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THE ROLE OF INCLUSIVE GROWTH

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Moderator:

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Panel One: Politicians' Perspectives:

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Co-Chair of the International Dialogue on Peace-building and State-building
Minister for Development Cooperation
Denmark

AMARA KONNEH
Minister of Finance
Republic of Liberia

EMILIA PERES
Co-Chair of the International Dialogue on Peace-building and State-building
Minister of Finance
Democratic Republic of Timor-Leste

Panel Two: Practitioners' Perspectives:

SARAH CLIFFE
Special Advisor and Assistant Secretary-General of Civilian Capacities
United Nations

JOEL HELLMAN
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P R O C E E D I N G S

MR. KHARAS: I think we should get started. First of all, thank you all very much for braving the weather outside to come and participate in this event. I can promise you won't be disappointed. My name is Homi Kharas. I'm a senior fellow at the Global Economy and Development program here at Brookings. And it's a real pleasure, privilege for me to introduce a really star studded panel for you today.

So we're starting slightly late so I'm going to cut down on introductions. But I do want you to take a look at the -- I think everybody could have picked up the bios of everyone. But you should really know who it is that you are hearing from. Minister Christian Friis Bach is one of the co-chairs of the International Dialogue on Peace-building and State-building. He is also the minister for development cooperation in Denmark. He is, I think, perhaps by now the longest serving Minister for Economic Cooperation in Europe. And we're absolutely delighted to have him here today.

To his right is Minister Emilia Peres. She is the other co-chair of the international dialogue but also minister of finance of Timor-Leste. She has been championing and leading not only the international dialogue but also the group of so-called G7 class countries. She has really been tireless in bringing to the forefront the issues of fragile states and most recently was one of the eminent persons on a United Nations panel of eminent persons advising the Secretary General on the post-2015 process.

To her right is Minister Amara Konneh. You will notice we have first three ministers. He is from Liberia. Liberia is one of the countries that has had the most rapid growth coming out of a period of conflict. I think it's extraordinary for us to be able to listen to him on how things can actually work on the ground in a country once the issues of conflict are put behind them.

So we're going to start with a short panel Q and A with the three

ministers and really try to talk a bit about the politics of how one does development in conflict environments, in fragile states, how we think about this whole very general concept of inclusive growth in these very difficult environments which will be the environments where reducing poverty will be one of the most significant challenges that the world faces.

After that, we're going to move to a series of Q and A with three people who represent practitioners. These are the people who from the donor community will actually try to align their agencies, instruments, funding and activities to this very different, new environment. And so, starting from the far end we have President Tanaka. He's the President of JICA, the Japanese International Cooperation Agency. They have a very long experience of working in countries across the world. But certainly have done an enormous amount of learning with many different instruments in countries with fragility.

To his left is Sarah Cliffe. Sarah, a former colleague of mine at the World Bank, but also the lead author of the World Development Report on conflict, security and justice in 2011, she is now an Assistant Secretary-General at the United Nations dealing with these issues.

And to her left is Joel Hellman. Joel is at the World Bank also a former colleague of mine. He is the Director based in Nairobi of the global practice on fragile and conflict affected states. I always forget what the name of his group is because it changes, but conflict, security and development, sorry, Joel. So I'm delighted to have them here today.

So as I said, I think that when one works in fragile states you have this confluence of the links between politics and development in a way that really is more acute and is crystalized more, perhaps, in situations of conflict than in any other sphere of development. We all know that development in general is an inherently political

process. But here we are explicitly trying to deal with peace building, state building and development all at the same time.

So let me start with Minister Friis Bach and just ask him, from a donor perspective, how do you see the interlinkages between these issues which historically have been treated somewhat separately, first saying we should have peace building and state building and then turning over to inclusive growth and development. And I think that now there's the sense that that kind of sequencing really didn't make that much sense. So your thoughts and reactions on that, please.

MINISTER FRIIS BACH: Thank you very much and thank you, Homi, for hosting us and having this discussion. It's most welcome. Now, I guess when I first understood these linkages was I think it was actually a decisive moment. I went to Yei in South Sudan. We drove up from Kampala 15 years ago long before I became a Minister. And I remember we went into Yei and it was a time of a ceasefire and little bit of hope of a fragile security coming along.

And then we went into the market in Yei and there there were kind of, I remember it as hundreds of young men just standing there, playing a bit of soccer, going around restlessly and discussing what to do. And I remember we had this conversation on here, this is the biggest risk that we have. All these young men standing here, absolutely nothing to do, it's also the biggest opportunity we have. Can we turn this into work, growth? We can build a country.

And that's basically what it's all about, having an opportunity to get decent employment coming out of conflict and fragility. That's what people hope for and that's what going to create peace and security in the longer run. And that's why we need to move much faster in to exactly this creating jobs and opportunities. And it is extremely difficult but it can be done.

I was in Hageza last year and in Somaliland and even in the most fragile

times they were still shipping out three million livestock to the Gulf States from Somalia, Somaliland. And now we have moved in quickly and trying to set up a vet school and get these animals, the livestock, vaccinated. That's everything for these people. You know, they can survive, they can increase their earnings, it can create jobs, opportunities, a little bit of hope.

We try now hard in Afghanistan, move in and work in value change in the agricultural sector to make sure that the agriculture in Afghanistan can become the source of growth, opportunity, jobs as well. And it's difficult but it can be done. Last time I was in Afghanistan I personally carried out a lot of pomegranates from Afghanistan back to Denmark because I think pomegranates is one of the most beautiful and also very sane products of Afghanistan. And could we bring those to the world market? You know, create jobs, opportunities?

So we have to do this. It's very difficult. The IFC that we were partly financing told us it can be done. Regulation is coming that can facilitate business opportunities, starting private companies and even fragile situations, it can be done. So there are opportunities out there and we can engage in building employment opportunities much quicker than perhaps we have thought before.

In doing so, we must be much better at sharing risk, analyzing risk, insuring against risks. We are trying our best now to see whether we can develop new tools, also within our business sector development tools that can be better at doing this. Saying to private companies, also international companies if you enter into Somalia or South Sudan or Afghanistan, we will help you by sharing some of the risk, insuring you against some of the risk, working with local authorities to develop an enabling environment in which you can operate. But we must do this much better than we have done before.

