WORLD BANK GROUP

FIRST's Engagement in Fragile, Conflict, and Violence-Affected Countries

Introduction

Two billion people now live in countries where development outcomes are affected by fragility, conflict, and violence (FCV). Such countries represent a critical development challenge that threatens efforts to end extreme poverty, affecting both low- and middle-income countries. Moreover, the share of the extreme poor living in conflict-affected environments is expected to rise to nearly 50 percent by the year 2030. In this context, forced displacement, refugees, and migration are becoming global issues impacting the development agenda.

The World Bank Group regards FCVs as one of its core themes, particularly relating to the latest International Development Association (IDA) replenishment. IDA 18 doubles the amount of financial support for FCV countries, including refugees and host communities. Likewise, across the organization, there is a renewed commitment to intensifying institutional knowledge about FCV countries. As such, much effort has been placed on designing integrated strategies to address the drivers of fragility, as well as the building blocks of resilience.

FIRST 2.0 and FCVs

The Financial Sector Reform and Strengthening Initiative (FIRST) 2.0 agenda recognizes the need to address FCV challenges. FIRST focuses on building resilient, inclusive financial systems with targeted support for financial sector regulation, institutions, and products and services that promote private-sector-led growth and job creation, including jobs for FCV-affected populations.

The financial sector operating environment in FCV countries is often impacted by political volatility and security risks. These countries typically have weak macroeconomic fundamentals, inadequate legal and regulatory frameworks, and very limited institutional capacity and human capital. FCVs are often characterized by unstable populations and forced displacement and migration, eroding the skilled work force and impeding job creation and growth. Likewise, financial markets can devolve into instability, even becoming nonfunctioning, further constraining sustainable economic growth and job creation.

FIRST 2.0 is reinvigorating its support to FCV countries to rebuild, strengthen, and diversify their respective financial sectors. At the same time, FIRST is carefully assessing its engagement according to specific country contexts. As such, FIRST technical assistance (TA) in FCV countries assumes a graduated approach to reforms in the broader enabling environment. Working with country counterparts in rebuilding financial sector stability, FIRST focuses on rebuilding institutions and human capacity.

FIRST TA is similarly based on supporting the strengthening of the legal, regulatory, and institutional frameworks in FCV countries. It also focuses on the problems of "de-risking" by financial institutions, whereby client accounts perceived as high risk for money laundering or terrorist financing are closed. In this manner, FIRST supports the global Anti-Money Laundering and Combatting the Financing of Terrorism (AML/CFT) agenda. Indeed, FIRST is uniquely placed to support AML-CFT issues by supporting financial integrity as part of financial sector development and stability. FIRST has expanded project eligibility on AML/CFT to include National Risk Assessments of AML/CFT regimes, de-risking issues, and remittances.

FIRST is also paying particular attention to gender and access to finance in FCVs. Microfinance is another focus of FIRST support to FCVs, particularly in the Africa and Middle East regions. For example, FIRST is providing targeted TA to the West Bank and Gaza to support the development of a microfinance sector strategy. Likewise, FIRST is supporting microfinance and financial consumer protection to member countries of the Economic and Monetary Community of Central Africa (CEMAC).

In sum, FIRST is providing critical TA in some of the toughest environments, helping to reduce the risks and drivers of fragility and conflict in the hope of building more resilient, prosperous, and peaceful countries.

FIRST: Exploring FCV Financial Sector Needs in Africa

Seeking a better understanding of the challenges to financial sector development in FCV countries — and searching for innovative solutions — FIRST hosted a conference on "Financial Sector Development in African States Facing Fragile Situations" in Abidjan, Côte d'Ivoire in June 2016. The conference was organized in partnership with the African Development Bank (AfDB), FSD Africa, and Making Finance Work for Africa (MFW4A).

The conference highlighted some of the financial sector development gaps that are particularly problematic in fragile countries. Indeed, the data shows that performance indicators for the financial sector are considerably weaker in countries affected by fragility than in other African countries not so impacted. Importantly, the event presented an opportunity for business leaders and policymakers from the continent and beyond to take a more active role in building inclusive, competitive, and growth-oriented financial markets in Africa.

Côte d'Ivoire: Supporting the Expansion of Financial Inclusion in the Post-Conflict Period

In 2010–2011, Côte d'Ivoire faced a post-electoral crisis, which brought economic activity to a standstill. An estimated 30-50 percent of small and medium enterprises (SMEs) in Abidjan suffered material or financial damage. Financial institutions also experienced physical losses, as well as a deterioration in their loan portfolios. The 2009 Financial Sector Assessment Program (FSAP) identified several recommendations for building a stable and sound financial sector.

FIRST helped the government of Côte d'Ivoire to translate the FSAP recommendations into a comprehensive Financial Sector Development Strategy (FSDS), with a detailed action plan. The Strategy also included complementary analysis of areas that had received limited coverage in the FSAP, namely access to finance, the structure of the banking sector, and insurance and pensions.

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