding Economies", Tuesday, 10 September 2002
55th Annual DPI/NGO Conference
"Rebuilding Societies Emerging from Conflict: A Shared Responsibility"
United Nations, New York, 9 to 11 September 2002

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

1818 H Street N.W. Washington, D.C. 20433 U.S.A.
1(202) 477-1234

World Bank websites on conflict issues and on some conflict-affected countries

World Bank website:

<http://www.worldbank.org>

The Conflict Prevention and Reconstruction Team:

<http://www.worldbank.org/conflict>

The Development Research Group:

<http://www.worldbank.org/research/conflict/>

The Afghanistan Country Team:

<http://www.worldbank.org/af>

The DR Congo Country Team:

<http://www.worldbank.org/cd>

The Sierra Leone Country Team:

<http://www.worldbank.org/sl>

The Development Gateway

<http://www.developmentgateway.org>

The World Bank's Experience with Post-Conflict Reconstruction

<http://wbln1023.worldbank.org/oed/oeddoclib.nsf/View+to+Link+WebPages/F753E43E728A27B38525681700503796?OpenDocument>

Central to conflict prevention and peace-building must be strategies for promoting social cohesion and inclusion, ensuring that all have opportunities for gainful employment, that societies avoid wide income inequalities that can threaten social stability and that poor people have access to education, health care, and basic services such as clean water, sanitation and power.

World Bank President James D. Wolfensohn

I. Conflict Prevention and Reconstruction at the World Bank¹

Poverty is both a cause and a consequence of conflict. Eighty percent of the World's 20 poorest countries today have suffered from a major conflict in the past 15 years. Recognizing that conflict is a major constraint to development, with its critical impacts on a country's physical, economic and social capital, as well as on its social fabric, the Bank views conflict prevention and reconstruction as central to its mission of poverty reduction.

Putting the “R” Back in the IBRD: Historical Roots of the Bank’s Work

The Bank's role in addressing the ravages of war is historical: from its Bretton Woods origins to the present day, the Bank has responded to the challenges of post-conflict reconstruction. Some of the first loans the Bank made helped rebuild European countries ravaged by World War II. At that time, the Bank concentrated on providing financial capital and rebuilding physical infrastructure. In a post-Cold War era marked by an increase in civil conflicts, the World Bank faces a different and more complex set of challenges in assisting conflict-affected countries. Indeed, these challenges have tested the ability of the entire international community to address the unprecedented devastation of human and social capital, as well as physical destruction resulting from violent conflict. In this context, World Bank President James D. Wolfensohn has raised Bank assistance to countries emerging from conflict to a high priority, identifying inclusion as the key development challenge of our time. Civil conflict, the most violent manifestation of exclusion, is at the core of this challenge.

Main Lessons Learned from Operations in Post-Conflict Countries

Since 1980, the volume of the Bank lending to post-conflict countries increased over 800%, to more than US\$6.2 billion, involving every region. To respond more effectively to the needs of societies rebuilding after conflict, an in-depth assessment of Bank operations in nine post conflict countries was undertaken in 1998. The main lessons learned are as follows:

1) Need a Bank Policy on Post-Conflict Reconstruction

While there existed a Bank policy on emergency recovery assistance (in which an emergency was referred as “an extraordinary event of limited duration such as a war, civil

¹ The World Bank includes both the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The World Bank Group now consists of IBRD, IDA, the International Finance Corporation, the Multilateral Investment Guarantee Agency and the International Center for Settlement of Investment Disputes.

disturbance, or natural disaster), post-Cold War conflicts were more complex and led to more ad-hoc arrangements for post conflict reconstruction assistance. As a result, a framework for World Bank Involvement in Post-Conflict Reconstruction was produced and it subsequently formed a basis for the eventual Bank operational policy on development cooperation and conflict (which includes post conflict reconstruction).

2) Aid Coordination: One important role for the Bank

The assessment identified that one critical role that the Bank could play in the early stages of post-conflict reconstruction was aid coordination. To respond effectively to the massive and urgent needs, the donors must work in partnership among themselves and with the government whose capacity is very weak. The Bank often convened a donor conference which proved to be very effective in mobilizing resources, seeking a coordinated approach to macroeconomic issues, and providing information on needs and assistance flows.

3) Bank's Comparative Advantage:

Supporting macroeconomic stabilization and rebuilding physical infrastructure have been the Bank's traditional strengths. It was found that monetary and fiscal stabilization packages of the Bank and the International Monetary Fund that were negotiated with governments contributed greatly to lowering the current rate of inflation, one important indicator of macroeconomic stability. In addition, the Bank's role was also significant in rebuilding physical infrastructure.

