



 THE WORLD BANK

MID-TERM REVIEW OF THE STATE- AND PEACE-BUILDING FUND

 GLOBAL CENTER ON CONFLICT
SECURITY AND DEVELOPMENT

EXECUTIVE SUMMARY

OCTOBER, 2012

"Fragile states are systematically behind on achieving every Millennium Development Goal, and we need to collectively think how solutions can be tailored to their special needs... We need different solutions altogether, ones in which an emphasis on capacity to implement is front and center."

—Jim Yong Kim
World Bank Group President



PHOTO CREDITS

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For more information on the work of State- and Peace-building Fund,
please contact:

The State- and Peace-building Fund (SPF)

Global Center on Conflict, Security and Development (CCSD)

Washington, D.C.

Operations Policy and Country Services (OPCS)

The World Bank

1818 H Street, NW

Washington, D.C., 20433 USA

Nairobi

2nd Floor, Shelter Afrique House

Longonot Road, Upper Hill

P. O. Box 30577-00100

Nairobi, Kenya

Telephone: +1 202 458-0352

E-mail: spf@worldbank.org

Web address: www.worldbank.org/fragilityandconflict

PREFACE

The Mid Term Review (MTR) of the State and Peace Building Fund (SPF) was commissioned by the SPF secretariat and was conducted between February and August 2012. The MTR team was made up of SPF secretariat staff and external consultants. Secretariat staff included Roisin De Burca, Holly Benner, Esther Rojas Garcia and Nicholas Evan Marwell. The external consultants were Anthony Finn, Jean Masurelle and Caroline Sergeant. The team is grateful to the many SPF partners and Bank staff who gave so generously of their time throughout the review process.

I: EXECUTIVE SUMMARY

The Mid-Term Review (MTR) of the State- and Peace-building Fund (SPF) was conducted between February and August 2012 with the objective of: *assessing the degree to which the SPF has achieved its original objectives and is "fit for purpose" moving forward, given the new ways of working in fragile- and conflict-affected situations (FCS) and the strategic direction given by the 2011 World Development Report: Conflict, Security and Development (2011 WDR).*

The SPF was founded in 2008 and is the World Bank's global multi-donor trust fund solely dedicated to issues of conflict and fragility. SPF contributors include the World Bank as well as bilateral donors (Australia, Denmark, Germany, the Netherlands, Norway and Sweden). The objectives of the SPF are:

- To support measures to improve governance and institutional performance in countries emerging from, or at risk of sliding into, crisis and arrears, and
- To support the reconstruction and development of countries prone to, in, or emerging from conflict.

The recent release of the *2011 WDR* and WDR Operationalization strategy, the creation of the Global Center on Conflict, Security and Development and momentum within the Bank and across the international community to promote new approaches to addressing conflict and fragility combine to present a unique moment for the SPF. The MTR recommendations and conclusions set out the vision and priority reforms necessary to ensure a more strategic and catalytic SPF which will improve the impact of SPF financing; pilot how the Bank can operate differently in FCS; strengthen Fund level partnerships and governance; and improve the performance of the SPF portfolio.

1.1 EVOLUTION OF THE SPF

The SPF was created as the sole successor to both the Post-Conflict Fund (PCF) and the Low Income Countries Under Stress (LICUS) trust fund, which were the World Bank's first global multi-donor trust funds dedicated to supporting work on conflict and fragility issues. These two funds had similar but slightly different goals (the LICUS Fund primarily focused on re-engaging countries in arrears through coordinated packages of projects; the PCF focused on funding discrete projects within a broader range of country contexts) and separate management structures. Consolidating the Bank's strategic approach and streamlining processes and procedures to improve the flexibility, speed and effectiveness of the Bank's response in FCS was a primary objective of creating one fund, the SPF, to succeed both the PCF and LICUS.

The World Bank finances over 80 percent of the SPF's US\$199.8 million budget, with the remaining portion covered by bilateral donors and investment income. For the first three years of the SPF (FY09-11), the Bank pledged an initial US\$100 million to the Fund. In FY12, the Bank pledged an additional US\$33 million and has committed a similar level of financing for FY13. External donor contributions to the Fund total US\$30.8 million. The SPF supports 50 projects across 38 countries for a total SPF Committee approved amount of \$134.6 million. The Fund had an average 12 grants per year in its first four years, with an average project size of US\$2.7 million and an average project length of three years. More than half of projects are past their midpoint.¹

The SPF has a focus on Africa with 44 percent of approved funds going to 12 African countries: the Middle East and North Africa (MENA) (21 percent), Latin American and Caribbean (LAC) (13 percent), and East Asia and Pacific (EAP) (9 percent) receive the next largest shares regionally.

At its inception, the SPF was designed to conceptually align with cutting-edge research, policy reforms, and discourse both within the Bank and across key partner institutions regarding approaches to peace-building and state-building. The broader World Bank and FCS context changed significantly between the establishment of the PCF/LICUS Trust Funds and the establishment of the SPF. Over time, the emergency financing policy shifted from OP/BP2.30 Development Cooperation and Conflict in 2001 to OP 8.00 in 2007 marking the Bank's commitment to make emergency financing to FCS faster, more flexible and less risk averse. Bank policies were also introduced in 2008 to mainstream WB trust funds into normal WBG business processes and to standardize procedures across trust funds. Most recently, the new 2012 guidance for processing small recipient executed grants has introduced more complex project processing requirements and controls. These changes are having an impact on the SPF's ability to be a rapid response financing mechanism and have slowed project processing and clearances compared to its predecessor funds (particularly the PCF).

With the April 2011 release of the World Development Report: Conflict, Security and Development, the accompanying WDR operationalization strategy² called for a paradigm shift in how the Bank supports countries in preventing and responding to conflict and fragility. Based on WDR recommendations, the Bank is implement-

ing an internal FCS reform agenda led by the Global Center on Conflict, Security, and Development (CCSD), which includes a new Nairobi-based office focused on support to Bank country teams, staff of the DC-based Fragile and Conflict-Affected Countries Group (within OPCS), and New York-based staff working on UN partnership issues.

The themes and recommendations of the *2011 WDR* and WDR operationalization strategy have also been echoed in a range of other research and policy processes across the international system, including the New Deal for Engagement in Fragile States³ which was agreed to at the Busan High-Level Forum on Aid Effectiveness; the OECD/International Network on Conflict and Fragility's state-building and financing guidance; the UN review of civilian capacity in the aftermath of conflict; recent work of the UN Peacebuilding Commission and UN Peacebuilding Fund; and initiatives by regional institutions such as the African Union and European Community.