Next thing, of course, then we must be able, and that's part of the second

question. One is growth. The other one is inclusive growth. And that's what also the new deal is all about, right? It's about also getting revenue, building taxation systems, making sure that we have transparency and investments and in the exhaustion of natural resources so that we can build a revenue base for the States so that the State can build a social contract with its people in terms of schools and health clinics and roads and water and all of it.

Without that social contact we can just as well give up. So this is definitely a positive circle if we can get it to work, growth, opportunities, jobs, revenue generation by the States and then a social contract in terms of concrete deliverables to each and every family in Somalia, in Afghanistan, in South Sudan, wherever it is in terms of reaching out and showing that the State is there and the State can deliver. That's what the new deal is all about. And I believe with the leadership of G7 plus and Emilia we've come a long way in being much deepening our understanding on how security, development, growth, jobs, all of it comes together. Thank you.

MR. KHARAS: Thank you, thank you. So, Ms. Peres, as part of the new deal process you decided to launch a series of pilots. I mean, yes, we hear all these nice words about how things can be done and we'll do it differently. You're actually trying to pilot how that is being done differently in practice. So tell us a bit, is it working? Can it actually be done? Is it that easy?

MINISTER PERES: Yes. I think it is working in the sense that when was it? December, just December I went to Somalia and they've never even heard of it. They were struggling, trying to do their bit and now they just launched their new deal a month ago. And managed to bring all the three parts of Somalia together and plus all the development partners, civil society, all the actors together and came up with a compact to address some of the main activities that they believe are important for them. And donors in there also pledged, if I'm not mistaken, over \$2.4 billion. So if Somalia, now, they've

got something to work together.

And apart from Somalia, there are other countries that have already implemented like ours, Liberia and Sierra Leone, but South Sudan has actually done so much consultation. Something that, you know, they're just new country. These things are difficult to do. So they are taking bits and pieces of the elements of the new deal, for example, one of the elements is Fokker's, the principle. We have to do our own fragility assessment.

And that means we have to go out there and consult. And it puts the leadership or puts the country leading the whole process and the development partners supporting. And that is already happening in some of these countries. Before it wasn't happening.

I still have conversations, we have multilaterals going to your country and they do the assessment for you, about you and then you know nothing about. And therefore, how are you going to get ownership? How are you going to lead this process? How are you going to say that this program that has been designed is actually addressing your problem? Because you are not a part in identifying that problem.

So this is critical actually, very important.

MR. KHARAS: So tell us a little bit more. So you've got these processes now, you've got the fragility assessments, you've got compacts which are different. You've got indicators. Tell us about how does that change the politics in your country?

MINISTER PERES: Well, (inaudible) last we did an evaluation on since 2007 to now and then we looked at the measures we took. And then it was very much aligned with many of the new deal activities like what did we do? We did inclusive politics, meaning what? Meaning a lot of dialogue, a lot of talking, creating space for everybody to have a say.

And we addressed security which often are separated from the

development part of it. Institutions, some of the institutions don't even go near security because they say it's nothing to do with them. But as a government, for us, it is -- we have to look at in a holistic way. And so, in the new deal we say that has to be addressed and we did that. And then when we addressed that automatically the other things start happening.

We also, some sort of justice, another issue that very often stands alone. Different actors go there and don't mix with the others. So, in my country, for example, we addressed the issues of the rebel, addressed the issues of the petitioners. These are the guys that kind of walked out from the army and were a threat to the nation's stability. Once we addressed it, immediately we were able to address the refugees, 150,000 people that we needed to help them put them back in their original place.

And then once we addressed them immediately this embryonic private sector came into being. Started to invest in the country, therefore creating the jobs because bottom line is if you want sustainable development it has to be the private sector. It cannot be the government. But you need to create the conditions and the new deal has all these things in there. And we've done that to that point.

Now, we're actually now going into the next level. It's not just a matter of creating jobs for people but do the people have the skills to actually perform those jobs that are being created by the market? Or even, you know, by the private sector? So we are going now to the next phase.

And the good thing about the new deal is it also puts us together with our partners on the table to address these problems. Before this was not happening. Before the OACD actually, thought about, okay, my aid has not been effective, how shall I fix it? Now, they have us to tell them why we think it's not effective. And then we also try to understand them. Why do they behave that way? Can it be changed? Can we also change our ways?

So there is a very much frank, honest discussions about it. There is, I think, we've built a lot of trust in there. At the beginning I remember my colleague here may say but we were not very outspoken in our meetings. But now we don't let go of the microphone.

MR. KHARAS: I can't imagine. I can't imagine you not being outspoken in a meeting, Minister. Minister Konneh, I mean, you know, you've had now many years of actually double digit growth and that double digit growth is at least in part led by the private sector. Tell us a bit what's made this possible. How have you been able to sustain this and how can you sustain it and then how do you make sure that it's inclusive?

MINISTER KONNEH: Thank you very much, Homi. Let me also join you to thank Ministers Bach and Peres for their leadership on this peace building and state building agenda that we are pushing and to particularly thank Minister Peres for her leadership of our block, the G7 group.

Really the, as you know Liberia this year celebrated 10 years of peace. This is a milestone for us given the nature of our civil conflict. To understand Liberia you need to understand the history. It's a country that experienced serious economic decline and outright collapse for more than 30 years. That's what we are trying to reverse.

You know, we registered one of the largest collapses in growth economics. More than 90 percent of collapse. So that's what we are grappling with. So to answer Homi's question directly, we have grown at an average rate of around seven percent since 2004 when our conflict ended. This reflected the peace dividend. But despite this growth our agenda for transformation, our five year development agenda recognizes that the drawback from this rapid growth is the limited number of jobs that the economy is creating because the focus has been to resuscitate the traditional sectors of growth, particularly mining, agriculture, mainly forestry.