Investment in human (e.g. education and health) and social capital (institutions of governance and civil society which foster such basic behaviors as trust and participation) is an important component of post-conflict work in order to build a base for rebuilding the shattered economy and war-torn society. It was suggested that the Bank form partnership with other international and bilateral agencies and with NGOs that have solid record in the restoration of human and social capital.

4) Inappropriateness of Some Conventional Wisdoms

While many development wisdoms learned over many years do apply in a post-conflict situation, such as client ownership and beneficiary participation, it is evident that an exceptional approach is needed in a post-conflict situation which has just emerged from a period of the devastation of human, social and physical capital. Consequently, it may be necessary to hold off some "conventional wisdoms" of development practice. Before proceeding with any programs, it is important to carefully consider the political realities of the situation, such as weak implementing capacities of the new government. In so doing, it may become apparent, for example, to not recommend a tax generation program, or civil service reform and privatization.

5) Making Appropriate Institutional Arrangements

The key requirements in designing and implementing Bank's post-conflict reconstruction activities are flexibility and speed. In order to meet these requirements, it is important that Bank senior management give high priority to staffing and structuring post-conflict country teams.

Enhancing Conflict Agenda: From Post-Conflict Reconstruction to Conflict Prevention

The changing nature of conflict and its impact have necessitated a change in the Bank's response. The well documented post-Cold War increase of intra-state or civil wars has impacted the Bank's primary function of poverty reduction and driven its changing response to the conflict agenda. The Bank has had to respond to a proliferation of internal conflicts, actual or potential, across its core group of clients. These conflicts have often moved in cycles of war and peace, many without decisive winners, losers or peace agreements.

As the Cold War came to an end, the Bank found itself operating in situations of chronic instability without a clear post-conflict mandate. Yet, the deep-rooted social and economic effects of violent conflicts often set back for decades development and poverty reduction efforts. With poverty both a cause and consequence of conflict, the Bank redefined its reconstruction role more broadly in the context of a comprehensive development framework, from an approach focused on rebuilding infrastructure to a comprehensive approach, not only to better understand the root causes of conflict, but also including initiatives to promote economic recovery, address social sector needs, assist vulnerable groups, build institutional capacity, revitalize local communities and restore social capital, as well as specific interventions to support mine action, demobilize and reintegrate ex-combatants, and reintegrate displaced populations. The increasing complexity and the growing regional dimensions of these conflicts, seen in the Great Lakes, West Africa and the Balkans, require the Bank to continually adapt its response to conflict.

The costs and complexities of post-conflict recovery, in particular the difficulties of reconstructing fragmented societies, have put an increased premium on conflict prevention. In line with international initiatives to explore the potential role of development assistance in preventing conflict, the Unit recently changed its name from Post-Conflict to Conflict Prevention and Reconstruction. The Conflict Prevention and Reconstruction (CPR) Unit—part of the Social Development Department in the Bank's Environmentally and Socially Sustainable Development Network—is responsible for promoting the Bank's agenda on conflict and development both inside the Bank and with external partners. It provides a focal point in the Bank for policy development, operational support, knowledge management, training and partnerships.

The Bank's Response to Conflict: Policies, Instruments and Analysis

Adapting its response to conflict to these new challenges, in January 2001 the Bank approved a new operational policy, Development Cooperation and Conflict (O.P. 2.30).² This new policy enhances the Bank's capacity to respond rapidly and flexibly, defining rules of engagement, Bank objectives in relation to the conflict phases countries go through, and reasserting guiding principles for the Bank's engagement. The Bank's key objectives in relation to conflict are:

- *In all member countries:* (i) promote economic growth and poverty reduction through development assistance that promotes social cohesion, institutional capacity building and good governance and minimizes potential causes of conflict;

² The full text of this policy is available on the Conflict Prevention and Reconstruction Unit website, at <http://www.worldbank.org/conflict>.

- *In areas affected by conflict:* (i) continue efforts at poverty reduction and maintenance of socioeconomic assets where possible; (ii) provide—where requested by member states, the UN, or other partners—advice on the socioeconomic impacts of emergency assistance; and (iii) analyze the impact of conflict on economic development and prepare for renewed lending assistance as opportunities arise; and
- *In areas emerging from conflict:* (i) facilitate the transition to sustainable peace; (ii) support economic and social recovery through investment and macroeconomic policy advice; and (iii) provide advice and guidance on the socioeconomic impacts of post conflict reconstruction policies on sustainable development.