In reviewing the Fund's history, the MTR found that SPF management has been proactive in ensuring the Fund responds to the evolving internal and external FCS policy environment, and also in managing emerging challenges to the Fund's performance. In 2010, the SPF conducted an in-depth portfolio review to address project implementation issues. It also introduced a bi-annual call for proposals to increase the Fund's selectivity, as well annual engagement strategies to better define the Fund's priorities. In 2011, to respond to the findings of the *2011 WDR* and further increase its strategic focus, the SPF opened a new window for Strategic Initiative applications and introduced a revamped results matrix to improve portfolio alignment and create a foundation to better monitor state- and peace-building results across the portfolio (see Box 1).

The SPF, with its focus on early-entry and institution-building approaches, implemented in collaboration with a broad range of partners, is uniquely positioned to serve as a catalytic and flexible resource that supports the operationalization of the WDR and can "field test" WDR recommendations. As the Bank's global trust fund focused on FCS issues, the SPF has already shown that it has a key role in moving forward the WDR reform agenda—both internally within the Bank and in partnership with external stakeholders and clients. Within this context, the MTR focuses both on reflecting on the lessons and performance of the SPF portfolio to date and on ensuring the SPF is "fit for purpose" moving forward and is one of the key instruments to reinforce the Bank's commitment to a new way of doing business in FCS.

BOX 1

THE SPF'S FY12 ENGAGEMENT STRATEGY

To better align with the findings of the *2011 WDR*, the SPF Secretariat introduced major changes as part of its FY12 Engagement Strategy that affect the types of projects the Fund supports, and how the Fund measures progress.

STRATEGIC INITIATIVES WITH FOCUS ON WDR THEMES

Aiming to help improve the impact of SPF financing on the Bank's overall portfolio and on state- and peace-building challenges, the SPF announced that it would begin accepting proposals for "strategic initiatives"—a coordinated package of grants to countries and/or regions committed to "transformative strategies" that align with WDR findings and recommendations. The MTR believes that the SPF's new strategic initiative applications will allow the Fund to support state- and peace-building objectives in a more comprehensive way and promote more "fragility-sensitive" Bank approaches to assessment, planning, operations, and knowledge and learning.

SPF RESULTS FRAMEWORK

Alongside the shift to accepting strategy initiatives, the SPF also introduced a revamped results framework, aligned with *2011 WDR* findings, to serve as a guide in prioritizing the selection of both strategic initiatives and stand-alone projects. All SPF proposals are now required to provide a rationale for how the proposed intervention contributes to SPF results.

1.2 MTR METHODOLOGY

The MTR has employed a mixed method approach to review the SPF at a strategic and operational level—gathering lessons on the overall design and direction of the Fund as well as a review of individual projects and implementation. The MTR team has mixed internal/external participants including the SPF Secretariat and expert consultants in evaluation, Bank operations, and Bank management and strategy. The methodology for the MTR included:

- a comprehensive document review that incorporates strategic documentation, project documentation, studies and reviews;
- consultations and workshops with relevant stakeholders across the World Bank, donor community, NGOs/CSOs, and government, and;
- triangulation of qualitative findings via a quantitative analysis of the results of SPF-funded projects, impact assessments, and review of relevant project documentation.

The MTR team visited 12 SPF projects in seven countries and employed a standardised analytical framework to guide consultations and reporting. It also hosted a series of MTR-related workshops in Nairobi and Washington D.C. that convened SPF task-team leaders, World Bank management, external FCS experts, and representatives from other fragility-focused global funds.

In order to focus the review, the MTR considers three areas of inquiry:

FIGURE 1: MTR AREAS OF INQUIRY



(A) PERFORMANCE AGAINST STANDARD BANK INDICATORS

The performance of the portfolio has been measured against standard indicators including: (i) progress of projects towards achieving their respective objectives; (ii) disbursement; and (iii) timeliness (processing times).

(B) PERFORMANCE AGAINST FCS INDICATORS

Traditional Bank progress indicators can be limited in assessing performance in FCS contexts. Therefore, the MTR also assessed the degree to which the Fund was performing against a set of FCS-focused indicators. This includes:

- the Fund's flexibility to support projects in range of FCS settings;
- an examination of whether the SPF portfolio is "on track" in terms of contributing to state- and peace-building objectives;
- whether the Fund is promoting flexible implementation arrangements;
- alignment with Bank country strategies; and
- the role of SPF projects within broader Bank engagement.

2: KEY FINDINGS

The MTR has found that to date, the overall performance of the SPF portfolio has been moderately satisfactory based on a review against a series of both traditional Bank and FCS-focused indicators. This rating draws on evidence in the document and data review of the portfolio as well as information gathered during qualitative consultations and MTR field visits.

The MTR has found that the SPF has been effective in supporting development interventions in a range of challenging FCS settings and in working within a complex Bank environment. Proactive improvements in portfolio management and performance measurement by the SPF Secretariat are contributing to the effectiveness and increasing relevance of the Fund. The majority of SPF projects are demonstrating satisfactory or moderately satisfactory progress toward their individual PDOs.

However, the MTR has found that while individual projects are generally performing well, particularly in regard to progress against their own PDOs, SPF financing is not having the desired catalytic and strategic impact on Bank strategies or on delivering broader state- and peace-building results. In many cases, SPF project-level PDOs were not selected with higher level state- and peace-building objectives embedded into project designs or with an aim of influencing broader Bank strategies and country portfolios. There are also gaps in the SPF's ability to provide timely support in FCS settings and in ensuring regular reporting and monitoring and evaluation of the current portfolio.

Despite these gaps, the MTR has found that within the SPF portfolio, there is a cohort of projects which are sensitive to state- and peace-building objectives and so are displaying better outcomes than less sensitive projects. These projects are characterized by

- an in-depth knowledge of the key drivers of fragility and conflict;
- strategic design particularly around implementation procedures, and
- high levels of engagement by CMUs primarily because CMUs are cognizant of the catalytic role these SPF project can play with regards to the rest of their IDA portfolio or to their country assistance strategy (CAS) or interim strategy note (ISN).

Consequently, the MTR finds that engendering a more strategic focus on state and peace-building goals will contribute to projects performing better not just when measured against FCS indicators but also when measured against standard Bank indicators, particularly timeliness.

