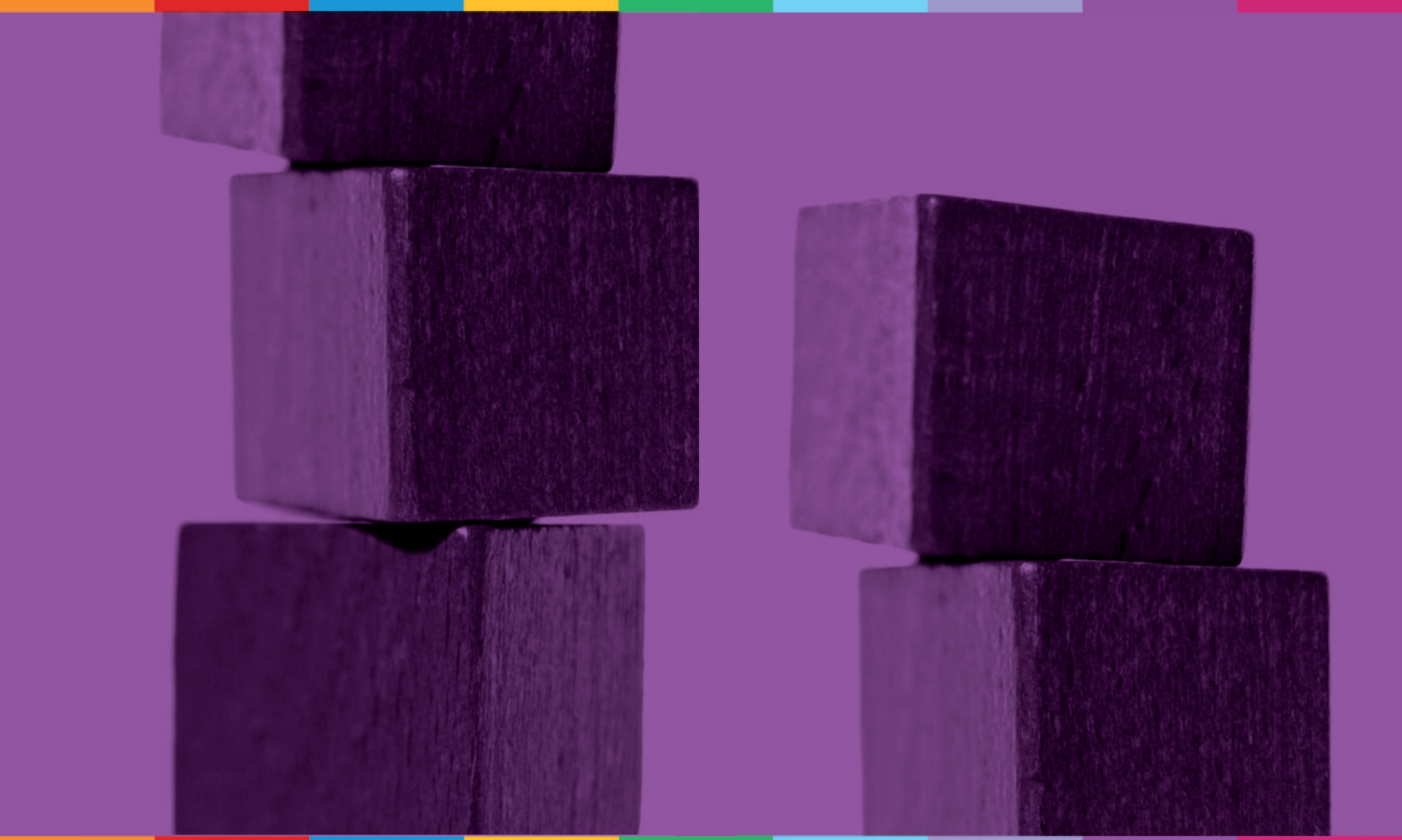
Conflict and Fragility

Fragile States

RESOURCE FLOWS AND TRENDS



OECD

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Fragile States

RESOURCE FLOWS AND TRENDS

BETTER POLICIES FOR BETTER LIVES

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Foreword

From the food, fuel and financial crisis to the Arab Spring, the events of the past decade have demonstrated that local decisions and actions can quickly generate global reactions. Within this context, fragile states and situations that were once isolated or ignored have captured the attention of the international community.

Home to one-third of the world's poor, fragile states are more vulnerable to internal or external shocks than more stable countries. Not one of these countries has achieved a single Millennium Development Goal. Struggling to meet the challenges of basic survival, poverty-stricken populations in fragile situations are simply less equipped to deal with volatile changes, whether political, environmental or economic.

As areas plagued by conflict and fragility continue to fall behind more stable developing countries, instability and poverty are increasingly concentrated within them – although the consequences of resulting crises and conflicts continue to spill over borders.

Recent global events have also demonstrated that fragility can manifest itself in many different ways. Nearly half of all fragile states are now classified as middle-income countries, and pockets of fragility can exist in otherwise stable countries. The resilience of countries thought to be more stable has also been tested in places such as Tunisia, where growing access to information and changing expectations amongst constituents have revealed cracks in the social contract between state and society. This diversity of situations shows that fragility encompasses multiple dimensions – political, security, justice, economic, social and environmental. The way it is perceived and understood has a direct impact on how fragility is addressed, and evolutions in the conception of fragility have been echoed by changes in practice.

The Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC), through the International Network on Conflict and Fragility (INCAF), has monitored aid and other financial flows such as foreign direct investment, remittances and domestic revenues since 2006. This year's report both analyses these flows and puts them into perspective, examining the different ways fragility can originate and express itself, and identifying trends amongst a diverse group of ever evolving countries. It is our hope that this publication will not only inform policy decisions, but also increase understanding about fragility and its many dimensions and impacts, resulting in more effective engagement in situations of fragility.

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Acknowledgments

This annual report aims to provide policy and decision-makers in donor countries and fragile states with a tool to monitor the levels, trends and quality of past and future resource flows (aid and beyond) in situations of fragility, and highlight issues and countries of concern.

The sixth of its kind, this report is part of a project monitoring resource flows in fragile states launched by the OECD Development Assistance Committee (DAC) in 2005. This project stems from growing concerns about the implications for international stability and development of fragility, and the recognition that aid is only one component of international support.

The 2013 report was prepared by Emmanuel Letouzé (lead author, consultant) and Juana de Catheu (co-author, OECD). Elena Bernaldo, Olivier Bouret and Fredrik Ericsson (OECD) provided DAC statistics and analysis. Sarah Cramer, Marten Menger, Teresita Lopez Gutierrez (OECD), Maia Sieverding and Eva Kaplan (consultants) provided research assistance. David Carment (Carleton University), Laurence Chandy (Brookings Institution), Antoine Heuty (Revenue Watch Institute), Nabeela Khan (GAVI Alliance), Michael Koros (*Canadian International Development Agency*), Thomas Wheeler (Saferworld), Eric Bensel, Samuel Blazyk, Sarah Cramer, Donata Garrasi, Kjetil Hansen, Diana Koester, Frans Lammersen, Tamara Levine, and Rachel Scott (OECD) provided valuable inputs and insights. Peggy Ford-Fyffe King typeset the report and provided the data visualisation with inputs from Jonathan Schwabish and Maia Sieverding. Fiona Hall and Sarah Cramer edited the report. The overall project was managed by Juana de Catheu, under the responsibility of Alexandra Trzeciak-Duval (OECD).