While OP 2.30 provides a comprehensive and flexible framework for Bank assistance to countries affected by conflict, it also makes it clear that, in line with the mandate specified in its Articles of Agreement, the Bank does not engage in peacekeeping, does not provide direct support for disarming combatants, and does not provide humanitarian relief, all of which are functions assumed by the United Nations and other agencies or donors.

Increased attention to the economic causes and consequences of conflict has sharpened the Bank's focus on conflict prevention. The Bank recognizes that the causes of conflict differ from country to country and that there is still much to be learned regarding the links between development assistance and conflict. The Bank's analytical work in this area, undertaken in partnership with other institutions and external experts, attempts, therefore, to increase understanding of the root causes, triggers, impacts and policy implications of conflict and post-conflict recovery. One of the starting points for this work is improved conflict analysis in Bank operations, informed in part by the Development Economics Research Group (DECRG) program on the economic causes of civil war³ and the Conflict Prevention and Reconstruction Unit's work. New conflict analysis tools, as part of social assessments, are being developed for use in planning, policies and processes such as PRSPs (Poverty Reduction Strategy Papers) and CASs (Country Assistance Strategies). Informed by Operational Policy 2.30, which mandates the integration of sensitivity to conflict in Bank assistance through analytical work, including conflict analysis, the CPR Unit has developed a Conflict Analysis Framework (CAF) to help Bank teams consider factors affecting both conflict and poverty when contributing to strategies, policies, and programs. Conflict sensitive approaches that take into account factors that can trigger or affect vulnerability to conflict may help to prevent the onset, exacerbation, or resurgence of violent conflict. The CAF aims to enhance the Bank's capacity to support country and regional efforts to analyze and address conflicts within overall development and poverty reduction strategies. Working through CAF would help a team to identify and analyze the factors that impact conflict and poverty, and to determine how they best can be addressed through Bank assistance.

II. From Policy to Operations: Action on several fronts

To complement its new policy on conflict, the Bank has developed a set of tools and interventions to better address the challenges of conflict prevention and reconstruction, such as demobilization and reintegration of ex-combatants, the reintegration of displaced

³ For more information on this research project, consult <http://www.worldbank.org/research/conflict/>

persons, legal reforms and the re-establishment of the rule of law, as well as the review of public expenditures to support post-conflict reconstruction efforts.

Bank Experience in Demobilization and Reintegration of Ex-combatants

The Bank is now providing assistance to over 14 countries in the design and financing of demobilization and reintegration programs aimed at the reinsertion of former combatants into productive civilian life. Working in close partnership with the United Nations and national development agencies, who typically handle the security side during the post-conflict phase (i.e., disarmament, weapons destruction and reform of the armed forces and police), the Bank supports transitional safety nets to assist ex-combatants in meeting their basic needs as they transition out of conflict and into productive civilian life. This includes facilitating access to productive assets, credit and training. In societies that have been torn by conflict, reintegration is not only an economic problem, but must also involve rebuilding social capital and the ability of societies and communities to manage and become more resilient to conflict. In addition to working with ex-combatants to heal the psychological wounds of war through counseling and group support, the Bank has also works with communities to rebuild the social relations and trust necessary for successful social reintegration. The special needs of child soldiers and women affected by conflict also receives special attention.

Community Based Social and Economic Reintegration of Displaced Persons

Indeed, in addition to the physical destruction, communities emerging from civil war are typically characterized by deep divisions and mistrust. Especially in cases such as Rwanda, Cambodia, and Bosnia, genocide has scarred interethnic relations, affecting the necessary conditions for joint community action. The Bank has therefore launched a series of community-driven development funds which put resources at the disposal of local communities, empowering them through community development committees to make decisions, allocate resources and act jointly on their perceived needs. Such committees mix former enemies at war in shared activities for peace and reconstruction, subtly, but effectively, facilitating reconciliation through reconstruction. Moving people's mindsets toward the building of a new future rather than toward revenge is an essential aim of such community-based social and economic reintegration activities.

Good Governance Makes Good Societies: Legal Reform and the Rule of Law

Weak and collapsed states have also been a central part of the story of spiraling conflict. In many war-torn countries, as the state weakens the struggle for power and control over resources leads to predation and an unending cycle of violent conflict and suffering. In many cases, the illicit control and trade of natural resources allows easy access to arms and the financing of conflict. Combine this situation with a post-Cold War world of cheap and accessible weapons and there is a ready formula for civil war. With the weakening of the state's ability to provide security and the incipient privatization of violence, the rule of law often crumbles, with the greatest impact on poor and vulnerable populations, especially on their physical security, livelihoods, property and human rights.