And we've done that successfully to a large extent. But these sectors as you know traditionally don't create jobs rapidly. And so, this is where we have to sort of tailor our second poverty reduction strategy to remove some of the key infrastructure constraints in the economy. Today Liberia has the highest energy tariff in the world at 54 cents per kilowatt hour. Why? Because our hydro that provided cheap electricity before the war was destroyed.

And so, we have gone from zero megawatts of power to 23 megawatts of power now. But the small electricity that we have is produced by high-speed diesel generators. That's the reason for that. So inclusive growth really is difficult in such an environment because the cost of doing business for small businesses, et cetera is high.

And so, that is why our agenda for transformation is now focused on investing in removing the major binding constraint to our growth which is infrastructure, particularly energy. So we've worked together within the context of the new deal which is intended to support country's development strategies to raise resources for the hydro which we have done successfully with the support of the European investment bank, Norway and KFW of Germany. Plus we have taken the hard decision to sort of, you know, cut the current expenditures in our budget and shift the savings toward this project as government's contribution to the tune of \$45-50 million.

We are doing this because there has to be mutuality here. Even though we need that money to invest in education, in health care, in reconciliation, in other soft issues, that can lead to conflict but we need to fix the structural issues in the economy that will accelerate job creation because now Liberians really don't care much anymore about the recurrence of violence. They're not running anymore from bullets. They are concerned about the bread and butter issues and quality education for their children, good healthcare for them.

This brings me to the issue of natural resources. The mining sector in

Liberia is expected to be an important source of strong growth and revenue generation. But also the known mining sector we see particularly construction and services are picking up and they will be crucial to achieving broad-base, inclusive and sustainable growth.

We have iron ore, we have rubber, we have timber and these dominate our exports. Oil is on the horizon. We haven't discovered oil yet but all of the signs we see lead to that. When that happens, that's going to be very crucial as well. Palm oil production is on the increase in Liberia. But the management of the rents from these resources has come under scrutiny in the past year in Liberia. And that is why we are now taking a holistic approach, look at this in terms of bringing all of this together.

Should we strike oil, we don't want to suffer from Dutch disease. So we have looked at the Timor lesson model. We are looking at the Ghanaian model. We are looking at the Botswana model for natural resource management because for us we have various natural resources, two categories.

One, for iron ore, for timber, we need to worry about the volatility in world prices and how that could affect Liberia. For oil, should we strike it, we are concerned about depletion. What do we do before we deplete it? And so, we are looking at all of these models that are in play today to see if we can develop a unique Liberian model that can help us to manage this as well.

MR. KHARAS: So let me just push you. You've got resources coming from a range of natural resources from donors, et cetera but in a country like yours, you need money for everything. And you said we've got some sectors which drive growth but other sectors we need to develop in order to make sure there are jobs. What's your approach to prioritization? Everybody talks about prioritization but do you try to do a little bit of everything to keep things moving at a balanced way? Or do you try to really focus your resources in one particular area and hope that you solve that and sort of take

problems and issues more in sequence?

MINISTER KONNEH: Well, you know, there are many issues and many recipes. In the first term of President Sirleaf's administration we rule out the poverty reduction strategy. The goal for that was to do everything to try to build public confidence in their government's ability to provide services.

So we focus on enhancing security for the people which was a big problem. By dismantling the old security architecture and building a new one that the public could trust. And then we focused on revitalizing the economy, like I said to resuscitate the traditional engines of growth. Right now in Liberia growing at between seven to twelve percentage points every year we are precisely where we were before the war in seven years.

So we need now to transform, to diversify and this is where choices come in. At this point we need to be focused. We've done a growth diagnostic on Liberia and the binding constraint is infrastructure. And within the infrastructure we have two key elements, energy and the roads. And that is why we are moving most of our resources to address these binding constraints because they have spillover effects for the other sector. Without good roads you can't have farmers move their crops to market. Without good roads it's difficult to move sick people to the clinics, et cetera. So we are now targeting our, I mean, directing our resources to these targeted areas as well.

In the context of the new deal as you know we are a pilot country with Sweden and the United States. We have done our own fragility assessment. We've discussed it inside the government. We are now waiting for a joint meeting between the government, the donors and civil society after the annual meeting to endorse that and then lead to the compact.

But before that, we are concerned about two things. One, mutual accountability between us and the donors and then two, the use of the country's systems.

I would like to see a lot of donor money come on my budget. And that is why I am advocating that. We have done a lot of public financial reforms in the past seven to eight years. We've rolled out an integrated financial management system that brings revenue collected, expenditure collected together.

We are now working to link procurement systems to that system. We have successfully rolled out the human resource piece for the public sector to that system. We are doing our part. So now, we are closing the pipes. You know, we ask our donors to test the pipes. Put the water there and see if it leaks. If it leaks then we fix it.

So, what we have done is to go beyond that and launch the open budget initiative in Liberia. The citizens guide to the budget where we print the budget and send it to the entire country so if a community has a school that would be built through that money in the budget, they should hold their public officials accountable. We've also rolled out the aid management platform which now requires donors to put their aid data in that system so that we can do proper alignment and do planning around resources and hold each one accountable.

And hopefully, with the new deal we can accomplish that and Liberia's budget is small. The donors bring more resources than the budget. So all of this in the context of the new deal I believe will help us accelerate the implementation on our development agenda.

MR. KHARAS: So Minister Friis Bach, let me just come back to you. We've heard that there are very specific issues in countries like Liberia and Timor-Leste but they're doing a lot. How do we use international processes to also try to advance this agenda? So, for example, there's much talk about the post-2015 development agenda. Do you see that as complementary to the new deal? Can we use that as a way of getting more use of country systems for channeling aid?

MINISTER FRIIS BACH: Well, let me first just reply to Minister Konneh. Because I think he's absolutely right. And the fascinating thing or distressing thing is when we sit in the international dialogue on peace building and state building and take a tour de table, what have countries done? The pressure is on us. The pressure is on partner countries because we are not delivering.

We are still in a project treatise mode. We are still delivering outside government systems. We are not doing it in a coordinated cooperative way. We are not doing it on budget as we should. In Afghanistan we've come a bit of the way building a financing mechanism. The Danish support to Afghanistan, more than 50 percent of it is on budget now. True state institutions, 80 percent is aligned.