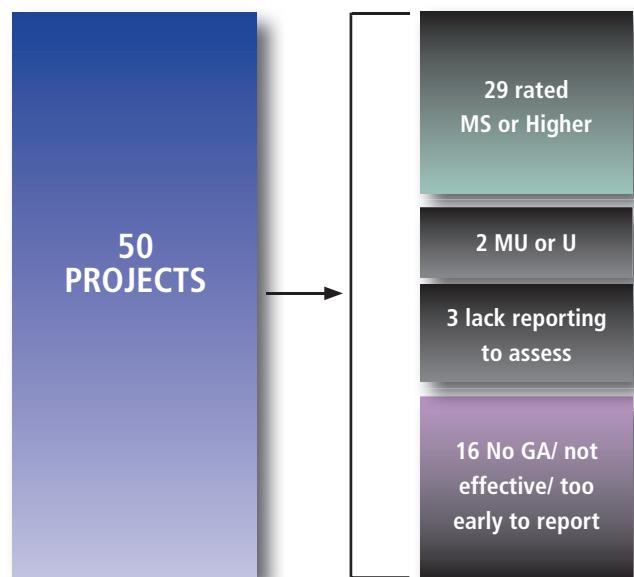
2.1 KEY FINDINGS: PERFORMANCE OF THE PORTFOLIO AND CONTRIBUTION TO STATE-AND PEACE-BUILDING RESULTS

The MTR examined the performance of the SPF portfolio against standard Bank indicators, and against a set of FCS-related Fund targets as articulated in the SPF's founding documents.

(A) PERFORMANCE AGAINST STANDARD BANK INDICATORS

On project progress towards their respective development objectives (PDOs), the MTR has found that of the 34 projects either complete or well into implementation, 85 percent (29 projects) were on track to meet their PDOs (23 of these projects were assessed as satisfactory; six were assessed as moderately satisfactory). Two projects were assessed as moderately unsatisfactory or unsatisfactory.⁴ Three projects that were either complete or well into implementation lacked sufficient reporting to make an assessment.

FIGURE 2: PROJECT PROGRESS TOWARD PDO



Among the 16 remaining projects, eight are too early in the project cycle to assess performance and eight have been slow to progress. Identified reasons for delayed projects include: lengthy legal reviews, task team turnover, recipient delays, effectiveness conditions and a challenging FCS context.

On disbursements, the portfolio's disbursement rate is 46 percent, which has improved from the Fund's lower disbursement rates in FY09 (5%), FY10 (11%) and FY11 (31%). This seems to be driven in part by an aging portfolio whose projects tend to demonstrate a disbursement lag in early implementation that diminishes over time as SPF projects mature and disbursements pick up. The MTR notes that disbursements rates, especially at the start up stage, are not necessarily a good measure of progress on the ground, as disbursements will flow only after the basics are in place. There are many instances where delays in the pre-disbursement period result from political instability and events outside the control of the project team. The often challenging in-country context can cause lengthy delays in accomplishing relatively simple tasks, such as getting required signatures and preparing and delivering basic documents.

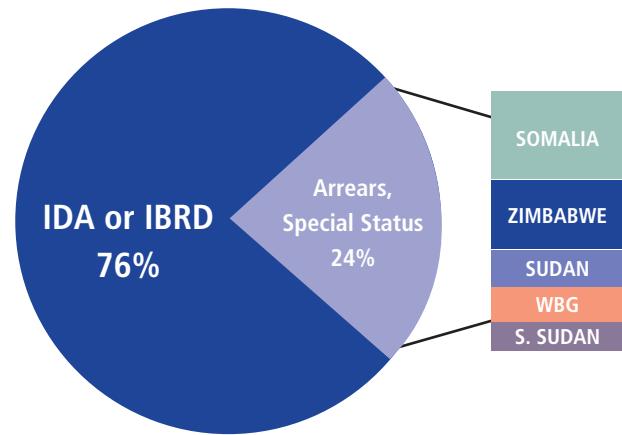
On timeliness, the MTR has found that the SPF's own project processing is relatively efficient, but that factors related to the wider project development process often cause bottlenecks and delays, and can hurt the Bank's ability to respond rapidly to urgent situations. On average, SPF projects take 15 months to move through the project preparation phase to early implementation (i.e. after post-Project Concept Note approval to first disbursement). Many delays occur in project preparation and early implementation and are related to internal Bank processing, though the MTR also notes that there are often cases where task teams reported no problems navigating internal processing. External factors also play a role (weak implementing partner and government capacity, volatile political and security conditions), as does the quality of project design and the experience levels of task team leaders.

The SPF aims to provide catalytic and flexible financing to support work in fragile environments, which present unique operational challenges. The following factors have negatively impacted on the SPF's speed and flexibility: a lack of experience of safeguard, legal, procurement, and financial management (FM) staff in tailoring reviews to FCS contexts; a proliferation of regional review requirements that have added extra layers to processing, and TTL turnover. Also, similar to many trust funded projects, SPF task teams often lack sufficient CMU-committed Bank Budget (BB) resources for project preparation and supervision, particularly important in low capacity and highly volatile FCS environments. The SPF's flexibility is also being challenged by standardization of trust fund processing across the Bank (an example is the new guidance introduced for small recipient-executed grants, perceived to be too cumbersome for FCS settings).