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Acronyms and abbreviations

ANSP	Afghanistan National Statistical Plan
CIA	Central Intelligence Agency
CIC	Center on International Cooperation
CPA	Country programmable aid
CPIA	Country Performance and Institutional Assessment
CRS	Creditor Reporting System
DAC	Development Assistance Committee
DfID	Department for International Development (UK Government)
DIIS	Danish Institute for International Studies
DPA	Development Partnership Administration (Indian Government)
ECOWAS	Economic Community of West African States
EITI	Extractive Industries Transparency Initiative
FDI	Foreign direct investment
FSI	Failed State Index
GDP	Gross domestic product
GEF	Global Environment Fund
GFATM	Global Fund to Fight AIDS, Tuberculosis and Malaria
GNI	Gross national income
GSM	Global System for Mobile communications
GVC	Global value chain
HDI	Human Development Index
IBRD	International Bank for Reconstruction and Development
ICGLR	International Conference of the Great Lakes Region
IDA	International Development Association
IDPS	International Dialogue on Peacebuilding and Statebuilding
IDS	International Development Statistics (OECD)
IEG	Independent Evaluation Group (World Bank Group)
IFF	Illicit financial flow

IFPRI	International Food Policy Research Institute (IFPRI)
IMF	International Monetary Fund
INCAF	International Network on Conflict and Fragility
ITU	International Telecommunication Union
LDC	Least developed country
LIC	Lower income country
LIFS	Low-income fragile state
NATO	North Atlantic Treaty Organisation
NGO	Non-governmental organisation
MIC	Middle-income country
MIFS	Middle-income fragile state
MDG	Millennium Development Goal
ODA	Official development assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
PSG	Peacebuilding and statebuilding goals
PVO	Private and voluntary organisations
REDD	United Nations Collaborative Initiative on Reducing Emissions from Deforestation and Forest Degradation
SSA	Sub-Saharan Africa
UCDP	Uppsala Conflict Data Program
UN	United Nations
UNDESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Programme
UNDP BPCR	United Nations Development Programme Bureau for Crisis Prevention and Recovery
UNMIS	United Nations Mission in the Sudan
USD	United States dollar
WDI	World Development Indicator
VAT	Value-added tax

Executive summary

Fragile states or provinces lack the ability to develop mutually constructive relations with society and often have a weak capacity to carry out basic governance functions. Fragile situations matter because they are home to an increasingly concentrated proportion of the world's poor. They are also more susceptible to instability, with potential regional and global consequences.

Fragile situations became a central concern of the international development and security agenda in the 1990s. Since then, powerful forces have been influencing the causes and manifestations of fragility, including the combination of democratic aspirations, new technologies, demographic shifts and climate change. The last five years have been especially tumultuous, encompassing the 2008 food, fuel and financial crisis and its economic aftermath, and the Arab Spring, which began in 2011.

These events have influenced the international debate on the nature, relevance and implications of fragility. While situations of fragility clearly have common elements – including poverty, inequality and vulnerability – how can we make sense of the great diversity in their national income, endowment in natural resources or historical trajectories? How do we move towards a more substantive concept of fragility that goes beyond a primary focus on the quality of government policies and institutions to include a broader picture of the economy and society?

This report asks and answers 10 questions, grouped into three chapters. The first chapter takes stock of the evolution of fragility as a concept. The second chapter analyses financial flows to and within fragile states between 2000 and 2010, with a special focus on the period following the food, fuel and financial crisis (2008-10). The third chapter points to trends and issues that are likely to shape fragility in the years to come.

Chapter 1. The changing face of fragility

Whereas most countries in fragile situations were low-income a decade ago, today almost half are middle-income. As aid is a small part of the development equation in middle-income economies, more attention needs to be focused on how aid can leverage structural change and catalyse non-aid flows to promote development.

In spite of this shift in income level, poverty remains concentrated in fragile states. It is estimated that by 2015, half of the world's people surviving on less than 1.25 dollars a day will be found in fragile states. This is because the fight against poverty is slower in fragile states than elsewhere, and because of the high income inequality within such states.

Beyond the humanitarian imperative to address global poverty where it is concentrated, fragility matters because of the risk it poses to regional and global stability. Addressing fragility as a driver of poverty and instability requires a more robust understanding of fragility, its causes and dimensions. In particular, it requires approaching and addressing fragility as a deeply political issue centred on the social contract between the state and society, and it requires greater consideration of the role of stress factors (internal or external).

Chapter 2. Financial flows in fragile states

In fragile states, official development assistance (ODA) is the biggest financial inflow. This is followed by remittances and foreign direct investment (FDI). Development co-operation has been growing since 2000, benefitting from growing ODA from DAC donors, as well as an acceleration in the multi-pronged engagement (development, trade and investment) of rising powers, and growth in philanthropic giving from both the developed and developing countries has increased, spurred by technological innovation. Between 2000 and 2010, average per capita ODA to fragile states grew by half in constant terms.

However, half of all ODA to fragile states goes to only seven "donor darlings". Concentration is also an issue at the country level. Countries such as the Republic of Congo and Iraq depend on one donor for over half their aid – a level of concentration that is considered excessive. At the other extreme, places such as the West Bank and Gaza and Afghanistan suffer from an overabundance of small donors, making co-ordination difficult. Aid also remains very volatile: each of the fragile states has had at least one aid shock in the past 10 years.

Aid has the potential to catalyse other flows and changes in private behaviour, but it does not always do so, especially if it lacks coherence with other policy objectives. In fragile states, there remains significant scope for leveraging ODA and remittances to increase private sector inflows. Fragile states do not benefit from much FDI, with three-quarters of FDI to fragile states going to just seven countries, all resource-rich. Again with the exception of resource-rich countries, they are increasingly locked out from international trade.

Fragile states as a group are making progress in lessening their dependence on aid by reforming their tax administration and policies: the average fragile state collected taxes equivalent to 13% of its GDP in 2009, against 9% in 2000. But fragile states are far from realising their tax potential, especially the one-in-four fragile states endowed with abundant natural resources. However, a growing number of fragile states are initiating policy reforms to get a better deal from their extractive industries. In recent years, there have also been international, national and industry initiatives to ensure responsible mineral supply chains, from mine to smelter and consumer.

Remittances from diasporas continue to play a significant role in fragile states, both in providing relatively more stable sources of income than most other external flows, and in transferring social norms and values. The Internet is a medium through which diasporas can play a stabilising or destabilising role. One challenge is to use remittances as a means of enhancing resilience within receiving communities, while limiting their sometimes harmful effect on stability.

Chapter 3. The outlook for fragile states

The prospects for aid, growth and poverty reduction in fragile states are gloomy on the whole, apart from some outliers. The long trend of growth in ODA to fragile states is at serious risk given the current fiscal crunch in OECD countries. About half of fragile states are expected to see a drop in programmable aid between 2012 and 2015. This ODA fall is likely to occur at the same time as poverty is becoming increasingly concentrated in fragile states.

Countries of particular concern are those that: *1)* are already under-aided and are likely to see a further fall in aid, such as Niger; *2)* combine projections of falling aid with slow growth, such as Sudan, Chad and Kosovo; or *3)* are highly dependent on aid but are likely to see aid levels fall, such as Afghanistan. Middle-income fragile states will also face specific challenges that will require continued attention.

Rapid shifts in demographics, technology and climate can generate collective action and social change or lead to "perfect storms" (crises that combine many dimensions – such as the Arab Spring):

- High fertility rates and population growth rates, along with a large proportion of young people, mean that fragile states will continue to face a high demand for social services, jobs and political participation.
- Technological innovation – especially mobile phones – may be one of the most consequential changes affecting fragile states in the decade ahead. By providing new means of information sharing, communication and collective action, the digital revolution has the potential to alter the balance of power between state and civil society in unprecedented ways and at great speed.
- Climate change and environmental degradation will affect fragile states more directly and severely than other countries.

Conclusion: What is next for international engagement in situations of fragility?

The 2011 *New Deal for Engagement in Fragile States* commits fragile states and international partners to *1)* "do things differently" – by designing and implementing their interventions with an even greater consideration for the specific characteristics of fragile states; and, further, *2)* focus on "different things" – by structuring their interventions around peacebuilding and statebuilding goals.

With these peacebuilding and statebuilding goals, the *New Deal* reflects a welcome shift towards a "thick" conceptualisation of state fragility which looks beyond the quality of government policies and institutions to consider the multiple dimensions of state-society relations.