But in so many other countries, we haven't managed to build these mechanisms that can really support the new deal. And it is exactly as the Minister says it. It's mutual accountability. The pressure is on both sides and we must deliver.

I hope we will get it right in Somalia. We did the compact. Now, we are building the financing mechanism. We have an initial one, the special financing facility where we already now pay out salaries to government officials in Mogadishu and want to build a stronger financing mechanism in support of government priorities, true government institutions or at least in close cooperation with them. But many countries are hesitating to bring in their financing into those joint mechanisms. And if we don't do it, we're going to fail on the new deal. This is about state building and peace building.

You cannot say it in a more precise way. And if we don't do one, we won't get the other. So I can only reply, put up the pressure because definitely there's a lot to do. Can we build this mechanism into the post-2015 agenda? Yes, we can. And Emilia and I, we have been traveling around with this wish and urge and Emilia have done a brilliant job in bringing it into the high level panel's report where we do have security peace in the proposal for a post-2015 agenda. It is in the outcome document we

got at this year's UN general assembly from the dialogue we had on the post-2015 framework. It is there. Peace and security is in.

And it has to be in. Without peace, no security. Without security, no peace. It has to be part of our new post-2015 agenda. And also to be frank and slightly critical, because we cannot leave it to the Security Council alone and look around the world and that's exactly, unfortunately what we see.

So it has to be there. And I believe it will be there. And that will become supportive of the vision of the G7 plus and the leadership that they show.

MR. KHARAS: Great, thank you. So, let me turn and bring the practitioners into this discussion and President Tanaka, I'd like to start with you. First, almost a challenge saying that donors haven't delivered their part and you lead one of the largest development agencies. And you've obviously had long experiences on working in these kinds of conditions. Tell us a bit what have you learned and do you agree that donors haven't really delivered and can do much more?

PRESIDENT TANAKA: Well, thank you very much. Donors I think have been struggling and I think a part of the reason is because the intrinsic difficult of fragility. For example, Japan or JICA increased assistance to fragile states over the past decade and a proportion of aid to fragile states, you know, grant aid program increased from about 15 percent 10 years ago to now 40 percent.

And so, our efforts have increased. But then whether that worked or not that's hard to measure. Firstly, it's because as I realize fragility or overcoming fragility is really a multidimensional thing. In order to overcome fragility you might require a military operations or peacekeeping operations, diplomacy, humanitarian assistance, developmental assistance or leadership of the people or the will of the people.

And all these multidimensional things coalesce if overcoming fragility is to be achieved. And so, I think for example, if you look at the situation in Afghanistan, a

huge amount of assistance has been given to that country. And Japan and JICA has been constructing roads and constructing hospitals and agriculture systems and helping urban planning, airport terminal, all these things we have done.

But the ultimate success of Afghanistan overcoming fragility may depend on the management ways of drawdown or the result of the next presidential election or the government's negotiation with the Taliban. So as implementing agency of international development assistance, we'll do our best but then overcoming fragility has intrinsic challenges.

And if you look at South Sudan, South Sudan seems moving toward the right direction. Mainly probably because of the successful negotiations with Sudan of allowing the flow of oil to the Port Sudan to the Red Sea and the trade between Sudan and South Sudan would be the critical elements for the coming health of South Sudan.

So I think there are dimensions other than what a development agency can do. But then as far as our activities are concerned, some of the things that we have learned includes several things. First, I think if the country is really conflict affected, I think rehabilitation, reconstruction of destroyed infrastructure is really crucial as something that you have to do.

When we came to South Sudan what we did first is to restore a river port in Juba. And then reconstruct bridges destroyed in the city of Juba. I think unless people can move around there should be no hope of reconstruction. And then something that we emphasize is job creation in the immediate period of reconstruction of these buildings.

So creating vocational training programs and then we need to be quite flexible when we design vocational training because the demands of training shift as the phases move. So first, I think in our case we started training construction workers, carpentry or maintenance of automobiles. But then soon the demands shift and then we need to train, for example, hotel staff or electricians or repairing air conditioners.

So we need to be flexible and then also I think for the purpose of job creations when we do public works type works I think there may be some different opinions but what's called the labor based methods are quite important because that could create jobs for the neighboring communities.

And then also in many areas of in the case of fragility there are sometimes cases of refugees, internally displaced persons. And those camps exist. And humanitarian aid goes there. What I think we need to do as a development agency is to support the host communities because host communities bear the huge burden by the influx of refugees and IDPs. And then oftentimes the attention of international community goes to the refugees and IDPs with lots of humanitarian assistance without paying much attention to host communities. And so, I think what we need to do is to help host communities.

And then finally, I think commitment of the leaders of the country in the long term. We can do all these fast delivery activities of bridge repair and pavement of roads in the capital city but then the leader has to have a long term plan of development.

MR. KHARAS: Thank you. Sarah Cliffe, Sarah, you really brought these issues to the forefront in an analytical framework in 2011 and identified these three areas of justice, jobs and security as places where the gaps in knowledge and practice were perhaps biggest between what was being done and what needed to be done. So here we are two years on from that. Tell us, have the gaps narrowed? In which areas? Is it going pretty much according to what you would have hoped?

MS. CLIFFE: I think that a lot has been done on security and justice. So this is front and center in the Somalia compact that was just published. As Minister Konneh mentioned, Liberia's security and justice strategy was one of the first efforts to address this very centrally as part of the country's development program and having it as part of development I think is absolutely crucial.

On the international side, things have moved in that area, too. The UN has brought its very previously dispersed capacities that supported peace, justice and corrections which used to be separated between peacekeeping and the UN development program and human rights all into the same place so that those staff can work together to support governments who want to make progress in strengthening security and justice institutions.

The World Bank has been doing more public expenditure work in the security and justice sectors. I know it had worked in Liberia with Minister Konneh's staff on that area. And the African Development Bank is looking at this in its new fragile states approach.

