Opinion – Why Does the World Bank Not Classify Ukraine as 'In Conflict'?

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ELLIOT DOLAN-EVANS, MAY 29 2022

Russia's invasion of Ukraine has caused humanitarian catastrophe and wonton economic destruction. As of the 26th of May, the Office of the UN High Commissioner for Human Rights (OHCHR) recorded 8,691 civilian casualties in the country, with OHCHR believing the real number to be far higher, and military casualties on both sides variously estimated to be between 30,000 to 70,000. Further, Ukraine's economy is predicted to contract by about 45% of GDP this year, with US$60 billion worth of physical damage to infrastructure and buildings, in the context of mounting debt obligations and repayments. Ukrainian economists forecast the economic costs of the war to reach US$600 billion. Despite these figures, the World Bank does not, and has never, classified Ukraine as a 'country in conflict' for the purposes of its 'List of Fragile and Conflict-affected situations' (FCS list). Ukraine has not been classified as 'in conflict' by the Bank during the entirety of the 2022 Russian invasion, nor since the War in Donbas, which has raged since 2014 and claimed over 14,000 lives.

In early March 2022, the Bank approved a supplemental loan of US$489 million to Ukraine and set up a multi-donor trust fund to coordinate bilateral resources, which has since mobilised millions from countries such as Norway, Japan, the United States, and Austria to name a few. A week later, the Bank committed another US$200 million to Ukraine in financing, as it publicly pledged to help raise a US$3 billion package of support for Ukraine in the coming months. The Bank-determined, technical designation of 'country in conflict' is of vital importance, though it has barely been addressed in the literature. For example, more broadly Ukraine is classed as a 'middle-income' country by the World Bank, and as such is only able to borrow from the Bank's 'middle-income' lending arm, the International Bank for Reconstruction and Development (IBRD), rather than the Bank's 'low-income', concessional lending operation, the International Development Association (IDA). If Ukraine was named on the Bank's FCS list, it could access either more flexible financing at favourable maturities as an 'IBRD country', as Ukraine would move from a 'Group B' to 'Group A' country in IBRD lending eligibility, or be re-classified as an IDA country and receive concessional lending and eligibility for debt waivers, which form crucial and urgent demands from Ukrainians.

Not classifying Ukraine as a country in conflict seems to defy all normative perceptions of the violence engulfing the country at present and for the last eight years. This creates obstacles to accessing concessional lending and debt relief, which would provide more effective solutions to Ukraine's economic and humanitarian catastrophe. Rather, most financial institutions will continue to loan Ukraine funds that have at least market-level interest and associated conditions, which may burden the country with even more unsustainable debt. But why is the World Bank not classifying Ukraine as in conflict? This is a question that has not been asked in the mainstream academic or journalistic press, and it is a question that deserves to be posed due to the humanitarian, political and economic impacts of classification.

Since the war in Donbas began in 2014, the World Bank has used two methods to classify countries as 'in conflict'. First, until 2020, the Bank used the Country Policy and Institutional Assessment (CPIA) score and the presence of an international peacekeeping force to classify countries as 'in conflict'. Second, following 2020, the Bank now classifies countries as 'in conflict' when conflict-induced deaths meet or exceed certain thresholds based on data from *both* the Uppsala Conflict Data Program (UCDP) and The Armed Conflict Location & Event Data Project (ACLED). The remainder of this piece dissects both these methods to demonstrate how they are not only inappropriate to classify countries as 'in conflict', but also how the war in Donbas and the current Russian invasion of Ukraine both have met, and meet, the stated methodological thresholds regardless.

First, addressing the pre-2020 methodology for assessing countries as 'in conflict', applicable to the war in Donbas between the Ukrainian Government and 'pro-Russian' separatists. To be on the Bank's FCS list, an assessed country must have a CPIA rating of 3.2 or less (1=low, 6=high). The CPIA rating is not specific for conflict-affected situations, and is, rather, an index established in the 1970s to rate the 'quality' of developing countries' policies and institutional arrangements. The World Bank's independent evaluation group has criticised the use of CPIA to classify countries for the purpose of the FCS list, stating 'the assumption that the CPIA…works equally well for FCS classification has proved to be problematic' and that 'the reliance on CPIA ratings to determine FCS status results in considerable errors of exclusion'. Revealingly, World Bank staff have even been quoted as saying that the CPIA was "never created' to categorise or define 'fragile states' per se'. Finally, and somewhat bafflingly, IBRD countries (inclusive of Ukraine) do not even disclose their CPIA scores, which *prima facie* excluded Ukraine on a technicality from the FCS list in the first place.