Similarly, the future research agenda should adopt a more robust and comprehensive approach to understanding fragility, considering both internal and external stress factors. Research on fragility should be more forward-looking and take into account megatrends and scenario planning. In turn this would help adapt the international response both qualitatively and in terms of geographic focus, anticipating new fault lines and recognising opportunities.

Introduction

In the decade that followed the end of the Cold War, civil conflicts multiplied and international support to countries in post-crisis transition gradually increased. This focus was given further impetus within the framework of the Millennium Development Goals (MDGs) and following the events of 9/11: countries affected by conflict and fragility have received increased attention – and more official development assistance (ODA).

Broad agreement has emerged over time on what constitutes fragility: what it means, why and how it matters and what should be done about it. The welcome tendency is to move away from an approach that emphasises mainly a state's "capacity" and "willingness" to provide services towards one that recognises the multidimensional aspects of fragility – encompassing authority, capacity and legitimacy[1] – and the overarching importance of the social contract between citizens and the state (Box 0.1).

Box 0.1. **The OECD definition of fragility**

"A fragile region or state has weak capacity to carry out basic governance functions, and lacks the ability to develop mutually constructive relations with society. Fragile states are also more vulnerable to internal or external shocks such as economic crises or natural disasters. More resilient states exhibit the capacity and legitimacy of governing a population and its territory. They can manage and adapt to changing social needs and expectations, shifts in elite and other political agreements, and growing institutional complexity. Fragility and resilience should be seen as shifting points along a spectrum" (OECD, 2012a).

At the same time, lively debates continue to take place in the academic and policy literature about precise definitions, causes, characteristics, measurement, implications, and even relevance, of fragility.[2] Much remains to be done to consolidate our common understanding of fragility, and to ensure that better knowledge translates into improved policies, practice, and ultimately, results. A key point made in this report is the need for actors concerned about fragility to move away from a "thin", formal conceptualisation of fragility centred on the state, towards a "thick", substantive understanding centred on the quality of state-society relations and with greater attention to potential stress factors, including economic vulnerability, demographic dynamics, climate change and technological innovation.[3]

Much has changed over the past decade, notably after the 2008 global crisis and the tumultuous events of 2011-12 throughout the Arab world (Box 0.2). In 2011, the g7+ group of 17 fragile and conflict-affected countries and development partners that together comprise the International Dialogue on Peacebuilding and Statebuilding endorsed a *New Deal for Engagement in Fragile States* (IDPS, 2011). It provides a new framework within which to better align resources and support to the peacebuilding and statebuilding priorities of countries in fragile situations and for more effective partnerships and support to enable country-led transitions out of fragility (see Boxes 2.1 and 3.4).

Box 0.2. **Recent events involving conflict and fragility**

In 2011-12, fragility was increasing even as violent intra and inter-state conflict was declining (see Question 1).

Countries in or emerging from fragility, such as Iraq, Eritrea, Ethiopia, Mozambique and Afghanistan, featured among the top economic growth performers.* South Sudan, Egypt and Liberia held historic referendums. The Central African Republic, Niger, Uganda, Djibouti, Nigeria, Chad, Liberia, Kyrgyzstan, Cameroon and the Democratic Republic of Congo all held general or presidential elections. Most were deemed fair and credible, although some experienced violence or irregularities:

- The South Sudan independence referendum in early 2011 was described as "peaceful and credible".**
- The elections in Liberia were the second elections since the signing of the Comprehensive Peace Accord in 2003 and were widely seen as an opportunity to consolidate peace and accelerate Liberia's political and economic recovery.
- Côte d'Ivoire's 2011 legislative elections were an essential step in re-establishing constitutional order.
- Tunisia held constituent assembly elections followed by presidential elections, the first of the Arab Spring countries to do so.

However tensions have escalated or resurfaced elsewhere. Of particular concern are those likely to have a regional impact:

- The Arab Spring set several countries on a path of transition, with inevitable instability in the short term. In Syria, UN peacekeeping efforts have thus far failed to make progress, and violence continues to mount. The monthly death toll is now estimated to exceed that of the war in Iraq at its peak (Kenner, 2012). More than 245 000 Syrian refugees have fled the country, and the total number of internally displaced people is upwards of 1.2 million.*** Jordan, Lebanon, and Turkey are struggling to absorb the refugees both from a humanitarian perspective, but also politically, as the influx threatens to destabilise the carefully-managed peace in their own countries (Brulliard, 2012).
- Fallout from the Arab Spring, and notably Libya, has been felt further south in the drought-stricken Sahel region. Throughout this band of countries stretching from Senegal to Somalia, conflict is erupting in areas once considered stable, and long-standing conflicts are spiralling out of control. The collapse of the government in Mali and violence in other stable countries (*e.g.* Kenya, Senegal) in 2012 shocked many outsiders, but they came as no surprise to many citizens who had long felt growing frustration and tension related to poverty, inequality, corruption and sectarian divisions (Nossiter, 2012). State legitimacy was challenged in a score of less stable African nations of the Sahel this same year – including Togo, Guinea, Côte d'Ivoire and Gabon – showing that despite signs of democratic order or economic growth, "these countries bubble with uncertainty beneath the surface" (Nossiter, 2012). In Sudan, hundreds of thousands of people living near the border with South Sudan have been reduced to eating sticks and leaves, as the Sudanese government has blocked all forms of humanitarian aid (Kristof, 2012).
- The elections in the Democratic Republic of Congo (December 2011) were marred by irregularities and renewed fighting in the mineral-rich eastern part of the country after nine years of peace consolidation. This is especially worrying given the regional dimension of the crisis and the risk of a regional spread – an estimated 200 000 people have already been displaced (as of June 2012) – in addition to the direct impact on local populations.
- The political and economic viability of Afghanistan will be put to the test in 2014 with the drawdown of foreign troops and funds. After more than a decade of international support, Afghanistan is still ranked the most dangerous country for women,**** and the sixth most aid dependent country (Table 2.1). Active combat is ongoing with fragmented insurgent groups operating on both sides of Afghanistan's border with Pakistan, and the legitimacy of the government is still questioned by many Afghans frustrated by rampant corruption and poor accountability. On top of everything else, Afghanistan will need to get through two major elections: a presidential election in 2014 and a parliamentary election in 2015.

Box 0.2. **Recent events involving conflict and fragility** *(continued)*

Demographic shifts, technological innovation and climate change are powerful influences almost everywhere (see Chapter 3). These events and trends directly shape the trajectories of countries that are vulnerable to internal or external stresses.

* See for example *www.cia.gov/library/publications/the-world-factbook*.

** See *www.un.org/en/peacekeeping/missions/unmis/referendum.shtml*.

*** Based on calculations by the UN Office for the Coordination of Humanitarian Affairs (OCHA), September 2012. See *www.un.org/news/dh/pdf/english/2012/07092012.pdf*.

**** Based on poll conducted by TrustLaw, a legal news service operated by the Thomson Reuters Foundation, *www.trust.org/trustlaw/news/trustlaw-poll-afghanistan-is-most-dangerous-country-for-women*.

These developments mean it is now time to take stock of the theory, trends and future trajectory of fragility. This report does so by exploring 10 key questions. Answering them is certainly not straightforward and many obstacles exist, ranging from technical to conceptual and analytical (as discussed below and in Chapter 1).

What is the focus of this report? As with all of the OECD DAC's work on fragility, the report focuses on all situations of fragility, be they chronic or transitory; their causes can be local, national or global (Box 0.3); their causes and manifestations economic, social or political. This report does not claim that some countries are fragile and others are not; instead it recognises that countries can be more or less fragile, and in different ways, and that sub-national areas can be fragile despite being in stable countries (Box 0.4).