Where I think we have much more of a challenge now is on jobs. So on jobs I think we need to be more creative about job creation. And I was just going to raise just three ideas here. The first is on transport infrastructure which Minister Konneh already spoke about. And transport infrastructure between countries is very important to a lot of fragile states. The Minister spoke already about infrastructure investments within the country so I won't add to that.

But it's important between countries because most markets in fragile states are too small on their own to provide for the country's own engine of growth. They need to be able to get products out and imports in. The problem with transport infrastructure is that it needs multi-country agreements to be effective. Because if you build a great road up to your border but your neighboring country has a very poor road, the overall time it takes to transport goods is still very long.

So one idea I think we should be exploring more here and this is really a development bank's area to explore is multi-country agreements where we use some commitment mechanisms to make sure that countries stick to their commitments to put in place infrastructure which depends on several governments' political action at the same

time.

The second is on supporting private sector development within countries that are coming out of conflict. And here I think we know that because whole sways of economic activities are missing, again as we heard in Liberia after 30 years of conflict you have whole domains of economic activity that exist in other countries which are just not there. It's very difficult to just set up the regulatory environment and expect that the private sector will come because they don't have information on what returns are available. They don't have companies that have gone before them that are already working in this area.

So here I think we need to encourage more of a pioneer entrepreneurship sort of approach where we look at much more use of political risk guarantees, we look at different ways of subsidizing lines of credit particularly for companies who are going as the first movers into new economic sectors in those environments.

And last I think we need to help with the areas of skills and work behaviors. And this is an area that I've discussed a great deal with Minister Peres in the past that after years of conflict and isolation there is often a generation that have not had regular work and has not been able to develop not only the skills but also just the behaviors that are accustomed to holding down a regular job.

So here I think the kind of investment that President Tanaka spoke about in terms of vocational training is very important. I really think that JICA should be congratulated for having stayed so engaged in that area because it hasn't always in the last 15 years been the most fashionable area to engage in. But really economies coming out of this kind of situation do need electricians, plumbers, hotel workers, restaurant workers and so forth.

We also I think can be more creative about programs which give

opportunities but also reward changes in behavior among the youth and the unemployed. So I recently saw, for instance, a program that UNDP had been supporting in Burundi and Yemen which did labor intensive works like many programs in post-conflict countries. But rather than just giving temporary jobs it also had a mandatory savings element. And then it matched the savings of the young people who were working on the program by a further credit which allowed them to start a small enterprise when they came to the end of the program design.

I think it's that kind of thing that we need to think about to help encourage societies where people are trying to move from a very long legacy of lack of legal opportunity to understand the kind of opportunities and the hope that can be there in future.

MR. KHARAS: Thank you. So, Joel, let me bring you in there because the World Bank in its new report on Africa, Africa Pulse, had some projections and forecasts of poverty and particularly of what might be achieved by 2030. And in that even though there is the World Bank goal of ending poverty by 2030, I was surprised to see a number of fragile states like Madagascar and DRC and Burundi, CAR, et cetera that still had in the optimistic scenario poverty rates incidents of over 70 percent.

So what are you thinking about, what can be done differently in those countries to actually bring down poverty to well, to end it as we are putting on the table as one of the goals for 2030?

MR. HELLMAN: Sure, thanks, Homi that's an easy question --

MR. KHARAS: That's the easy one.

MR. HELLMAN: -- to answer. And there is of course no simple answer because the poverty reduction strategy, broadly speaking, for each country is going to be very, very different depending on what the specific drivers of poverty reduction can be in that country. What are the specific drivers of fragility in those countries? And what are

the specific drivers of conflict?

So the key in terms of thinking about what can be done, first of all, is to help identify what those strategic drivers are in each country. And as you heard here from the Ministers increasingly that's being done by very, very strong national programs for identifying this going forward. And the role that we can play is what kind of resources can we bring in support of those programs and through those programs, through the country systems in which they're designed to implement those programs?

But if you look and look at the poverty trends going forward and you think about the new World Bank's sort of commitment as a corporate goal to ending extreme poverty, you do recognize the need to start being out in front of where the trends in poverty are going rather than where they have been. Right now, the 34 countries that we classify as fragile and conflicted states make up only about 18 percent of the world's extreme poor.

Your own research, Homi, as you know and others sort of suggests that those numbers are going to change radically by 2020, by 2030. So that the dominant share of the world's poor could live in fragile and conflicted states as we go forward. So we need to thinking sort of if we're really trying to, what our president says is bend the arc of history, the arc is already going in the right direction in the big, middle income countries that are reducing poverty at rapid rate. The problem is the flat-lining of poverty reduction in the fragile and conflict affected states.

Now, I think that we need a few things in order to sort of support this and I think many of them already came. First of all, it's the resources. Now, I know as was just said there are cases, of course, that we could look at like Afghanistan where tremendous resources have been spent but the ultimate effects and impacts have been limited. But if I look at the whole group of fragile and conflict affected states, the 34 that we identify, there are very few countries that are getting the kind of massive inflow of

resources that we see in the few politically high profile fragile states that the world normally thinks about when it thinks of fragile states.

In most cases, especially from the multilaterals, this is not the case from the bilaterals but from the multilaterals the fragile and conflict affected states are getting less funding than their levels of poverty would normally entail them to get. One of the reasons is because for the last 10, 15 years we have been tying our aid allocations to governance indicators. And these countries are, by definition, have some of the strongest governance problems that we face globally.

As a result there are less resources going in some of the countries relative to the poverty needs that they face. And if you look, the IMF just put an important report this year just a couple of weeks ago looking at their low income country trends, and again they look at the financing needs that are likely to result to different changes in the external environment. And again their view is that the needs that are going to go for fragile states relative to the inflows of aid are going to be much greater. So we've still a very significant gap in resources.

MR. KHARAS: So you think that the absorptive capacity of fragile states is much larger and the constraint is on the supply of resources rather than on the absorptive capacity side?

MR. HELLMAN: Of course, every case is going to be different but --

MR. KHARAS: In general.

