



STATES AND MARKETS

States and markets includes indicators of private sector investment and performance, the role of the public sector in nurturing investment and growth, and the quality and availability of infrastructure essential for growth and development.

When private firms make investments, create jobs, and improve productivity, they promote growth and expand opportunities for people. Tables 5.1–5.6 cover private investment in infrastructure, the business environment, and the development of financial systems. Just as a vibrant private sector is essential for job creation and growth, so are capable governments and high-quality institutions essential for promoting growth, raising incomes, and reducing poverty. Tables 5.7–5.9 cover these functions of governments, from tax policies and public institutions to crime statistics, and military expenditures. Tables 5.10–5.12 cover infrastructure—the systems for delivering energy, transport, water and sanitation, and information and communication technology services to people. Table 5.13 covers innovation in science and technology.

World Development Indicators 2010 introduced a new table, continued this year as table 5.8, *Fragile situations*, with indicators for countries that have been identified as fragile or conflict-affected. *World Development Report 2011: Conflict, Security, and Development* (World Bank 2011d, p. xvi) defined fragility or fragile situations as “periods when states or institutions lack the capacity, accountability, or legitimacy to mediate relations between citizen groups and between citizens and the state, making them vulnerable to violence.” The report provided a framework and practical recommendations on how to move beyond fragility and conflict to secure development. Its central message was that strengthening legitimate institutions and governance to provide citizens security, justice,

and jobs is crucial to breaking cycles of violence and underdevelopment.

Although civil wars and wars between states are less common than in the past, insecurity remains a primary development challenge. Some 1.5 billion people live in areas affected by fragility, conflict, or large-scale organized criminal violence, and no fragile or conflict-affected country has achieved a single Millennium Development Goal. People in these countries are more than twice as likely to be undernourished as people in other developing countries, more than three times as likely to be unable to send their children to school, twice as likely to see their children die before age 5, and more than twice as likely to lack access to clean water.

A major episode of violence can wipe out an entire generation of economic progress. The average cost of a civil war is equivalent to more than 30 years of GDP growth for a medium-size developing country. *World Development Report 2011* found that countries and areas with the weakest institutional legitimacy (both formal and informal) and poor governance are the most vulnerable to violence and instability and the least able to respond to internal and external stresses.

The World Bank manages the State and Peace Building Fund, a multidonor trust fund that provides grants to scale up Bank engagement in fragile and conflict-affected countries; to promote cross-cutting, innovative approaches; and to foster strategic partnerships. As statebuilding and peace, security, and institutionbuilding become central objectives for developing countries and the development community, new indicators are being developed to measure progress. The International Dialogue on Peacebuilding and Statebuilding, with more than 40 participating countries and eight international organizations (including the World Bank) is contributing to this work.