Box 0.3. **Global factors of fragility**

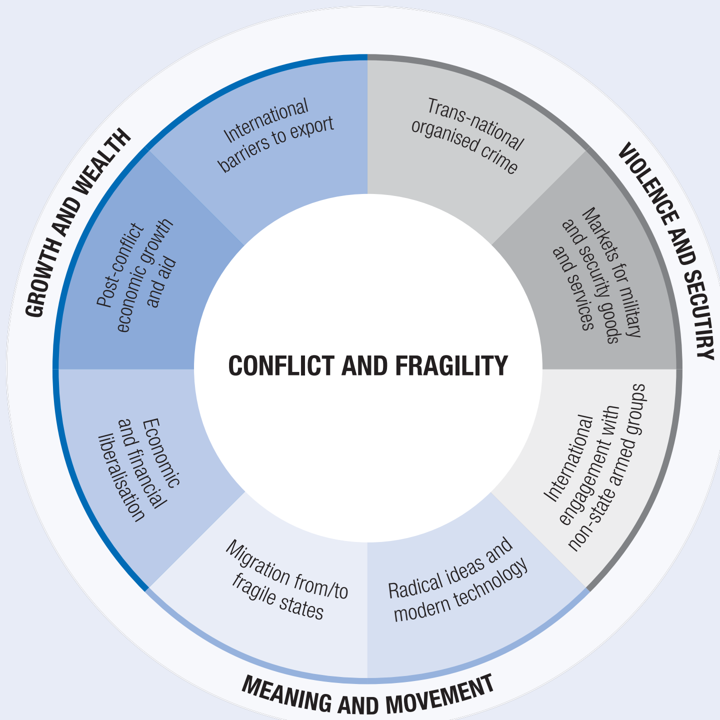
Globalisation has brought both opportunities and threats that colour the outlook for prosperity and security. International trade, migration, transnational organised crime, liberalisation processes and even powerful ideas spread through modern technology (Figure 0.1) – all weave their subtle influences into a web in which nations can either get entangled, or prosper. In situations of conflict and fragility, the effect is profound. The situations in Guatemala, Iraq or Mali, for example, illustrate how interactions between global factors can produce negative effects.

Recent OECD analysis describes eight global factors that influence domestic conflict and fragility, analysing where and how they converge and what consequences this has for international engagement (OECD, 2012b). These global factors are both licit and illicit processes operating at the international, regional or cross-border level. The report highlights globalisation's "duplicitous" role in enabling the growth of both licit and illicit activities. It also takes a hard look at how the risks tend to be transferred – including by OECD governments – to those countries least capable of dealing with them, resulting in weaker institutions and more divided societies.

Finally, the analysis offers strategic ideas for global action to confront some of these issues. These include, for instance, changing course in the war on drugs from criminalisation and reduction on the supply side to a public health approach and partial legalisation; and piloting support to migration as a development strategy which makes the most of the fact that labour is a primary asset of the poor.

Box 0.3. **Global factors of fragility** *(continued)*

Eight global factors of fragility



Source: OECD (2012b), *Think Global, Act Local: Confronting Global Factors that Influence Conflict and Fragility*, draft for discussion, available at *www.oecd.org/dac/conflictandfragility/Think_global_act_global_Synthesis_120912_graphics_final.pdf.*

Box 0.4. **Sub-national pockets of fragility**

The term "fragile state" is useful when the unit of political analysis is the state and when analysing financial resource flows. However, the term can conceal areas within states where peace and stability have been restored (Châtaigner and Gaulme, 2005). Conversely, pockets of fragility exist in many countries otherwise considered to be stable (Hilker, 2012).

These fragility pockets can exist in both urban and rural settings. "No-go zones" and "hot spots" are common features of urban centres around the globe (*e.g.* the favelas of Brazil) (Muggah, 2012), just as remote or rural areas sometimes extend beyond the control of formal governance (*e.g.* border towns and territory in northern Mexico).

Rather than signalling clear-cut categories, fragility and resilience represent the end points of a dynamic spectrum. Within different regions or even neighbourhoods, fragility can vary both in its magnitude and dimensions, be they social, political, or economic. When the size and prevalence of these pockets of fragility within a country reach a "tipping point" based on subjective perceptions, state-society relations are then considered to be fragile, and thus more vulnerable to shocks (Dom, 2009).

Box 0.4. **Sub-national pockets of fragility** *(continued)*

Pockets of fragility sometimes emerge when the state does not feel a responsibility towards a particular group (often the poor or marginalised), but continues to protect the interests of segments of society (*e.g.* elites or the government itself).

In the void left by the state, "parallel states"* or "parallel communities" can emerge, either competing or co-existing with formal governance structures (*e.g.* paramilitaries in Medellin, Columbia) (Pearce *et al.*, 2011). Pockets of fragility can also exacerbate inequalities and tensions within societies that can then spread instability and spark conflict.

* The term "parallel state" describes "the existence of a clandestine nexus between formal political leadership, self-serving factions within the state apparatus, organised crime and/or experts in violence" (Mcloughlin, 2012).

The quantitative analysis in this report, however, requires that a list of countries be selected to analyse ODA, foreign direct investment (FDI), trade, remittances, illicit flows, domestic revenues and other flows between 2000 and 2010. The report bases this analysis on a list of 47 countries (Table 0.1), whilst recognising the limitations of such lists. The 47 countries are derived from the World Bank-African Development Bank-Asian Development Bank harmonised list of fragile and post-conflict countries for 2012 and the 2011 Failed State Index (FSI).[4] This list is for the sole purpose of analysing resource flows between 2000 and 2010 – a quantitative analysis of flows for a different time period would require a different list. Moreover, while these 47 countries display certain common features which result in their being considered as fragile – they also vary considerably, both in their structural features and performance. At the group level, one can average out various indicators across all countries, but averages can lead to diametrically opposed conclusions.[5] To compound the problem, fragile states suffer a notable dearth of data that limits the relevance of averages.

A first example of diversity is that not all fragile states are low-income: in 2012, 21 countries were middle-income fragile states (MIFS), while 26 were low-income fragile states (LIFS) (Table 0.1). A decade ago most fragile states were low-income, so this represents a sea change.

There are many other ways these countries and economies can be empirically clustered into subgroups. For example, several are post-conflict countries and economies, including a number that have undergone some of the most gruesome civil conflicts of recent decades (*e.g.* Burundi, Liberia, Rwanda, Sierra Leone, and Timor-Leste). Others – such as Afghanistan, the Democratic Republic of Congo, Iraq, Somalia, Sudan and the West Bank and Gaza– are still mired in acute crisis. Still others are subject to low-intensity but chronic violence and poverty, such as the Central African Republic and Haiti. Economic and demographic giants (Iran, Nigeria and Pakistan) contrast with small-island or landlocked countries (Comoros, Kiribati, Marshall Islands). Giving impetus to the notion that fragility matters because instability has a tendency to spread, many fragile states are also adjacent to each other and can thus be clustered geographically, for example around Eastern Democratic Republic of Congo and the Sahel. In fact, 28 out of the 47 fragile states included in this report are concentrated in Africa. Finally, some fragile states are resource-rich, creating both opportunities and challenges to development and stability (Table 0.2).[6]

Table 0.1. **Almost half of fragile states are middle-income (2012)**

	Middle-income fragile states (MIFS) or economies	
Low-income fragile states (LIFS)	**Lower-middle-income**	**Upper-middle-income**
Afghanistan*	Cameroon	Angola
Bangladesh*	Congo, Rep.	Bosnia and Herzegovina
Burundi*	Côte d'Ivoire	Iran, Islamic Rep.
Central African Republic*	Georgia	
Chad*	Iraq	
Comoros*	Kiribati*	
Congo, Dem. Rep*	Kosovo	
Eritrea*	Marshall Islands	
Ethiopia*	Micronesia, Fed. Sts.	
Guinea*	Nigeria	
Guinea-Bissau*	Pakistan	
Haiti*	Solomon Islands*	
Kenya	South Sudan	
Korea, Dem. Rep.	Sri Lanka	
Kyrgyz Republic	Sudan*	
Liberia*	Timor-Leste*	
Malawi*	West Bank and Gaza	
Myanmar*	Yemen, Rep.*	
Nepal*		
Niger*		
Rwanda*		
Sierra Leone*		
Somalia*		
Togo*		
Uganda*		
Zimbabwe		

Note: * denotes a fragile state that is also defined as a least developed country (LDC).