(B) PERFORMANCE AGAINST FCS INDICATORS

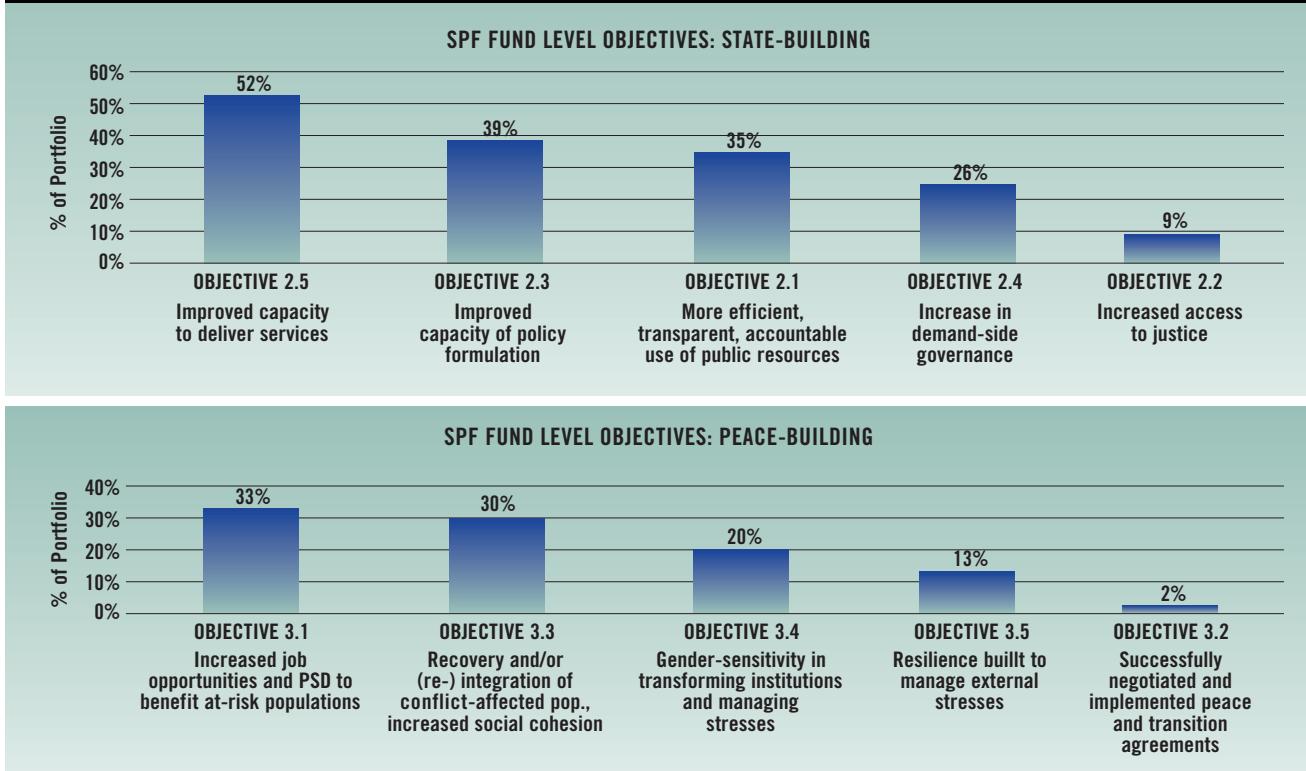
On the SPF's flexibility to support projects in a range of FCS settings, the MTR has found that the SPF, owing to its broad project eligibility criteria, is well suited to support responses to address various forms of modern violence and fragility that are identified in the 2011 WDR. While the majority of SPF projects operate in FCS as defined by a CPIA rating of 3.2 or lower or the presence of a UN or regional peacekeeping or political mission (79 percent of SPF projects), SPF projects cover a broad spectrum of violence and fragility. This includes middle income countries experiencing sub-national conflict, post-conflict countries experiencing critical "transition moments," states at risk of sliding into conflict, and countries in arrears and lacking broader Bank engagement. Recently-approved SPF Strategy Initiatives are also increasing the Fund's attention to criminal violence as well as the regional and transnational drivers of conflict and fragility.

FIGURE 3: BANK STATUS OF COUNTRIES WHERE SPF OPERATES



On contributions to Fund-level state- and peace-building results, the MTR faced challenges in assessing portfolio level contributions. The MTR attempted to assess how the portfolio as a whole is contributing to higher-level state- and peace-building objectives. Owing to the age of the portfolio, the variety of reporting formats and reporting quality, and the fact that the Fund-level results framework was only recently revised and reintroduced, assessing these portfolio-level contributions was challenging. A mapping of the Fund's portfolio to its state- and peace-building objectives⁶ finds that 53 percent of projects primarily focus on reconstruction and development objectives (peace-building), and 47 percent primarily focus on governance and capacity building (state-building). Under its state-building objective, the portfolio is concentrated on service delivery, building capacity for policy formulation, and public financial management, with less focus on access to justice issues. Under its peace-building objective, the portfolio

FIGURE 4: SPF PROJECT GOALS MAPPED TO SPF FUND-LEVEL STATE- AND PEACE-BUILDING OBJECTIVES

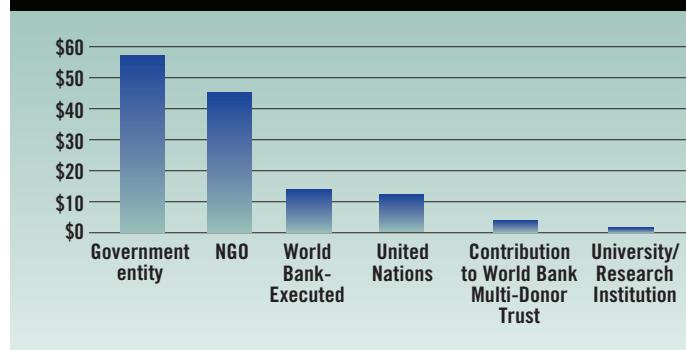


is strongest on job creation and private-sector development, recovery and re-integration of conflict-affected populations, and gender issues. There has been less SPF funding to supporting peace-processes and building resilience to manage external stresses. A more in-depth review of SPF projects shows that there is a large degree of variance within the portfolio in terms of the degree to which projects are based on strong political economy analysis, are designed to address the drivers of conflict and fragility, and are meaningfully aligned with state- and peace-building objectives as they apply to specific country contexts.

The MTR has found that the introduction of a revised results framework is a positive move towards measuring portfolio-level performance and it is important for the SPF to continue to apply the framework to new grants. However the framework needs further elaboration to inform an overall indicator set for progress at the Fund level. The introduction of strategic initiatives, whereby the Secretariat and Committee approve larger packages of coordinated support to countries or regions committed to *WDR 2011* operationalization, is likely to encourage greater alignment with state- and peace-building objectives and to increase the leverage of SPF investment to influence country-level strategies.

On flexible implementation arrangements, the MTR found

FIGURE 5: PROJECT APPROVALS BY RECIPIENT TYPE
(through the end of June 2012, US\$MILLIONS)



that the SPF, as a recipient-executed financing instrument, is utilizing a diverse set of partnership arrangements. The largest recipients of SPF funds are national governments (42 percent) and non-governmental organizations (36 percent). The SPF also finances projects in cooperation with the United Nations and through existing multi-donor trust funds.

While the SPF is restricted from funding Bank-executed projects, the Fund can do Bank-execution on behalf of recipient by request of recipient governments. These Bank-executed grants represent

11 percent of total commitments and are often utilized in fragile environments because of capacity constraints on the recipient side. BE on behalf of recipient grants have been used effectively by task teams to support analytic work, project coordination and management, knowledge and learning activities, and monitoring and evaluation efforts that bolster client capacity and improve the performance of SPF grants.