MR. HELLMAN: -- in general I'll give you, it's interesting because we always hear the case that well, look, maybe these states can't absorb. And if they do and if we bring more resources, we risk the kind of results that the aid community is looking for.

We've been looking at our own portfolio, the World Bank's own portfolio. 10 years ago there was a huge gap between the performance of aid projects from the

World Bank in fragile states versus non-fragile states, a very, very large gap. Over the course of the last especially five years, precisely because of the sort of strong national programs that we're sort of seeing coming out from G7 plus members, that performance gap has essentially been eliminated.

In fact, for the last three years, surprisingly, the fragile states portfolio for the World Bank has been outperforming the non-fragile states portfolio in terms of results. So you can -- countries are getting results with their projects. They are achieving results with their projects and the suggestion is that there is room for more.

Now, maybe we don't know exactly how much more. We don't know how much might strain that capacity.

MR. KHARAS: And in this new World Bank strategy that has just been announced, is there going to be more emphasis on fragile states? We've heard that fragile states is being mainstreamed. Sometimes that means, yes, this agenda is going to permeate everywhere. Sometimes it means in bureaucratic language, let's forget about it and go back to business as usual.

MR. HELLMAN: Well, it means two things I think. First, we are going to our IDA deputies with a plan for significant increase in funding to fragile states. We recognize the changes in the performance of the portfolio and the potential needs that we can address through IDA. So first, as part of that new strategy and as part of recognizing where the poverty trends are going we want to sort of shift allocation of resources to bring it up to the levels that are required to really make a significant shift in poverty reduction.

Second, and you asked about the mainstreaming. The question is not necessarily about internal organization in the World Bank. There's a principle and important issue here about how we do our work in fragile and conflict affected states. Right now I am concerned that there is a group of people who are committed to the issues of ending conflict, dealing with fragility, specialists in these areas. And they have

learned the lessons of the G7 plus. They have learned the lessons of the world development report 2011. There's an excitement and an interest among that community.

But then you go into where the work is actually done in the health sector, in the education sector, in the road building sector and too often, I'm sorry to say, that the projects that we do in those sectors, they don't look any different than the projects we've been doing, we might have done in Brazil and Turkey and Indonesia.

And what the G7 plus has been telling us is in an environment of weak institutions, in an environment of insecurity, in an environment where political economy risks are really critical and essential, in an environment where the results take a very long time to show up, we need to work differently. We need to design the projects differently. We need to implement the projects differently. And I have to say that that's not happening.

MR. KHARAS: So we've got to get the word out a little bit more to the sectors?

MR. HELLMAN: We've got to be working with each one of the sectors. So that's where that mainstream agenda comes in and we think it's critical.

MR. KHARAS: Okay. So President Tanaka, let me come back to you because we've got an opportunity now in Myanmar, in Burma. Here's a country, fragile state, we're starting from scratch. I think you've just been there recently. Do you think that donors along with the country are going to do things significantly differently and significantly better in all these regards? Or are you worried that we might have a similar experience with Afghanistan, lots of money pouring in, lots of donors tripping over each other, how do you see it?

PRESIDENT TANAKA: Well, I think situations differ from country to country. And the challenge that Myanmar faces is significantly different from the challenge that Afghanistan faces. And I've been there several times and actually I went

there last week.

But I think Myanmar has a country of great potentiality and it's currently under the transitory period from the military rule to a full-fledged democracy. But the coming two years is quite critical in the sense that the institutions democracy has to take root until the presidential election in 2015.

In terms of the economic development prospect the major infrastructure has been worn out and it is in need of rehabilitation greatly. And then, with the increasing number of donor communities coming to Myanmar and then also the interest of the private sector coming, the sort of absorptive capacity of the country is a challenge again.

But then in my experience the quality of -- there are many talented people in Myanmar but then there are a generation of population that haven't had enough experiences in the democratic governance. And so, we need to come up with that.

And then also, the country has complex issues of minorities. There are lots of minorities around the border areas and then also there is a severe issues of Muslim population. And so, there is a need of reconciliation.

But then I think a good thing about Myanmar is that the country is not in the state of civil war with serious large scale violence. And so, as long as the peace is maintained there are great chances of opportunity and there are many areas that the international community can cooperate to help the government to provide necessary public goods there.

MR. KHARAS: Wonderful. Okay, so you've all been very patient. I think it's been a wonderful panel of discussion, lots of different points of view. Let's open it up. We've got about 20 minutes for Q and A before we close at 2:30. Gentleman at the back. We have roving microphones so please keep questions short, introduce yourself and if there's a specific panel member that you'd like to ask the question to, mention them by name.

MR. ALPHER: Thank you. My name is David Alpher. I'm with Saferworld and I think this question is primarily for --

MR. KHARAS: Would you like to stand?

MR. ALPHER: Sorry.

MR. KHARAS: That's okay.

MR. ALPHER: This question is primarily for Mr. Hellman but I think for the entirety of the panel as well. I wonder if you could expand on how the bank and the institutions represented here are looking to expand the point of view on program implementation and how we're changing this, how we're altering the policies. One of the things that I hear here is that in order to really integrate conflict fragility governance into the kind of frameworks that we're talking about, we need social lenses, we need political lenses, we need qualitative lenses. And the frameworks in which this has been discussed are highly econometric ones. And I wonder if you could talk about how you're working to integrate those two points of view and where that contributes to a breakdown in the implementation of new kinds of programming.

MR. KHARAS: Thank you. Let's take a few. There's a lady on the side here.

MS. CHAMBERLAIN: Thank you. Rebecca Chamberlain from the World Bank. I work on the conflict and fragility team in ECA, Europe and Central Asia. So my question is as was noted by Joel Hellman that different fragile states have different drivers of conflict, so then does that necessitate when it comes to private sector development different approaches? Can any of you comment on different trends? I'm actually researching this right now whether or not you start with say investment climate, the regulations or depending on if there are different drivers in a fragile state, you start with other private sector development approaches. Thank you.

MR. KHARAS: Thank you and if you can just pass the microphone to

the gentleman behind you.