Sources: World Bank-African Development Bank-Asian Development Bank harmonised list of fragile and post-conflict countries for the year 2012, available at *http://siteresources.worldbank.org/EXTLICUS/Resources/FCS_List_FY12_External_List.pdf*; 2011 Failed State Index, available at *www.fundforpeace.org/global/library/fs-11-11-fsi-public-spreadsheet-2011-1107b.xls*; World Bank income classification (August 2012), available at *http://data.worldbank.org/about/country-classifications*.

Table 0.2. **One-in-six fragile states depend on minerals or fuel for 75% of their exports or more (2010)**

Mineral-dependent fragile states	Ratio of mineral exports to total merchandise exports (%)	Fuel-dependent fragile states	Ratio of fuel exports to total merchandise exports (%)
Congo, Dem. Rep.	78.3	Angola	98.6
Guinea	65.2	Iraq	98.4
Sierra Leone	54.3	Chad	90.8
		Nigeria	90.5
		Yemen	90.1
		Sudan	88.5
		Congo, Rep.	81.3
		Timor-Leste	74.6

Source: Haglund, D. (2011), *Blessing or Curse? The rise of mineral dependence among low- and middle-income countries*, Oxford Policy Management, Oxford.

These historical, geographical, and/or economic sub-groups provide an intermediate level of analysis. In the rest of the report, where pertinent and possible, data are provided at three complementary levels: *1)* global: distinguishing fragile and non-fragile states using unweighted averages; *2)* sub-groups of countries; *3)* individual countries: highlighting particular countries either because they are typical or because they are extreme examples of an issue.

The report looks at both medium-term trends (2000-10) and recent trends (2008-10), while also keeping an eye on projections to 2015. It is built around 10 questions, grouped into three chapters:

- Chapter 1 highlights the distinctness and diversity of fragile situations and uses them to illustrate the broader question of what is fragility, why it matters and in what ways.
- Chapter 2 focuses on the financial resources available to fragile states, highlighting their impacts, interaction, trends and patterns.
- Chapter 3 presents an analysis of what the future may hold for fragile situations, and for fragility as a concept, discussing which actors, trends and considerations are likely to shape the future landscape of fragility.

Notes

1. See Carment *et al.* (2009) and *www4.carleton.ca/cifp/app/ffs_data_methodology.php.*
2. For a good review of the recent literature, see Mcloughlin (2012).
3. The terms “thin” and “thick” as ethical concepts were first introduced by Williams (1985). They are used here in reference to two competing conceptions of the rule of law. The “thin” approach is concerned with efficiency, stability and conformity, while the “thick” approach refers to liberal values of liberty and democracy – see also Walzer (1994), Craig (1997), and Trebilcock and Daniels (2009).

4. For more detail on the harmonised list, see *http://go.worldbank.org/BNFOS8V3S0*; on the FSI, see www.fundforpeace.org/global/?q=fsi. This report includes all countries rated "Alert" (FSI above 90) or "Critical" (FSI between 80 and 90) on this index. For critiques of these indicators, see for example Gutiérrez (2011) and Leigh (2012).

5. Stating that a given variable – *e.g.* poverty, or ODA as a percentage of GDP – has gone up or down over a given period of time may very well depend on whether the indicator used is the weighted or the unweighted average. Unweighted averages overstate the influence of very small countries in the group. By contrast, weighted averages – by population for instance – would consider these countries as one unified entity and populous countries such as Nigeria, Pakistan and Bangladesh would essentially overshadow all the small countries.

6. Collier (2007), Carment and Yiagadeesen (2012), and Grävingholt *et al.* (2012), among others, provide typologies of fragile states.

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Chapter 1

The changing face of fragility

Whereas most countries in fragile situations were low-income a decade ago, today almost half are middle-income. As aid is a small part of the development equation in middle-income economies, more attention is needed on how aid can leverage structural change and catalyse non-aid flows to promote development. In spite of this shift in income level, poverty remains concentrated in fragile states. It is estimated that by 2015, half of the world's people surviving on less than 1.25 dollars a day will be found in fragile states. This is because the fight against poverty is slower in fragile states than elsewhere, and because of the high income inequality within such states.

Beyond the humanitarian imperative to address global poverty where it is concentrated, fragility matters because of the risk it poses to regional and global stability. Addressing fragility as a driver of poverty and instability requires a more robust understanding of fragility, its causes and dimensions. In particular, it requires seeing fragility as a deeply political issue centred on the social contract between the state and society, and it requires greater consideration of the role of stress factors (internal or external).

Question 1. How are countries in fragile situations faring?

Despite a global decline in conflict and poverty over the last decade, fragile states still suffer disproportionately from both of these challenges. Poverty, in particular, is increasingly concentrated in fragile states, and no fragile state is expected to reach a single Millennium Development Goal by 2015. In terms of economic growth, most fragile states have also lost ground over the past decade, with the exception of a few outliers. Even in countries boasting improved economic statistics, inequality often masks the reality that large populations still live in abject poverty within their borders.

In this chapter, the performance over the past few years of countries in fragile situations is assessed against a number of key socioeconomic and political indicators. Have they been catching up or losing ground, doing better or simply "falling behind and apart" (Collier, 2007)? And how do trends and patterns vary across countries?

The analysis focuses on economic growth, human development, and violence and poverty. Trends are examined over both the medium term (2000-10) and the most recent post-crisis period (2008-10), for both individual countries and sub-groups (projections to 2015 and beyond are covered in Chapter 3). A mixed picture emerges showing both the diversity of fragile situations and notable common patterns and trends for the group as a whole.

Economic growth

Some countries – including Angola, Nigeria, Ethiopia and Rwanda – have been among the fastest growing countries of the past decade (Table 1.1). Rapid growth has allowed Angola and Nigeria to graduate to middle-income status. The experience of these fast-growing countries is broadly consistent with the concepts of "economic convergence" (or the "catch-up effect") and "post-conflict growth rebound" (Staines, 2004; UNDP BPCR, 2008). The first term refers to the notion that poor countries have room to grow faster than countries that have already reached a high level of income. The second refers to the fact that sharp drops in GDP – as much as 90% in 20 years in Liberia (Radelet, 2007) – in countries that experienced highly disruptive and destructive conflicts after the end of the Cold War have tended to be followed by notable rebounds after hostilities ceased (*e.g.* Angola, Liberia, Mozambique and Sierra Leone).

However, in terms of per capita GDP, most fragile states seem to have lost economic ground over the past 10 years compared to other developing countries (Figure 1.1). As an extreme case in point, Zimbabwe's per capita gross national income (GNI) has dropped over 40% since 2000, a greater fall than any other country for which data are available.

Since the global food, fuel and financial crises (2008-10), non-fragile countries have seen lower average GNI per capita growth than fragile states, according to available data. In particular, LIFS and fragile Sub-Saharan African countries outperformed all other groups (fragile or non-fragile) over these three years (Figure 1.2), even though their income growth per capita was slower over the longer time period of 2000-10 (Figure 1.3). These trends reflect in part how the global crisis affects countries differently depending on the openness of their economy, their reliance on the financial sector (Staines, 2004), as well as other more elusive factors that are difficult to pinpoint without further analysis.