To help restore governance, the Bank has launched a global anti-corruption initiative, endeavoring to put in place the necessary transparency and accountability mechanisms required for the effective rule of law. This has been complemented by efforts to improve judicial systems and capacity-building programs to strengthen transparency and accountability. Fighting corruption, improving the rule of law and increasing transparency can substantially reduce the sources of conflict. A functional judicial system is a necessary adjunct to ensuring human security. The rule of law not only serves as a disincentive to criminality and the resolution of conflict through violent means, but is also an essential element of the enabling environment to attract foreign and domestic investment. In Kosovo, the new commercial code setting the rules for property rights, business registration, banking, contract enforcement and bankruptcy procedures, is essential for people investing in their own lives as well as to attract foreign investment.

Aligning Public Expenditure to Support Reconstruction and Development

The Bank has expanded its traditional approach of reviewing only the level and allocation of public expenditures to also focus on the efficiency, transparency and public accountability of spending by the public sector. Public expenditure reviews (PERs) not only deal with the dollars and cents of budgetary revenues and expenditure allocations, but increasingly focus on the institutions, policies and systems which determine the transparent and efficient mobilization and expenditure of public resources. PERs have become a fundamental analytical instrument in reviewing and providing advice on the formulation of public sector reform and expenditure programs in post-conflict countries such as Cambodia and Uganda. In some cases, such as Guatemala, where peace accords include detailed agreements on the role of the state and public revenue and expenditure targets, PERs can provide an invaluable tool to track and evaluate progress in meeting agreed targets, and ensure consistency with overall fiscal sustainability criteria and the broader development agenda.

III. Financing Reconstruction and Sustainable Development

As a crucial part of its broadened approach to conflict prevention and reconstruction, the Bank has created new financing tools, such as the Post-Conflict Fund, and revised existing instruments, such as performance indicators, in order to provide more effective and timely financial support during the post-conflict reconstruction phase.

Dealing with Debt and Arrears in Post Conflict Countries

Recognizing that debt and arrears can be serious obstacles to the resumption of social and economic development in post-conflict countries, the Bank has worked with the International Monetary Fund (IMF) to ensure that these countries have early access to financial resources and debt relief as soon as performance warrants. A key focus of this work has been to find ways to help post-conflict countries move through the successive stages of the Heavily Indebted Poor Countries (HIPC) debt-relief initiative, and to facilitate the settlement of arrears. The Bank has also worked to improve its ability to provide early support for reconstruction in countries that are showing a strong commitment to re-establishing peace. For instance, in low-income post conflict countries where arrears prevents the Bank from lending new resources, the Bank is now authorized to provide grant financing for early reconstruction activities before they have cleared arrears to the Bank.

This IDA grant facility has so far been used to support reconstruction activities in the Democratic Republic of Congo and Afghanistan.

Increasing the Net Flow of Financing in Times of Need: IDA Modifications

In line with the findings of the Bank's research on aid effectiveness, IDA concessional lending resources are allocated based on the policy performance of each country—the better the performance the more resources a country gets. This system can work against post-conflict countries which typically have poor performance at a time when the need for resources to finance reconstruction and to consolidate peace is great. To ensure a more systematic allocation of IDA resources to post-conflict countries, the Bank has implemented a new allocation system for these countries. This system allows for the provision of exceptional levels of IDA resources for a limited period (3-5 years). The precise level of resources is determined based on a set of performance indicators designed specifically for post-conflict countries. These indicators include performance on governance, human security, and progress toward peace, all of which are critical factors for assessing the stability and readiness of a country to effectively use additional resources.

Responding to Crises: The Post Conflict Fund (PCF)

The Post Conflict Fund (PCF)—part of the Development Grant Facility (DGF), the Bank's umbrella mechanism for grant programs—makes grants to a range of partners to provide earlier and broader Bank assistance to conflict-affected countries. The aim of the PCF is to position the Bank through constructive engagement in countries when normal instruments cannot be used or may not be appropriate. Grants focus on the restoration of the lives and livelihoods of war-affected populations, with a premium placed on innovative approaches to conflict, partnerships with donors, the UN, NGOs and executing agencies, leveraging resources through a variety of funding arrangements. As of March 13, 2002, PCF grant approvals totaled US\$40.9 million through 110 grants to 35 countries. Grants approved include:

- In Afghanistan, prior to the fall of the Taliban regime, a watching brief to support economic and sectoral analyses, and a teacher training program for Afghan refugees in Pakistan, targeting women and girls;
- In Somalia, a grant to support delivery of health services through the International Federation of Red Cross and Red Crescent Societies, and a watching brief focusing on macroeconomic and socioeconomic data collection and analysis;
- In Tajikistan, a project to empower women through socioeconomic development;
- A grant for capacity building and development in East Timor;
- The Travnik mental health program in Bosnia addressing the psycho-social legacies of conflict;
- An institutional capacity building program for demobilization and reintegration in Eritrea;
- A program for the reintegration of vulnerable street children in urban areas of the Democratic Republic of Congo;
- A grant to support local capacity building in demining in Sri Lanka.