MR. PHYLER: Neil Phylar, Princeton University. We've heard a little bit about how credible commitment from governments is necessary for donors and international organizations to do their work and the importance of trust between donor countries or donor organizations and recipient countries. But in fragile states there's also a lot of effort usually put in to building democracy, building a kind of vibrant democracy. And I wanted to ask the panel maybe one from an international organization and one person from a fragile state to ask, I wanted to ask is there any conflict between these objectives? Because presumably in a vibrant democracy, you're more likely to have a change in government which makes it more difficult for there to be credible commitment and for trust to be built.

MR. KHARAS: Thank you. Gentleman in the middle here.

MR. ASMANI: Thank you very much. Brohol Asmani from SAIS John Hopkins and I had the pleasure of working with the G7 plus international dialogue for the last two years. I am from Afghanistan myself. My question is on again the sequencing of efforts for fragile countries growth, economic activities versus security and peace. If you look at Afghanistan's situation if we implement this framework we still are in war and similar situation in Somalia. If we want infrastructure projects, the roads still no one can go there because of influence of insurgents and Talibans are there.

If you look at the agricultural sector, the farmers cannot freely go and work. So how you balance growth and security in some of these fragile countries? The second part is again on the donor side, the political will and commitment on implementation of the new deal and the countries. We discussed about 50 percent of resources through government in Afghanistan actually we have not achieved that yet. So we have very good agreements and the international meetings including the G7 plus and international dialogue, but how when you go to the country level, how you ensure and

monitor the implementation of these commitments especially using the country systems, how you bring these donors around one table to agree at that and how to implement it, that has still been a challenge at the country level with these two (inaudible) were. Thank you.

MR. KHARAS: Thank you. So let me move. I'll try to allocate the questions to the panel perhaps a bit. Let's start with the question on programming. Do we have the right level of skills? Is it too heavily dominated by economics and do we need some broader skills? And maybe because now programming is being done both by institutions and by the country we should have one from each. So maybe Minister Konneh, do you want to start by saying when you do your programming, is it too much economics dominated? Of course, coming from the Finance Ministry you may have a particular perspective on this. And then I'll pose the same question to Joel.

MINISTER KONNEH: Thank you. I think we work with our donors separately first and then we bring them together. The way we did our programming in Liberia was through this long consultation process across the country to understand what the priorities were in terms of the true needs of the people on one hand. On the other hand we have to do the quantitative side of it that we are calling the hardware of reconstruction, removing the binding constraints to grow which we have identified to be infrastructure, private sector development, et cetera.

Some donors put resources in the human development sector, health, education, et cetera. And there are other donors like the bank, the African Development Bank, the European Union that we work with to finance our infrastructure need. We need about \$3.2 billion for this five year agenda to do all the things that I'm talking about. We can contribute about a billion dollars to our budget, the resources raised domestically over the period of the plan.

So we enter into an agreement. The government communicates to, for

example, the bank that okay, we would like for 80 percent of the resources coming through our IDA allocation to be invested in transport infrastructure. Then we go to the EU and say we need about 60 percent of the resources coming from you to energy infrastructure and the remaining 40 percent towards governance institutions, towards security. And USAID we try to limit them in the human development sector, education and health to complement what we do in the budget. So we negotiate these with our partners so that we can finance the priorities in ways that we can deliver on these key development initiatives in our program.

MR. KHARAS: Thank you. Joel? Changes in the Bank's programming?

MR. HELLMAN: Yes, thank you. And it's a very, very important question that you raise on implementation because I think that this is the key that really differentiates working in fragile situations versus working elsewhere. It's that the skills that you need to bring into the day to day decision-making of implementation of a project are really much broader than we normally do and require, I think, a very different way of working.

Now, is it more economics, less economics? I don't know if that's necessarily the issue. I'm a political scientist which annoyed Homi very much when I worked with him as my boss at the World Bank. There are political scientists at the World Bank. There are anthropologists and sociologists at the World Bank.

MR. KHARAS: And we had to take them into account. It was a real nuisance.

MR. HELLMAN: The economists occasionally tolerate us especially in the fragile states. But it's really not a question necessarily of changing radically the skillset of the World Bank either and saying let's just open the floodgates and bring in the political scientists and the anthropologists. It's actually and I think you were getting at it yourself, it's the partnerships that you bring working in the implementation of projects.

And I think that's the key difference between working in fragile and conflict environments.

The need for partnerships. It's not a luxury, it's an absolute requirement. It gets the question of Brohol Asmani as well, working in insecure environments one has to develop partnerships with those who can maintain the presence on the ground. One has to develop partnerships with security actors, one has to develop partnerships with those who have the political mandate to deal with some of the issues that we can by mandate deal with or engage at least in a political dialogue. And one has to work with implementation actors that are often very different than what we normally have in our skillset.

So it requires a new approach to partnerships which is not easy for any institution, any large institution, which is so inward looking, has its own rules, timing, frameworks and so forth to reach out to the other partners. So I think what we're doing most is our fragile states work is trying to build those partnerships. Often on the ground that come out of those who are doing the work and who we can see possibilities to engage with and bring the lenses that you are talking about. And I think that's critical for how we go forward.

MR. KHARAS: Thank you. Minister Peres, I'm going to ask you and President Tanaka to pick up the questions on private investment, its sequencing, how you do it unless you want to answer a different question which you're welcome to do or both.

MINISTER PERES: Actually, I just wanted to give an example of the issue that they were just talking about. You need the security, the political, the economists and all these guys coming together. Really you cannot do it in any other way. So I think the word there is you have to be really flexible. One moment it's more political, the next moment it's more social.

I went through this in Timor-Leste. I want to give an example. When I

was going very fast with my ministry and I wanted to implement all these nice things that I learned, for example, I wanted to do the pooling of the cars just a very simple thing, you know. I didn't want all the staff taking the cars and each one with their own little car as if it was their own personal car and I wanted to do the pooling. Cars is for everybody. So I issued an extraction and of course the bullies underneath were bullying the good guys.