Table 1.1. **Fragile states among the 10 fastest-growing economies***

(Annual average GDP growth, %)

2001-10**		2011-15***	
Angola	11.1	China	9.5
China	10.5	India	8.2
Myanmar	10.3	**Ethiopia**	8.1
Nigeria	8.9	Mozambique	7.7
Ethiopia	8.4	Tanzania	7.2
Kazakhstan	8.2	Vietnam	7.2
Chad	7.9	**Congo**	7.0
Mozambique	7.9	Ghana	7.0
Cambodia	7.7	Zambia	6.9
Rwanda	7.6	**Nigeria**	6.8

* Excluding countries with less than 10m population and Iraq and Afghanistan

** 2010 estimate

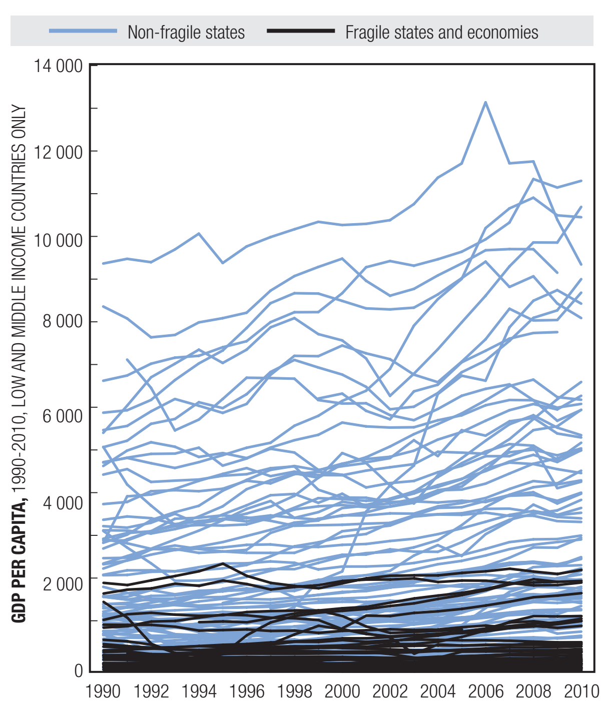
*** IMF forecast

Note: Countries in bold are considered fragile for the purpose of quantitative analysis in this report.

Source: Economist, The (2011), "The Lion Kings?", 6 January 2011, The Economist Newspapers, London.

Figure 1.1. **Most fragile states are lagging behind in growth terms**

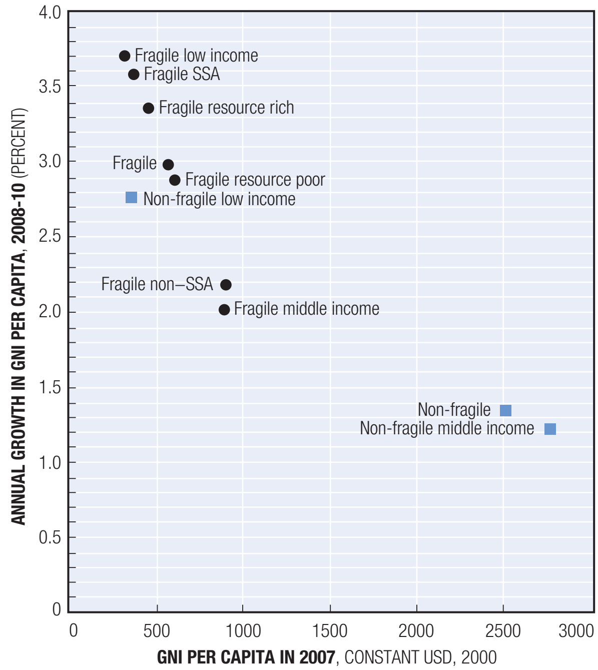
(Constant USD, 2000)



Note: Figure 1.1 uses GDP per capita rather than GNI per capita because data for the former are much more complete.

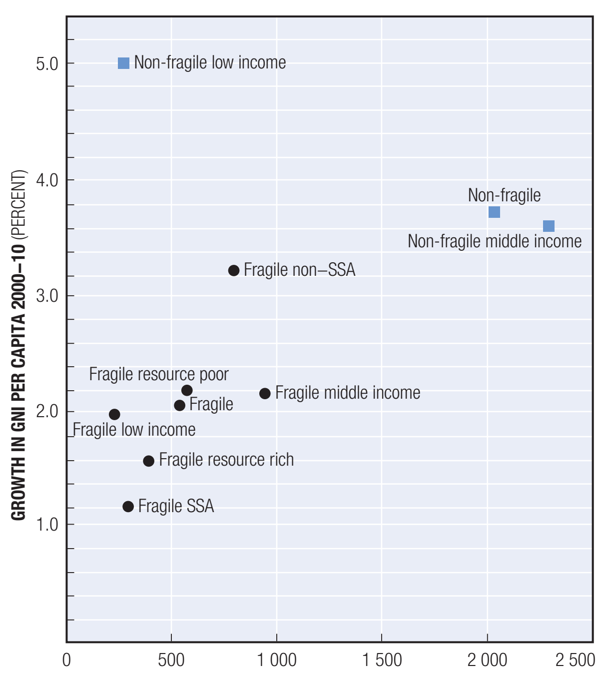
Source: Authors' calculations based on World Bank, The (2012a), *World Development Indicators*, website accessed June 2012 at *http://databank.worldbank.org/ddp/home.do?Step=12&id=4&CNO=2.*; and United Nations, Department of Economic and Social Affairs (UN DESA), Population Division (2011), *World Population Prospects: The 2010 Revision*, CD-ROM Edition, UN, New York, at *http://esa.un.org/unpd/wpp/unpp/panel_population.htm*.

Figure 1.2. **Fragile states seem to have recovered from the 2008 crisis faster than other countries**



Source: Authors' calculations based on World Bank, The (2012a), *World Development Indicators*, website accessed June 2012 at *http://databank.worldbank.org/ddp/home.do?Step=12&id=4&CNO=2*; and UN DESA, Population Division (2011)*, World Population Prospects: The 2010 Revision,* CD-ROM Edition, UN, New York, at *http://esa.un.org/undp/wpp/unpp/panel_population.htm.*

Figure 1.3. **Mediocre income growth in fragile states (2000-10)**



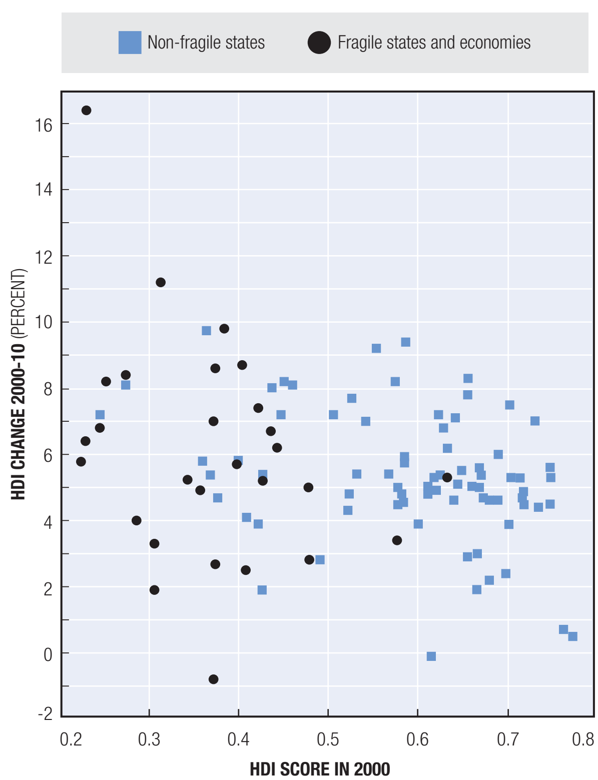
Source: Authors calculations based on World Bank, The (2012a), *World Development Indicators*, website accessed June 2012 at *http://databank.worldbank.org/ddp/home.do?Step=12&id=4&CNO=2*; and UN DESA, Population Division (2011)*, World Population Prospects: The 2010 Revision,* CD-ROM Edition, UN, New York, at *http://esa.un.org/undp/wpp/unpp/panel_population.htm.*

Human development

While the vast majority of non-fragile countries have enjoyed some improvements in their Human Development Index (HDI) since 2000, the HDI in fragile states has varied considerably with very modest progress as a group (Figure 1.4).[1] Fragile states continue to lag behind in education, notably (Figure 1.5), and no low-income fragile state has yet achieved a single Millennium Development Goal (MDG) (World Bank, 2011). According to the 2011 *World Development Report*, "the development deficit is concentrated in fragile and conflict-affected and recovering states, which account for 77% of school-age children not enrolled in primary school, 61% of poverty, and 70% of infant mortality" (World Bank, 2011). Although health data are particularly sparse for fragile states, roughly 40% of tuberculosis and HIV-AIDS cases in the world are thought to occur there (Bornemisza *et al.,* 2010).