On country context and alignment with country strategy frameworks, the MTR found that the SPF is often successful in supporting improved governance approaches and more conflict-sensitive support from development partners. In many occurrences, the SPF supports important work to fill major knowledge gaps and provide technical assistance to ensure more conflict-sensitive policy, like in the Philippines where the Encouraging Resilient Communities project has provided technical assistance to a wide range of important stakeholders in the country's on-going conflicts. In Liberia, an SPF-funded project is focusing on alternative dispute resolution to improve access to justice at the local level while avoiding the confrontational formal justice system, and testing an approach that could have a far-reaching contribution to state- and peace-building.

However, there is limited evidence that SPF projects have informed Bank country strategies. The MTR also found that while it is the case that often the SPF has enabled the Bank to acquire a more comprehensive or deeper understanding of conflict dynamics in FCS and has contributed to country-level state- and peace-building goals, there is limited evidence that SPF projects have, on the whole, informed the way Bank country strategies address the drivers of fragility. Also, there is strong evidence from field visits that often project effectiveness could have been improved if task teams and country teams had access to better knowledge of local political economy or additional resources to support analytic work to assist in project design.

On the role SPF projects play within the context of the Bank's broader country engagement, projects funded that are catalytic or complimentary in nature are the most effective. In some cases the SPF is providing *complimentary financing* to support interventions that address important causes or consequences of violent conflict but are not easily addressed by other Bank intervention or for which there is a scarcity of funds. In other cases, the SPF is intended to serve a *catalytic role*, helping project teams to pilot innovative approaches or attempt to address important "under the radar" issues. Sometimes, projects have both catalytic and complimentary attributes in that they are implemented adjacent to the Bank's on-going programs but also offer potential scale or main-stream impacts.

Projects that end up as *islands and substitutes* constitute the less successful examples of SPF interventions. Projects aiming for a catalytic effect may end up becoming islands with no broader impact on the Bank portfolio or sustainability for a number of

reasons including lack of connection to Bank strategies, limited government or country team ownership or lack of implementing partner capacity. Conversely, SPF projects meant to complement IDA may use the SPF as a straightforward IDA *substitute* by funding activities that may be of importance but which do not address core drivers of conflict and fragility.

In fragile states in arrears and lacking broader Bank lending engagement, the SPF can provide additional value beyond supporting individual projects. Often in these countries, the SPF is just one of a few sources of financing that provide a basis for continuing World Bank country engagement.⁷ In Somalia, SPF support represents 50 percent of all grant funding approved since 2009. In Zimbabwe, SPF grants total 38 percent of funding. In these situations, the value of SPF support is not only in the accomplishment of project outcomes but in the value-added of maintaining engagement with counterparts, civil society, and other donors. While many projects in these countries have strong links to state- and peace-building goals and address core drivers of conflict, the MTR notes that often projects may play the role of substituting for a lack of other resources to address important development issues.

In assessing the performance of the SPF portfolio, the MTR found that **SPF projects with the greatest impact on state- and peace-building prioritized:**

- political economy analysis and conflict/fragility assessment to inform project design;
- alignment of project objectives to "fragility-sensitive" CASS/ISNs;
- avoiding over-complicated (too many implementation layers) and overly ambitious (too many objectives) designs; and
- utilizing innovative approaches—beyond Bank "business as usual."

There are some good examples of how SPF financed projects are influencing Bank strategies and are aligned with state-building objectives as captured in the revised SPF Results Framework. The Liberia project on civil service reform, for example, contributes to improving the efficiency and effectiveness of government by strengthening the capacity of civil servants to deliver services at the local level. The SPF supported Program on Accountability in Nepal is supporting demand-side governance and social accountability approaches that are critical to the peace process and are complementing the Bank's supply-side governance reform efforts. In the Solomon Islands, the creation of job opportunities contributes to peace-building objectives—twelve months into implementation, the project has generated approximately 150,000 labor days of short-term work for the targeted urban population, and also provided 1,865 workers with pre-employment training. In Colombia, the SPF project is informing broader Bank and government engagement on the key consequences of conflict. The project has been able to reduce the risk of impoverishment of the displaced population by continuing to scale up the application of measures for protection of

property, providing land titles for displaced persons, and proposing public policy initiatives for restitution of properties to Internally Displaced Persons (IDPs).

2.2 KEY FINDINGS: STRATEGIC AND CROSS-CUTTING ISSUES

The MTR sees the SPF as a key instrument for the Bank's implementation of the 2011 *WDR*, and to enable the Bank (with CCSD support) to pilot new ways of working in FCS and support the implementation of the New Deal for Engagement in Fragile States. Working alongside IDA and country level trust funds, the SPF can both complement and supplement the work of the Bank at the country level, in collaboration with other partners. Workshops with task team leaders, implementing partners, Bank management, and development partners emphasized the role of the SPF in pushing the FCS agenda forward, piloting the "how" to do things differently in volatile and risky environments (see Box 2 on findings from MTR workshops).

The IDA 16 MTR will be undertaken in the fall of 2012 and the IDA 17 replenishment negotiations will begin shortly afterwards. FCS issues are likely to feature prominently in these discussions, given that the likely graduation of a number of major IDA clients will increase the prominence of fragile states in the fund's portfolio. Current work to review the IDA allocation system and the impact of IDA programs in FCS will contribute to this ongoing debate. In the interim, the SPF can play an important companion role to IDA and be used proactively by country teams to explore new ways of addressing the ongoing and complex challenges faced by fragile and conflict affected countries in line with the 2011 *WDR* recommendations. **The SPF can help country teams to pilot innovative approaches and new ways of working in FCS that can be replicated and scaled up through follow-on IDA investments.** It can also strengthen the Bank's capture and dissemination of knowledge and learning in FCS contexts.

In terms of the SPF's role in promoting knowledge and learning, at least 40 percent of SPF projects incorporate some learning components and there are some strong examples of effective in-country dissemination of knowledge and impact. At the Fund-level, the SPF is working to develop a more robust set of RKL activities to promote learning and exchanges across the SPF portfolio in line with the overall CCSD RKL strategy that has been recently developed. This will allow the SPF and its task teams to build on ongoing knowledge capture and dissemination work within CCSD and across the Bank on FCS-relevant topics.

BOX 2

FINDINGS FROM CONSULTATIONS WITH SPF TASK TEAMS AND PARTNERS

THE SPF IS A VALUABLE FCS TOOL:

Participants highlighted the important role that the SPF has played in countries where projects are being implemented. SPF outcomes are seen not only in improved service delivery but also in increased institutional capacity and stronger partnerships. The Fund provides flexibility and allows teams to begin engagements in difficult FCS environments. It supports innovative approaches as well as simple but critical interventions, and allows for a diverse range of partnership arrangements—including with the UN, NGOs, and governments. SPF projects also fill critical knowledge gaps, building the analytic foundations on which to base better country programs.