- In Yugoslavia, the Southern Serbia Municipal Improvement and Recovery Program to reinforce inclusive local development efforts in the Presevo Valley.

Leveraging Bank Resources: The Multi-Donor Trust Fund Experience

The Bank has also effectively utilized its net income on a case-by-case basis to make grants to post-conflict countries before a normal lending relationship can resume. It has leveraged these resources by establishing joint Country Trust Funds for Reconstruction. The Holst Fund in West Bank Gaza was a pioneering example of this financing formula for conflict countries. There are many other examples of such leadership in financial resource mobilization and aid coordination.

While the PCF has proven useful to attract donor funds for specific initiatives such as the Kosovo community fund and the Georgia Self-Reliance Fund, beyond these initial measures, the Bank has mobilized a number of country-specific trust funds to meet the heavier costs of wide-scale reconstruction:

- West Bank Gaza: the US\$269 million Holst Fund (with 27 donors) coupled with a US\$380 million trust fund from Bank net income
- Bosnia: US\$150 million trust fund for emergency projects (US\$25 million in grants, US\$125 million in concessional loans).
- Kosovo: a US\$60 million two-year trust fund financed from Bank net income, following some initial PCF funding for priority community driven projects and recurrent education and health expenditures.
- East Timor: a US\$80 million multi-donor trust fund started with US\$10 million of Bank net income, following initial PCF funding of a joint assessment mission.
- Sierra Leone: administration of a US\$12 million multi-donor trust fund for disarmament, demobilization and reintegration (DDR) in tandem with a US\$25 million IDA credit for the reintegration of war-affected populations.

IV. Building and Sharing Knowledge and Working with Partners

As part of the Bank-wide knowledge-sharing strategy, launched by President Wolfensohn in 1996, the CPR Unit, in collaboration with, among others, the Development Economics Research Group, has and is still contributing to the development and diffusion of innovative research on the root causes of conflict. Through the aggregation and synthesis of good practices from the field, partnerships with other organizations working on conflict prevention and reconstruction as well as providing training for its staff and external partners, the Bank constantly enhances the effectiveness of its interventions in conflict-affected countries.

Increasing Understanding of the Causes and Consequences of War

The Bank's DECRG began a major research effort to study the economics of conflict and violence in 1999. One of the Group's latest reports issued in October 2001, is *Greed and Grievance in Civil War*. As a result, policymakers have gained considerable insight into the role of factors that affect the risk of conflict, including poverty and low economic growth, the role of primary commodities, such as diamonds and oil, in fueling conflict, the role of

diasporas and ethnic dominance, and the importance of improving secondary school enrolments, especially for young males. On the social development front, Bank research has found that societies possessing high social cohesion are better able to manage conflict so that it will not result in violence.

More recent research is analyzing individual country case studies to assess the general applicability of the economics of conflict approach, complementing the framework with a political economy analysis of conflict and its triggers. Ongoing DECRG research is also looking at the role of foreign aid—its level and pattern—in stimulating economic growth in post-conflict countries. Preliminary findings suggest that increased aid is indeed effective in augmenting post-conflict growth, but it needs to approximately double, while the pattern of aid disbursements should probably rise gradually during the first four years and gradually taper back to normal levels by the end of the first post-conflict decade. Aid absorption appears to be at its highest approximately between the fourth and seventh year of peace. Tentative findings also suggest that key policy priorities in post-conflict countries, relative to non-conflict countries, should be social policies first, sectoral policies second, and macro policies last. Other examples of recent analytical work include an evaluation of best practice in the reintegration of child soldiers, and the prospects for reaching Education for All objectives in conflict-affected countries.

The increasingly complex political, social, economic and international dimensions of conflict, require that the Bank work in close partnership with other key actors and stakeholders. This includes the UN system, regional banks and organizations, as well as NGOs and civil society organizations.