The other key indicator to get on the Bank's FCS list pre-2020 was the presence of an international peacekeeping force. As any observer of the war in Donbas knows, this has been a very thorny political issue. Both Russia and Ukraine have proposed various peacekeeping solutions, but have been rejected by the other side – as both tend to propose peacekeeping to favour their military objectives, or alternatively reject it as a provocation (as Russia does now). Thus, the requirements for inclusion on the Bank's FCS list prior to 2020 seem spurious, irrelevant, or entirely politically unsuitable.

To enter the FCS list, a country needs to be in 'high-intensity conflict' or 'medium-intensity conflict', as classified by the Bank as follows:

- High-intensity: Countries with (a) an absolute number of conflict deaths above 250 according to ACLED and 150 according to UCDP; and (b) a number of conflict deaths relative to the population above 10 per 100,000 according to both ACLED and UCDP.
- Medium-intensity: Countries with (a) the same absolute number of deaths as per high-intensity conflict; and (b) between 2 and 10 per 100,000 population according to ACLED and between 1 and 10 according to UCDP.

As per the ACLED database, Ukraine had 1,530 absolute fatalities during the war in Donbas (as of February 2022) at approximately 3 per 100,000 population (meeting a medium-intensity conflict), with UCDP recording 7,101 deaths at approximately 16 per 100,000 population ('high-intensity'). Both these figures are far under the much more widely recognised UN number of over 14,000 killed (and are a gross under-estimation). Since the Russian invasion (as of early May), ACLED records 6,194 fatalities, 14 per 100,000 population ('high-intensity'), and it appears that UCDP has ceased recording data as of 2021. Thus, it appears that even on the Bank's own criteria, Ukraine's war in Donbas would exceed the threshold for a 'medium-intensity' conflict, and the Russian invasion would classify Ukraine as experiencing a 'high-intensity' conflict.

Ukraine has evidently met the criteria for inclusion in the World Bank's FCS List when it was technically able to, but then why has the country escaped appropriate classification? This is even more surprising when Ukraine is consistently noted as 'in conflict' within Bank publications (i.e., here) and within country-specific programming documents (i.e., here).

As noted above, if Ukraine was included on the Bank's FCS list it could access more flexible financing options at favourable maturities, at worst, or be re-classified as an IDA country and receive concessional lending and eligibility for debt waivers. However, classifying Ukraine as an IDA country ('low-income country') may signal a lack of creditworthiness to international investors and creditors, and spook foreign investment. Indeed, it is an open question whether the Ukrainian government itself may resist an IDA classification, as it no doubt wants to maintain 'investor confidence' (the Ukrainian Ministry of Foreign Affairs and the Ministry of Economy have not replied to questions relating to the classification). Having said this, the risks for investment in Ukraine are already exceedingly high, due to the violence engulfing the country, and foreign investment has dried up. However, Ukraine could still be classified as 'in conflict' and receive more favourable terms on their loans while maintaining their 'IBRD country' designation, as noted above.

Rather, I argue that the major concern of re-classifying Ukraine to a country 'in conflict' is that it would be highly problematic for international financial institutions and creditors, as Ukraine is one of the largest borrowers of IMF and World Bank money, and the country holds huge debt obligations from countries and external creditors worldwide. Classifying Ukraine appropriately may mean creditors, the IMF and World Bank forego interest and fees in loans to the country, with the demand of debt forgiveness becoming far more powerful if Ukraine was an FCS country. The IMF and international creditors, prominently organised around the 'Paris Club', take note of World Bank classifications, and they too would need to consider Ukraine for debt forgiveness or concessional lending if the Bank were to classify Ukraine as an FCS country.

Arguably, by inappropriately classifying Ukraine as *not* in conflict, the World Bank appears to foreclose, or seriously hamper, more robust, fair, and sustainable solutions to the economic and humanitarian crises enveloping the country. This contention is supported by a careful analysis of the fine print within the Bank's recent US$489 million supplemental loan to Ukraine. This loan was made on the proviso that the Government of Ukraine 'reaffirmed commitments to resume…reforms once the war ceases', the same reform agenda that has produced painful austerity since the Global Financial Crisis in 2007-08, accelerating since the war in Donbas, including household gas increases of 650%, mass unemployment, and decreased social services during violent conflict. Rather than humanitarian concerns, further Bank loans to Ukraine must 'align with the World Bank Group's strategic priorities…[promoting] sustained and inclusive economic recovery with a focus on… (i) making markets work; (ii) fiscal and financial sustainability'. The imperative of fostering markets in Ukraine and servicing debt obligations appear to be a more prescient concern of the World Bank, over and above the appropriate classification of Ukraine as a country in conflict. As the Bank meets in July to re-evaluate classifications for the FCS list, it must reconsider whether Ukraine is a country-in-conflict.

About the author:

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