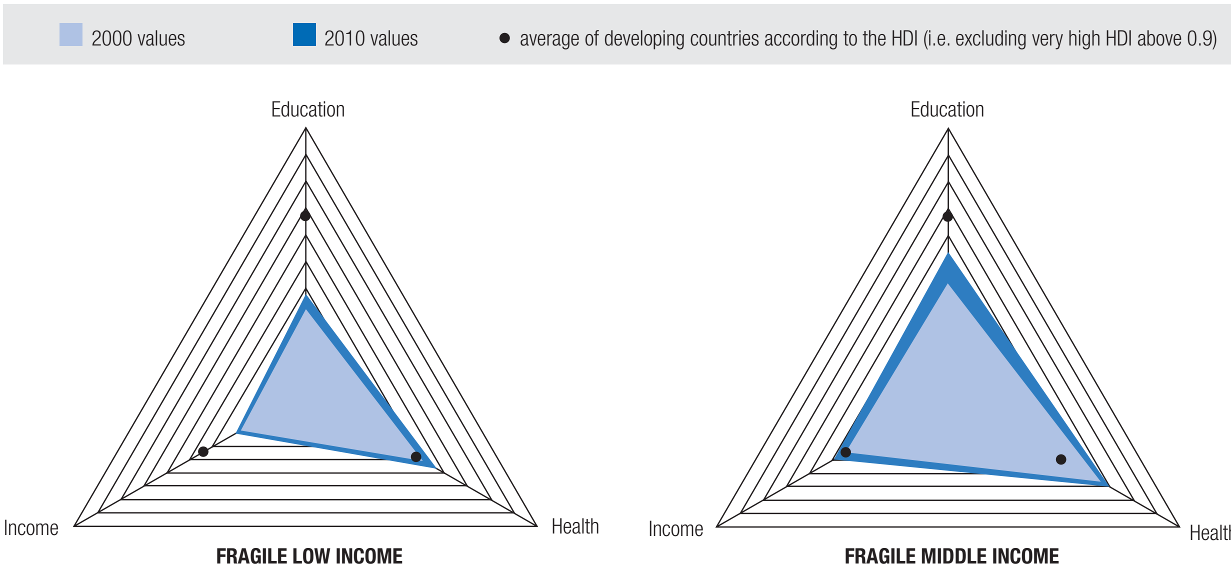
Gender disparities persist in health and education; women and girls often suffer disproportionately from the MDG deficit, especially in low and middle-income countries. This is especially true in Sub-Saharan Africa where the number of women dying in early childhood and reproductive years is growing, and where girls continue to lag behind boys in school enrolment (World Bank, 2012b).

Figure 1.4. **Fragile states show contrasting results in human development, with some progress as a group**



Source: UNDP (United Nations Development Programme) (2011), *Human Development Report 2011*, UNDP, New York, available at *http://hdr.undp.org/en/statistics/data/*, accessed 7 September 2012.

Figure 1.5. **Progress achieved across all dimensions of the Human Development Index, but education still lagging (2000-10)**



Source: UNDP (2011), *Human Development Report 2011*, UNDP, New York, available at *http://hdr.undp.org/en/statistics/data/*, accessed 7 September 2012.

Violence

The overall decline in armed conflict in the world has resulted in annual battle-related deaths falling from 164 000 in the 1980s to 42 000 in the 2000s (Themnér and Wallensteen, 2012; World Bank, 2011). A spike in 2011 saw 37 armed conflicts worldwide compared to 31 in 2010, driven more by conflicts in Africa than by the Arab Spring (which in 2011 led mostly to violence rather than conventional armed conflict), but this is still less than the 50 active conflicts in the early 1990s. Of these 37 conflicts, over 20 occurred in fragile states, with Afghanistan, Pakistan, Libya, Somalia, Sudan and Yemen having the most civilian casualties. Global homicide rates have been dropping as well, with the exception of Latin American and Caribbean countries and possibly Africa (Fearon, 2010).

Developing countries suffer the majority of conflicts worldwide, with almost 80% of conflicts taking place in countries with incomes below the global median. Within this group, some of the conflict burden has shifted in the last years from countries in the lowest income quartile to countries of the second quartile (Fearon, 2010).

Conventional armed conflict often overshadows the security needs of women, which are particularly acute in situations of conflict and fragility. While men typically bear the brunt of the direct effects of violent conflict, indirect effects such as increased domestic violence and reproductive health problems disproportionately impact women's mortality and well-being (World Bank, 2011). Women's security concerns often have domestic origins, which are not generally addressed in post-conflict settings, as the public sphere is seen as the priority. Even cases of Gender Based Violence – which are often perceived to be private sphere concerns – are rarely processed by courts, which further undermines the perception and understanding of these acts as criminal (El-Bushra *et al.,* 2012).

Poverty

Two recent papers look specifically into recent and future trends in global poverty (Chandy and Gertz, 2011a; Sumner, 2012). Their main common message is that poverty is "increasingly a problem of fragility" (Chandy and Gertz, 2011a). For example, in 2008 "only 7 per cent of world poverty (or 90m poor people) [was] found in 'traditional' developing countries – meaning low-income and stable (*e.g.* Tanzania)" (Sumner, 2012). This conclusion is consistent with the *World Development Report 2011*'s finding that "the gap in poverty is widening between countries affected by violence and others" (World Bank, 2011).[2]

By some estimates for 30 or so fragile states in the "Alert" category of the FSI ranking,[3] the concentration of the global poor in these countries doubled between 2005 and 2010, from 20% to 40% (Chandy and Gertz, 2011a, based on World Bank data). With the graduation to middle-income status of large countries such as Nigeria and Pakistan, an increasing share of the world's poor is now also found in middle-income countries (from 26% in 2005 to 65% in 2010), many of which are fragile states (Chandy and Gertz, 2011a). This double shift means that the share of the global poor living in MIFS has increased 17-fold over the past five years alone (Table 1.2).

Table 1.2. **Where are the world's poor? (2005-10, % of global population of poor)**

The world's poor are concentrated in mid-income stable countries, but there is an upward trend in fragile states

	Low-income		Middle-income		Total	
	2005	2010	2005	2010	2005	2010
Fragile	19	23	<1	17	20	40
Stable	53	10	25	48	79	59
Total	73	34	26	65		