Bank Participation in UN Standing Bodies

From an operational perspective, the Bank has either co-led or joined assessment missions to post-conflict countries, such as East Timor, Eritrea and the Republic of Congo. As for participation in various UN fora, most recently, the Bank, while fully respecting its apolitical approach, joined as observer the Executive Committee on Peace and Security. On humanitarian matters, the Bank participates in the Inter-Agency Standing Committee and is in discussions with UNHCR and UNDP on ways to strengthen coordination during humanitarian emergencies and the humanitarian and relief phases of post-conflict reconstruction. At a more technical level, the Bank takes part in the Framework Group on Prevention, and in the Mine Advisory Group.

Working with NGOs and Civil Society

NGOs and other civil society organizations participate actively in many Bank programs in conflict-affected countries. At a broader level, the Bank held consultations and discussions with key international NGOs in preparing its new operational policy on development cooperation and conflict. In addition, NGOs are major recipients of PCF grants. Over 30 non-governmental entities have received PCF grants, including: Save the Children, Catholic Relief Services, CARE, the International Federation of Red Cross and Red Crescent Societies, International Committee of the Red Cross and ACTIONAID, as well as a number of local NGOs.

VI. Recent World Bank Experience in Post-Conflict Countries

Recent experience in a number of countries illustrates the Bank's evolving role in supporting countries transition out of conflict. This includes Afghanistan, Kosovo, East Timor and the Democratic Republic of Congo.

Afghanistan

Getting started. In November 2001, a conference on priority needs for the reconstruction of Afghanistan took place in Islamabad, sponsored by the World Bank, UNDP and ADB. The conference was attended by over 350 participants including a wide range of donors, NGOs, and Afghans from a variety of backgrounds. The UN-sponsored talks in Bonn led to an agreement creating the Interim Authority, and the following two-year Transitional Administration. The Interim Authority was established on December 22, 2001.

At a meeting of the Afghanistan Steering Group in Brussels in December, agreement was reached on the establishment of a multi-donor trust fund. The January 2002 donor conference in Tokyo agreed to the creation of a US\$4.5 billion multi-donor Trust Fund for the 30 month period of the Interim and Transitional Administration (of which US\$1.8 billion for the first year), which is financing urgent needs and recurrent budget expenditures. The Bank has been asked to administer the Trust Fund and is working with UNDP, ADB and IsDB on management arrangements, in consultation with donors and the Interim Authority. Comprehensive multi-donor sector-based missions are being carried out to firm up cost estimates and prepare investment and technical assistance projects for financing. The reconstruction of Afghanistan is expected to cost US\$15 billion over the next decade, according to the January 2002 preliminary needs assessment prepared jointly by UNDP, ADB and the World Bank.

The Bank has prepared a Transitional Support Strategy (TSS), which defines Bank priorities in Afghanistan (March 2002). The TSS focuses on assisting the Government over the next 6 to 9 months, in responding to the most urgent recovery needs, and building capacity to ensure that reconstruction is effectively managed and sustainable. It is also contributing to reconstruction in Afghanistan by preparing a US\$100 million IDA grant for immediate reconstruction needs. The grant, to be ready in mid 2002, will support high-priority quick-return reconstruction activities, including community development, education, infrastructure, and labor-intensive public works. The Bank is also considering a credit of up to US\$100 million to support the Government's reform plans and budget.

The PCF in Afghanistan. The flexibility afforded by the PCF allowed the Bank to maintain a limited but critical level of engagement prior to the fall of the Taliban regime. The PCF initially funded a Watching Brief implemented by UNDP, which included organizing the Afghan Support Group and monitoring economic and social developments in the country. It subsequently funded education for Afghan children in the refugee camps of Pakistan, focusing especially on training female teachers and educating girls. PCF assistance accelerated in the aftermath of September 11, playing an important bridging role before other bilateral and multilateral aid became available. The PCF provided immediate funding to support design of the reconstruction strategy with the participation of Afghan and other

stakeholders. At a later stage, the PCF provided funding to launch the community empowerment program and other key reconstruction activities in priority sectors. With total approvals of US\$5.2 million in Afghanistan grants over FY98-02, the PCF has had a critical role in providing urgent financial resources to the country, often in the absence of any other financing instruments.

Kosovo

Getting started. The special circumstances of Kosovo and its non-member status posed a particular challenge for the Bank. To meet this challenge, the Bank focused on a limited amount of grant funding, to leverage the large financing role expected of other donors such as the European Community, and emphasized its comparative advantage in policy advice, institution-building and aid coordination, to help ensure the overall sustainability of the reconstruction and recovery effort. The Bank's objectives, in partnership with other donors, were to restart the economy, to establish transparent and sustainable institutions, and to mitigate the impact of conflict. The Bank has been operating under a TSS since October 1999, and established a Trust Fund in 2000. It has provided grants to Kosovo totaling US\$35.1 million for eight separate grants.