SPF SHOULD BE THE FINANCING INSTRUMENT TO PILOT "HOW" THE BANK OPERATES DIFFERENTLY IN FCS:

Participants highlighted that the SPF is an ideal tool for the WB to pilot new forms of systemic support for risk taking, rapid response, and working within the wide range of FCS. For this reason, the SPF needs to retain simple and flexible policies and operational procedures that respond to the challenges and particular needs of operating in conflict environments. TTLs focused on the growing inflexibility of SPF compared to its predecessors—the PCF and LICUS Funds. They were particularly adamant that the new small grant RE grant procedures would further constrain the SPF. TTLs called for the SPF to have its own "exceptional" flexible operational procedures that would allow for speedier response and greater risk taking.

SPF SUPPORT FOR PE AND CONFLICT ANALYSIS, RKL, AND M&E:

In order to capitalize on the SPF's comparative advantage in piloting new approaches and knowledge capture, participants called for greater SPF investment in strategy development, political economy analysis, and monitoring and evaluation. These investments would support more conflict-sensitive political economy analysis leading to better FCS project design and improved monitoring and evaluation and knowledge and learning to keep projects on track and to capture important lessons emerging from SPF-supported activities.

BOX 2, continued

LACK OF BUDGET FOR PROJECT PREPARATION AND IMPLEMENTATION SUPPORT:

Task teams lamented the lack of project preparation and supervision (BB) resources to support successful projects in difficult FCS environments. Participants pushed for the SPF to gain the flexibility to provide supplementary BB financing to complement and fill gaps in CMU investments. SPF support would allow for more thorough project preparation and implementation support to help low-capacity partners navigate Bank protocol and handle implementation bottlenecks common to FCS.

SPF'S ROLE IN KNOWLEDGE CAPTURE AND DISSEMINATION:

TTLs emphasized the key role that the SPF Secretariat could play in pulling together valuable lessons and experience from across the SPF portfolio. Participants agreed that the SPF's knowledge capture and exchange agenda needs to be much more deliberate and robust to ensure innovations/lessons from SPF pilots have impact on future WB approaches, and can feed back into project design, implementation, replication, and scaling up good practice.

HIGHER-VOLUME SPF TO RESPOND TO DEMAND/ TRULY OPERATIONALIZE THE WDR:

Participants raised the need for more resources to respond to demand and ensure the SPF has a transformative impact and retains its preeminence as the Bank's global trust fund for FCS.

In relation to the SPF's mandate to promote partnership, at the project level there are successful and varied examples of partnership. The SPF is unique as a recipient-executed financing instrument that allows for a wide range of implementation modalities—SPF projects are carried out by governments, national and international NGOs, the UN and other international agencies. The SPF has also utilized the UN Fiduciary Principles Accord to partner with the UN to carry out SPF activities, including in Somalia, to pave the way for quicker and more efficient project implementation.

At the Fund-level, the SPF has initiated a regular dialogue series with the UN Peacebuilding Fund and other like-minded FCS financing instruments. The series is intended to create a stronger working relationship across the various funds and to strengthen country-based coordination on issues such as joint assessments, planning, M&E, and financing. At the global level, the aim of the series is

to enhance coordination and to work collaboratively for policy and operational improvements in FCS environments. SPF strategy initiatives also offer greater avenues for coordination with international partners on joint assessment, strategy development and financing. Through its strategy initiatives, the SPF is also increasing its coordination with the Swiss Trust Fund on UN-WB Partnership issues—and there is potential for greater alignment of joint UN-WB efforts as part of SPF initiatives. There is more scope for cooperation at the country level and on thematic learning, and also for greater interaction and dialogue with key donors as the SPF evolves.

2.3 KEY FINDINGS: SPF GOVERNANCE AND MANAGEMENT STRUCTURES

The MTR has also measured the performance of the SPF governance structure against the current terms of reference for the SPF Committee (a Director-level group of Bank staff from a cross-section of regions/sectors) and SPF Secretariat structures as well as areas of activity that may require additional resources from the SPF to implement recommendations from the MTR and build upon the progress already made towards achieving the Fund's objectives.

On the SPF Committee's role, the MTR finds that despite the intention for the Committee to act strategically and at a policy level, it has largely focused at the level of project approvals. Consequently, the potential of the Committee to guide the work of the SPF and to foster stronger links with key actors in the wider FCS environment and ongoing FCS work across the Bank's sectors and regions is not yet fully realized. Committee Members are keen to work closely with the Secretariat on setting the strategic direction of the Fund, monitoring the portfolio and broader Fund level performance, and bringing together lessons from country and project experience. However, there are some concerns about the time commitment needed for this work given the strategic importance of FCS issues in the Bank and the relatively small size of the SPF. Wider incentives in the Bank remain focused on the Bank's investment lending operations.

On the SPF Secretariat, the MTR finds that the Secretariat and management has focused on improving the strategic direction of the SPF and portfolio performance as set out in the 2012 Engagement Strategy. The Secretariat has achieved important results in this regard, including making advances in portfolio management and ensuring the alignment of the portfolio with the Fund's state- and peace-building goals. However, the MTR finds that the Secretariat is under-resourced to deliver on both the ambitious SPF objectives and to manage the myriad Secretariat functions. Because the Secretariat's time has been dominated by project processing, insufficient attention has been paid to other key tasks. While some progress has been made, gaps remain, for example, in developing the SPF's research, knowledge, and learning, and monitoring and evaluation agendas.

3: RECOMMENDATIONS

As the Bank's global trust fund focused on FCS issues, the SPF has a key role to play in moving forward the WDR reform agenda—both internally within the Bank and in partnership with external stakeholders and clients. The following recommendations focus both on drawing from the lessons and performance of the SPF portfolio to date and on ensuring the SPF is "fit for purpose" moving forward and can capitalize on a unique opportunity to deliver change.

3.1 TOWARD A STRATEGIC AND CATALYTIC SPF: VISION AND PRIORITY REFORMS

The SPF mid-term review rated the overall SPF portfolio as moderately satisfactory: while individual projects were generally performing well against their own PDOs, the MTR team found that SPF financing was not having the desired catalytic and strategic impact on Bank country strategies or in delivering broader state- and peace-building results. While there has been some progress in operationalizing the *WDR 2011* through the SPF strategic initiatives (introduced in FY12) much of the SPF project portfolio is still viewed as demand-driven, one-off interventions that are not sufficiently embedded into Bank strategies or contributing to the development of new ways of working in FCS.