And so, the report comes back and I go well, fire him. But we just couldn't do it because we were in this political environment that we didn't. So I said, well, get the police to do it. And they couldn't get the police. So I went to the Prime Minister and said Prime Minister, I need the police to come in. He goes, come on, Emilia, let me fix the police first. You're going too fast. Slow it down.

And so, you need to balance all these things to the point where and so that means a very acute knowledge of where you are and a lot of coordination. And this is only within the government let alone when you bring other people from outside. How do they know? There has to be a lot of trust on somebody. And this is why in the new deal we say poll the country at the leadership. Responsibility becomes in the country's leadership. If it goes wrong, the country knows better the problems. And then there has to be some sort of trust. It doesn't work otherwise.

Anyway, so what was the other question? Give it to somebody else, right?

MR. KHARAS: President Tanaka, tell us about the sequencing of actions in order to promote private investment. Is there a common sequencing? Does it always have to be case by case? How do you approach it in JICA?

PRESIDENT TANAKA: Well, in principle I think we have to devise the sequencing as according to the needs and circumstances of the country. But then in a fragile situation introducing politically democratic institutions normally it start as a peacekeeping and then humanitarian assistance and economic development with

institutional development and capacity development of the government so that the private sector could have some trust in operating in that country.

In my understanding there are a lot of overlaps with these activities. And then during that process I think particularly under the democratic transition process, I think what we need to be very sensitive is that the complexity of the society on which the country exists. In many cases there are very, very complex ethnic compositions and among them there may be what we might call the horizontal inequalities.

And then, what we need to be sensitive about as a development agency is to be very sensitive to our activities implication to the advantage of certain ethnic group as opposed to the others. And then if you are really insensitive then there may be a case that our activities could destabilize the situation as the democratic election approaches. So I think there are many, many pitfalls.

But then sometimes the things can work when we have been working in Mindanao in the Philippines. Our staff has been working in areas under the control of MILF as well as the government. And then we provide similar facilities. The vocational training center in MILF controlled areas as well as the government controlled areas. Now, it so happens that the day they somehow agreed to make a truce and hopefully they would like to make an autonomous political entity in two years.

MR. KHARAS: Thank you. Sarah, would you like to take up the question of whether or not there's a tradeoff between strengthening the state and strengthening democracy?

MS. CLIFFE: There's quite a lot of good research about the relationship between democracy and conflict. And this basically shows fairly convincingly that countries that have a wide range of strong democratic institutions and have been democracies for some time have a lower risk of conflict. But young democracies, particularly those that have had elections but don't necessarily have the functioning

justice system, the independence of military from politics, the independence of financial interests can have a higher risk of conflict.

So there is, I think, a big issue which is important of course at the UN in terms of discussions of our support countries in transition about the timing of transitions and what is done first. And just to give a personal view on this, I really think in the international community we have become too hung up on elections as the single benchmark of progress. So we've very focused on when a country's going to hold an election as if that was the mark of them becoming fully democratic.

I think if we compare, for instance, the countries that recently went through transitions in North Africa with the experience of South Africa almost 20 years earlier, South Africa took four years between the unbanning of the African National Congress and the Communist Party and the holding of the 1994 election. And in that four years they built a lot of institutions and a lot of trust in the countries that recently went through transition in North Africa. They went much, much faster to elections. And I think one has to ask whether that is always in fact, a good thing.

MR. KHARAS: Thank you. Minister Friis Bach, people were asking is there really donor will? Can we rely on donors to stay for the long term? We expect results only over very long time horizons. How can we lengthen the time horizons of the international community to support development in these very difficult environments?

MINISTER FRIIS BACH: And how can we change our behavior? And it's very, very difficult and has a lot of political resistance. When I go to my Parliament and say, well, I'd like to do 50 percent of our budget to our Afghanistan as on budget and I would like to send \$3 million to the new government in Somalia, they look on me as if I'm crazy. Are you sending this money to Karsi? Are you submitting this to Somalia where we just have had people being held by pirates?

And so, there's the political resistance to really moving in this direction

and using some of the most risky kind of funding mechanisms that we can think of in very fragile countries. There's a long way from what we said 10 years ago where we said, don't even go there and if you go there don't use the state at all. Go outside the state and anything you do, don't mix security and development. And on all three of these questions we are saying exactly the opposite. We say, engage with the fragile countries because we need to do it. Go through state functions if you can. Build structures that can deliver. And rethink the way you deal with security and development.

And this is a transformation of large size from all of us and from UN organizations where we still have UN thinking in silos, for sure, and have been organized in silos. It's in every government. We have just launched our new stabilization policy in Denmark and there we had to stand together, the Minister of Justice, the Minister of Defense and the Minister of Development and the Minister of Foreign Affairs. We had to work on this together and launch this new stabilization policy. In fact, our countries together, new ways of working, new funding mechanisms that can allow us to build a police force and support farmers in the same village at the same time because we need to do both.

And we are really trying to build these new ways of engaging. And there's a long way before we have done this and there's a lot of resistance in doing so. There are many countries who can't even do budget support and don't even do budget support in well-functioning countries. How can we expect them to engage in building on budget mechanisms in Somalia and Afghanistan? So the pressure is on us. And we have to do a lot of good work.

And I talk about nothing but risk when I go to my Parliament. We talk about risk and risk and risk and risk. The risk of engaging in fragile countries but we have to convince the world that the risk of engaging is smaller than the risk of not engaging because we know the risk of not engaging and we've seen it in Somalia, in

Afghanistan. We've seen it in war and conflict. We've seen the risk of piracy and terror. We've seen refugees and problems spreading to the rest of the world.

And we've first and foremost seen the risk that the people in fragile countries have taken throughout these years. And that's the biggest risk of them all. So we have to be able to explain this in a much more convincing manner if we are to change our behavior.

MR. KHARAS: Well, thank you very much indeed. We've come to the end, I'm sorry, of our allotted time. It's been a wonderfully rich discussion. You clearly heard the politics are very difficult, politics are difficult in the capitals of country that give money, the politics are difficult in bureaucracies that are engaged in this. The politics are difficult in the countries that are trying to implement change and then there are a whole suite of very specific technical issues.

Please join me in thanking our panel for their participation.

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