Donor coordination and a regional approach. The Bank and the European Community took the lead in partnership with other donors to prepare an initial reconstruction and recovery program with an external financing requirement of US\$2.3 billion for 4-5 years. The Bank and the European Community co-chaired two donor conferences in 1999 to mobilize resources for reconstruction and urgent budgetary needs, securing US\$1.4 billion in donor pledges. Four donor meetings and regional conferences followed in 2000 and 2001. With the European Community, the Bank is co-chair of the High Level and Working Level Steering Groups for Southeast Europe, a partnership for coordinating the donor response to conflict in the Balkans.

The Bank recognized that Kosovo's post-conflict efforts needed to be considered within a wider regional context. In addition to a high level of support to all countries in the Balkans region, the Bank is also working closely with the EU-sponsored Stability Pact, a framework for peace and stability in the Balkan region which complements the economic work and donor coordination mechanisms of Bank and the European Commission. The Bank participates in Stability Pact Working Initiatives on infrastructure and private sector development, investment, trade liberalization, social development, anti-corruption, and labor redeployment. The Bank is also preparing a regional study on the challenges of European integration for South East Europe countries and a regional study on internally displaced populations in the Eastern Europe and Central Asia Region.

Institution building. Support for the restart of public administration and for transparent, effective and sustainable institutions was a key Bank objective, along with the development of an open economy and the mitigation of the conflict's impact. Particular emphasis was placed on setting up the central institutions that are key for economic recovery, developing municipal governance, and restoring law and order through an effective police and judiciary.

Among the projects financed by the Trust Fund for Kosovo, the US\$5 million Economic Assistance Grant supports the creation of a fully functioning and effective budget

management system within the interim government of Kosovo, and the establishment of a bank licensing and supervision capability to stimulate banking activities. Building the economic and sectoral management capacity of the UN Mission in Kosovo (UNMIK) is underway with the help of donors. Building the judiciary and courts, a local policing capacity and the framework for elections will also be important.

Community development. Local community services and the social fabric were badly damaged during the conflict. The Bank established a Community Development Fund (CDF) for Kosovo with the Pristina-based Kosovo Foundation for Open Society in 1999, to help Kosovars rebuild their lives by supporting the development of local government and communities. The CDF finances small-scale projects (up to US\$75,000) identified by communities and requires that communities finance at least 15 percent of the value of the projects. It conducts a thorough screening process of financial, technical, institutional, social and environmental project aspects. The CDF is funded by a US\$5 million PCF grant, a US\$4 million contribution from the Dutch Government, and by local Kosovar communities. The CDF targets communities based on indicators of poverty and conflict-related damage, with a focus on rural communities which fall outside the reach of many municipal services and have experienced heavier fighting. Twenty percent of the funding is set aside for minorities and extremely vulnerable groups outside target municipalities. Four pilot projects are now being contracted, with rural roads a key priority for isolated villages. There has also been strong demand for water supply, sanitation and irrigation for villages, as well as for school rehabilitation.

Projects financed by the Trust Fund for Kosovo include a US\$5 million Learning and Innovation Loan for Education and Health, providing technical assistance and material support to help rebuild and restructure the governance, finance, and administration of Kosovo's education and health systems. The Emergency Farm Reconstruction Project (US\$10.6 million), developed jointly with UNMIK and FAO and co-financed by the Dutch Government, helps jumpstart agricultural production and revive the rural economy by investing in key farm assets and services. The project supports farm households which have particularly suffered from conflict damage and will not recover without support to re-invest in farm assets. The beneficiary selection is based on a participatory process. Given the prevalence of women in livestock activities in rural Kosovo, benefits are skewed toward women in the selected communities.

East Timor

Getting started. World Bank involvement with the transitional process in East Timor began in April 1999 with forward planning and the establishment of close contacts with the Timorese leadership and the UN Department of Political Affairs, responsible for the preparation of the August 1999 Popular Consultation.

Following the post-ballot violence, the Bank team took the lead in organizing a meeting of donors and UN agencies in September 1999, which entrusted the Bank with the coordination of a Joint Assessment Mission (JAM) to East Timor to identify priority reconstruction objectives. The JAM findings were presented at the Tokyo Donor Conference in December, which established a framework for donor coordination, and endorsed the principle of financial assistance channeled through the Consolidated Trust

Fund, administered by the UN, and the Trust Fund For East Timor (TFET), administered by the World Bank.