To promote the SPF as a strategic and catalytic FCS Fund that serves as a key arm of *WDR 2011* operationalization, the MTR sets forth the following vision and five priority reforms:

SPF VISION FOR ENGAGEMENT FOR 2013/2014:
Support the operationalization of *WDR 2011* by financing strategic and catalytic interventions and leveraging internal and external partnerships to inform and improve development effectiveness in FCS.

FIVE PRIORITY SPF REFORMS

- 1 ensure the SPF prioritizes support of transformative approaches in FCS that impact the broader Bank portfolio and are directly tied to state- and peace-building results;
- 2 utilize the Fund to pilot "how" the Bank can operate differently in FCS setting, with greater flexibility for risk-taking and rapid response;
- 3 bolster the SPF's knowledge and learning agenda to capture lessons from new approaches and piloting and ensuring that these are applied more broadly to Bank operations in FCS;
- 4 leverage partnerships with other FCS-focused Funds to deliver improved results in FCS; and
- 5 transform the governance of the SPF to support a more strategic and catalytic role for the Fund.

In order to achieve the above vision and reforms, the MTR recommends the following changes to the SPF:

1: IMPROVE THE STRATEGIC AND CATALYTIC IMPACT OF SPF FINANCING:

To ensure the SPF's catalytic and strategic role, several actions are recommended. The SPF should prioritize the development and submission of strategic initiative applications to the Fund (while also continuing to accept stand-alone projects that demonstrate a compelling case of urgent need and direct contributions to state- and peace-building results) recognizing that when SPF initiatives are built into country programs, there

is greater chance for impact. This will require more proactive and hands-on engagement with the CMUs, regions, sectors, and the broader FCS community of practice across the Bank about effective use of SPF funds aligned with country strategies and state- and peace-building objectives. To enhance the impact of SPF grants, SPF teams also need the flexibility to invest in political economy and conflict analysis and strategy development, as components of, or inputs to, SPF projects. The SPF should also continue to capitalize on potential complementarities to IDA financing to FCS, and adjust as necessary in line with the findings of the IDA 16 MTR and plans for IDA 17 allocations to FCS. Long-term, the SPF could

serve as a catalytic fund that promotes IDA turnarounds, pilots approaches that could be scaled up through IDA financing, and continues to support state- and peace-building results in countries with limited or no IDA financing.

2: PILOT "HOW" THE BANK CAN OPERATE DIFFERENTLY

IN FCS:

The SPF should operate as a financing mechanism to pilot 'how' to operate differently in FCS environments based on the findings of the 2011 WDR that underscore the importance of risk-taking, rapid response, flexibility, and partnerships. The SPF should be given, for example, necessary exemptions from trust fund guidelines and procedures (e.g. the new small RE grant guidelines) that erode the flexible nature of the Fund to respond to the challenges of FCS settings. The Fund should experiment with new approaches to portfolio management and streamlined procedures, with implementation support from SPF, CCSF, and broader FCS community of practice. The Fund should also focus on ways to encourage simplified project design and phased implementation or piloting that can be scaled up with additional resources (from the SPF, from IDA, or from other sources).

3: BOLSTER THE SPF'S ROLE IN KNOWLEDGE AND LEARNING:

To ensure that the SPF captures lessons from its efforts to pilot new, innovative and impactful approaches in FCS environments, the Fund needs to strengthen its role in knowledge capture and dissemination. Analytic work and RKL products initiated and disseminated by the SPF can inform future and larger Bank investments and operations in FCS, thus improving the Fund's strategic value. These RKL products can be used as tools for teams seeking to improve their response in FCS environments. In the near-term, the SPF should initiate a few cross-portfolio learning products and ensure that RKL and M&E activities are built into strategic initiative and stand-alone project applications to the Fund. Instead of soliciting a new round of applications to the SPF, for the FY13 engagement strategy, the SPF Secretariat should prioritize action on MTR recommendations and implementation monitoring, particularly on RKL and M&E of the current portfolio.

4: BUILD FUND-LEVEL PARTNERSHIPS:

Leveraging partnerships with other "like-minded" FCS Funds will also increase the SPF's strategic impact. The SPF should further develop and operationalize its partnership agenda, including on joint assessment, joint monitoring, joint programmatic financing and joint support for New Deal implementation with other global FCS-focused funds. The SPF/CCSF should explore ways of supporting country level New Deal pilots in a few countries as part of the SPF's strategic initiative

engagements. The SPF/CCSF could also discuss with the UN and donors cooperation and potential alignment between the SPF and the UN-WB Partnership Trust Fund.

5: TRANSFORM THE GOVERNANCE OF SPF TO SUPPORT ITS STRATEGIC AND CATALYTIC ROLE:

Changes in the SPF's governance structure are needed to support recommended reforms. The SPF will have to move from a demand-driven call for proposal process to a more strategic and supply-side effort to generating SPF initiatives that are embedded in country strategies and focused on state- and peace-building results. The roles and responsibilities within the SPF governance structure will need to be revised to focus on striking a balance between providing strategic direction for the Fund and technical support on effective approaches in FCS. The SPF Committee will also need to focus additional attention on working with sectors/regions to encourage relevant applications to the Fund, and monitoring overall performance of the SPF.

In addition to reforms to the SPF's Bank-owned SPF Committee, the SPF/CCSF should develop a robust communication and external donor engagement strategy for the SPF; including more regular consultation with existing donors on the strategic direction and results of SPF investments and outreach to new donors.

To deliver on this vision, the SPF can take a series of actions in the near-term to demonstrate progress and set the stage for a more impactful State- and Peace-building Fund. However, the SPF's current resources are limited (discussed below in section 3.3). With an increase in donor investments, and a foundation of progress in the five areas of reform, the SPF has the potential to play a central role as a catalytic financing instrument, alongside and complementary to IDA, to spur transformative Bank approaches in countries impacted by conflict and fragility.

3.2 IMPROVING THE PERFORMANCE OF THE SPF PORTFOLIO

In addition to working toward a more strategic and catalytic SPF, immediate actions can be taken to improve the performance of the SPF's current portfolio. This includes: 1) focusing on portfolio monitoring; 2) improving project processing; and 3) enhancing implementation support. Alongside efforts toward the vision laid out above, these changes will help build the foundation for a better performing and more impactful SPF.

1: IMPROVE PORTFOLIO MONITORING:

A monitoring system or "dashboard" for the SPF portfolio should be developed alongside the revised SPF results framework to track portfolio performance and draw lessons from SPF interventions. The SPF Secretariat should also focus urgent attention and provide

assistance on those projects that are under-performing, under-reporting, have stalled implementation and/or restructuring needs (see annex 3).

- 2: IMPROVE PROJECT PROCESSING:** To encourage rapid response, innovation and risk taking in FCS, CMUs should provide adequate support to task teams in relation to LEG/FM/procurement/safeguard reviews during the project development and implementation phases. This can be supplemented with support/oversight from the Nairobi-based CCSD implementation support team, CCSD-sponsored trainings and through the creation of FCS communities of practice and standards for FCS projects.
- 3: ENHANCE IMPLEMENTATION SUPPORT:** To respond to gaps identified by SPF task teams in Bank budget (BB) for project preparation and implementation support in difficult FCS environments, CMUs should commit adequate BB to support SPF project preparation and supervision. The SPF could also consider providing limited supplementary BB financing and more hands-on SPF Secretariat and broader CCSD support for early project design and to address implementation bottlenecks.

3.3 IMPLICATIONS FOR FINANCING AND POLICY CHANGE

For the SPF to realize its potential as the Bank's preeminent global trust fund to pilot and mainstream new approaches to conflict and fragility, the following financing and policy changes are recommended alongside the recommendations above. This will allow the SPF to make near-term progress on improving the performance of the existing portfolio while setting the stage for more fundamental changes that will increase the strategic impact of the Fund.

FINANCING: By the close of FY12, the SPF Committee had approved US\$134.6 million in SPF grants, with an additional US\$27.5 million reserved in the SPF pipeline for proposals under development (whose concept notes have been Committee approved), and US\$8.4 million set aside for SPF Management/RKL budget (over the life of the Fund). ***This leaves the SPF with an estimated balance of only US\$29.3 million for new project support.***

While the SPF can make significant progress in its reform agenda with existing resources, realization of a more ambitious, long-term vision for a strategic and catalytic SPF will require additional resources, including from external donors recognizing that the Bank is currently covering over 80% of the Fund's budget. Fundraising should focus on the SPF's successes to date, the MTR reform proposals, and the SPF's key role in implementing the 2011 WDR agenda. As part of sustained engagement with donors, the SPF/CCSD should hold bi-annual discussions with the donors and key partners to discuss the strategic thrust of the SPF, the results and impact of

activities supported, and the SPF's role in global efforts to improve financing to FCS.

POLICY FLEXIBILITIES: The SPF will need an enabling operating environment to pilot "how" the Bank can operate more flexibly and rapidly in volatile FCS environments. While Bank-wide trust fund reforms (in regard to harmonization of business processes) will assist the SPF in the monitoring of project performance, the standardized guidelines for processing small grants are not adapted to operations in FCS and are increasing the project preparation timeline. Adaptation of these guidelines for processing of small grants under the SPF should be authorized. This will allow the SPF to continue to serve as a flexible and rapid-response facility.

CHANGES IN ELIGIBLE EXPENDITURES—BE AND BB: The MTR highlights the need for the SPF to focus additional attention and resources on political economy/conflict analysis, strategy development, M&E, and RKL. While some of these activities can be carried out under the SPF knowledge window or through the utilization of Bank execution on behalf of recipient, overall investment in these areas is inadequate. The flexibility to allow Bank Execution to carry out some of these additional activities would not only benefit the overall quality of the SPF portfolio but would contribute to enhanced performance by the client and the World Bank and its partners at the country level. This fundamental change may require revisions to the overall SPF eligibility framework.

To promote adequate support to task teams in preparing and implementing projects in difficult FCS environments, CCSD/SPF will have to advocate with CMUs to provide sufficient BB financing for the preparation and supervision of trust fund financed projects in FCS, including SPF projects. The SPF cannot replace CMU support. However, if the SPF considers providing some supplementary BB financing for implementation support, changes will be required to the SPF's Board paper and administrative agreements to include as an eligible expenditure the limited allocation of BB resources for the Bank supervision of projects (could be presented as a small percentage).

This MTR has found that there is enormous potential for the SPF to play a strategic and catalytic role in helping the Bank to respond better to the challenges in FCS, develop transformative approaches and deliver on its WDR implementation commitments. The purpose of the MTR is to address some of the key policy and operational challenges of working in FCS and to ensure that the SPF is "fit for purpose" going forward. There is a unique opportunity to deliver change. The recommendations are designed to both improve the performance of the SPF portfolio and increase its strategic impact on state- and peace-building goals. Building support for this vision of the SPF across the Bank and with its key partners and clients will be crucial to the successful implementation of the priority reforms and actions outlined in the mid-term review.

ENDNOTES

- 1 All figures in the MTR Report utilize SPF data through the end of FY12 (end June, 2012).
- 2 Development Committee paper DC2011-0003
“Operationalizing the 2011 World Development Report:
Conflict, Security, and Development,” April 16, 2011.
- 3 The International Dialogue on Peace Building and State Building comprised of the g7+ group of 19 leaders from FCS, development partners and international organizations got agreement for the New Deal for Engagement in Fragile States at the Busan High Level Forum on Aid Effectiveness in 2011. The New Deal proposes key peace building and state building goals, focuses on new ways of engaging and identifies commitments to build mutual trust and achieve better results in fragile states.
- 4 A number of project reports used standard Bank performance ratings. For projects not explicitly using formal Bank ratings, the MTR made an assessment as to the likely performance rating the projects would have received. These judgments were based upon assessments contained in the available supervision documents, which included recipient reports, aide memoires, project correspondences, as well the SPF mid-term review's own field visit reports.
- 5 Measured by total cumulative disbursements divided by the total cumulative legal commitments.
- 6 The SPF Fund-level results framework, updated in Fall, 2012, cannot be wholly applied in a retrospective manner as prior to its introduction prospective projects were not required to articulate how SPF projects contributed specifically to listed results. The MTR has found that the introduction of the revised results framework is a positive move towards measuring portfolio-level performance and it is important for the SPF to continue to apply the framework to new grants.
- 7 There are 10 grants to countries in arrears (Somalia, Zimbabwe) or to territories with special status (West Bank and Gaza).



The State and Peace-Building Fund
Global Center on Conflict, Security and
Development (CCSD)
Operations Policy and Country Service
The World Bank
1818 H Street NW
Washington, DC 20433 USA

Tel. +1 202 458 0352
Fax. +1 202 522 2266

email: spf@worldbank.org
www.worldbank.org/fragilityandconflict
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