Donor coordination and the trust fund. The TFET received pledges of US\$168 million, or 45 percent of the three-year reconstruction needs estimated at the Tokyo meeting. While the Bank is trustee, a division of labor was established with ADB, with the World Bank being responsible for projects in health, education, agriculture, economic capacity-building, community and private sector development; and ADB taking the lead in microfinance, infrastructure, water and sanitation. All TFET programs are guided by three principles: maximum Timorese leadership and participation, effective donor coordination; and balancing of short and long term needs. To ensure adaptation of program design to local conditions, and the sustainability of the reconstruction programs, local ownership and Timorese capacity building are essential. To this end, the JAM paired 25 East Timorese sector specialists with 25 experts from five donor countries, the European Commission, UN agencies, ADB and the World Bank.

The Bank supported effective donor coordination in close collaboration with the Transitional Administration's Donor Coordination Unit. The trust fund structure proved an effective coordination lever. Intra-sectoral coordination through joint sector missions has improved over time, notably through recent health, education, agriculture and community development missions. Also, complementing the JAM, a mission of the IMF contributed to a macroeconomic assessment: Close cooperation between the IMF and the Bank to synchronize development funding with fiscal sustainability has been a cornerstone of the strategy.

The Bank actively supports the Government in policy development. These efforts include the first household survey, in collaboration with UNDP, ADB and JICA, and support in the preparation of the National Development Plan. Following independence, the Bank will work on a participatory CAS, to define development priorities which will likely include: capacity building for public expenditure management, local governance, health, petroleum revenue management and private sector development.

The PCF in East Timor. East Timor received 5 PCF grants totaling US\$2.6 million over FY00-02. These grants have been critical in providing urgent assistance during the transition to independence and normal Bank lending. The PCF grants helped to carry out the needs assessment at the early stage of the Bank's involvement in East Timor. Subsequently, the grants supported a series of reconstruction and rehabilitation activities, reintegration of ex-combatants into productive civilian life, as well as a number of local capacity building initiatives. An independent evaluation of the PCF conducted by Development Alternatives, Inc., pointed to the PCF-funded work in East Timor as a highly successful example of the Bank's early involvement in a country evolving from a conflict.

The Democratic Republic of Congo

A difficult transition. The Democratic Republic of Congo (DRC) is in transition from war to peace. The Lusaka cease fire agreement (July 1999) is respected on the conventional front lines, but the underlying causes of conflict remain to be addressed, and the Inter-Congolese Dialog (April 2002) has produced only partial results. To support the transition, the Bank is

responding to a window of opportunity by supporting social and economic recovery. This would have a dramatic effect not only on DRC's 55 million people, but also on the prospects in the whole of the Great Lakes region. The rationale for Bank reengagement in DRC is the need to address immediate post-conflict needs, help DRC focus on sustainable development and poverty reduction, and provide leadership for the reengagement of the international community.

A first in IDA history, IDA provided a US\$50 million grant to support the Government's interim reform program and its growth and poverty reduction objectives (2001-03). A TSS outlines Bank priorities over July 2001-July 2002: to assist Congolese efforts to strengthen state capacity, provide basic services and security, and begin the process of reconstruction through the demobilization and reintegration of ex-combatants, economic reactivation, and the reform of natural resources management. The TSS is a short-to-medium term strategy that promotes "early wins" to build a track record for the new Congolese leadership. It includes an Emergency Early Rehabilitation Project, funded by the US\$50 million IDA grant, and the Emergency Stabilization and Recovery Project, funded through a multi-donor trust fund. The next step is a US\$385 million Economic Rehabilitation Credit to meet immediate foreign exchange needs. This Credit would be implemented simultaneously with an Emergency Multisector Rehabilitation and Reconstruction Project to rehabilitate economic and social infrastructure.

A special initiative of chief concern for DRC is the Multi-country Demobilization and Reintegration Program (MDRP) covering nine countries in the Great Lakes region. The MDRP is based on the premises that the demobilization and reintegration of ex-combatants is necessary to establish peace and restore security, which are in turn a pre-condition for sustainable growth and poverty reduction, and that the conflicts in the region are interlinked. The US\$500 million MDRP would be implemented from 2002 to 2006 to demobilize and reintegrate 350,000 ex-combatants.

The PCF in DRC. The PCF has maintained its active support for the transition in DRC. The PCF is funding some of the TSS activities, and a number of assessment and pilot reconstruction activities, including support to war orphans in urban areas, needs assessment and subsequent rehabilitation of vital infrastructure, improving rural communications and rehabilitating basic infrastructure in Kisangani, and analysis of regional dimensions of the conflict within the Great Lakes region.