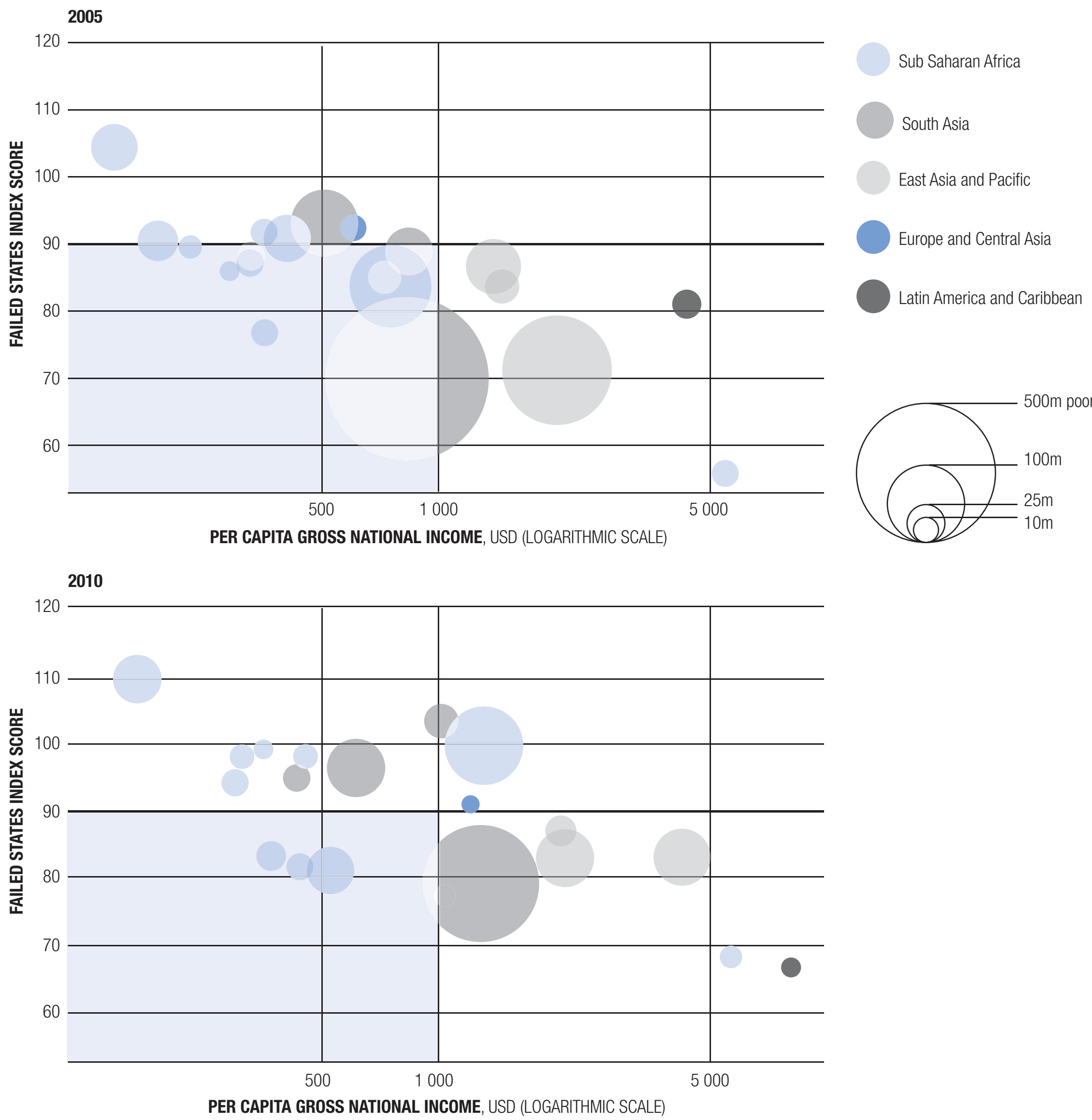
Source: Chandy, L. and Gertz, G. (2011b), *Two Trends in Global Poverty*, The Brookings Institution, Washington, DC, available at *www.brookings.edu/~/media/research/files/opinions/2011/5/17%20global%20poverty%20trends%20chandy/0517_trends_global_poverty.pdf.*

It must be emphasised that the prevalence[4] of poverty has decreased globally, including in fragile states at different levels of income, according to the most recent surveys of countries: Bangladesh (2010); Burundi (2006); Guinea (2007); Nepal (2010); Niger (2007); Rwanda (2010); Sri Lanka (2006); Uganda (2009).[5] However, poverty in fragile states has decreased at a significantly slower rate than in other developing countries – especially in China and in India – which explains why global poverty is increasingly concentrated in fragile states, notably those of sub-Saharan Africa (Figure 1.6).

The poor are disproportionately found in fragile states, regardless of the list used: it is estimated that while less than one-fifth (about 18.5%) of the world's population lived in fragile states in 2010,[6] these countries hosted about one-third of the world's poor (400 million out of 1.2 billion), reflecting a more than two-fold difference in the prevalence of poverty between fragile states and non-fragile states: about 20% compared to 40% (Sumners, 2012; authors' calculations). An estimated 280 million poor people are living in just five fragile states: Nigeria, the Democratic Republic of Congo, Bangladesh, Pakistan and Kenya.

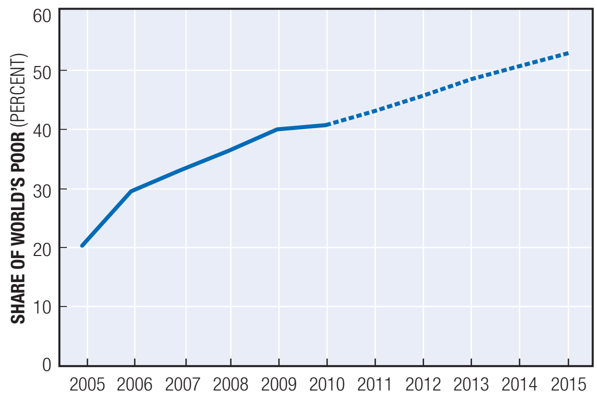
According to the same sources, the trend is likely to continue (Figure 1.7) as discussed in greater detail in Question 10.

Figure 1.6. **Distribution and concentration of poverty (2005 and 2010): more in sub-Saharan Africa, more in fragile states**



Source: Chandy, L. and Gertz, G. (2011b), *Two Trends in Global Poverty*, The Brookings Institution, Washington, DC, available at *www.brookings.edu/~/media/research/files/opinions/2011/5/17%20global%20poverty%20trends%20chandy/0517_trends_global_poverty.pdf.*

Figure 1.7. **The share of the world's poor living in fragile states is expected to exceed 50% by 2015**



Source: Chandy, L. and Gertz, G. (2011a), "Poverty in Numbers: The Changing State of Global Poverty from 2005 to 2015", *Global Views Policy Brief 2011-01*, The Brookings Institution, Washington, DC, available at *www.brookings.edu/~/media/research/files/papers/2011/1/global%20poverty%20chandy/01_global_poverty_chandy.*

Given these trends, the poverty picture is changing from one of poor people in poor countries (73% of the world's poor lived in low-income countries in 2005) to one of poor people in middle-income countries (65% of the world's poor in 2010), many of which are fragile (17% of the world's poor in 2010).

The concentration of poverty in middle-income countries reflects in part the fact that a number of MIFS (*e.g.* Nigeria, Pakistan, and Yemen) have only just moved from low-income to middle-income status, and so large pockets of poverty are likely still to persist in spite of this graduation. The high prevalence of poverty found in these MIFs may also be in part a symptom of fragility, *i.e.* a reflection of the nature of their political process and economic systems. But by weakening social cohesion, poverty is also a cause of fragility.

There is also evidence that the impact of growth on poverty varies across countries and income groups: growth is not always matched by a proportionate reduction in poverty. Or more specifically: the income of the poorest groups in a given country often rises at a lower rate (Sumners, 2012, citing Besley and Cord, 2007; Grimm *et al.*, 2007). If so, the distributional – and political – dimension of poverty reduction in fragile states will warrant specific consideration.

Question 2: In what ways does fragility matter?

Fragile states matter because they are home to a growing share of the world's poor. They are also more susceptible to instability, with potential regional and global consequences. Crisis and conflict prevention are more cost-efficient than engaging after the damage has been done. But engagement is only effective if it is based on a more robust understanding of fragility and its dimensions, taking into account the social contract between state and society.

The literature usually points to three reasons why the international community should improve the quality and, in some cases, quantity of support to fragile situations: poverty, instability, and the cost-effectiveness of prevention (DfID, 2005). Fragile situations matter because they host a large and increasing number of poor people and have an appalling human development record. "No fragile country has yet achieved a single MDG, and fragile states are home to half of all children not in primary school and half of all children who die before reaching their fifth birthday" (Chandy and Gertz, 2011a). In the next decade, fragile situations will be the main battlegrounds in the war against global poverty. Fragile situations also matter because they are susceptible to instability which can have regional and sometimes global consequences (Chauvet and Collier, 2004), although the nature and magnitude of such cross-border "spillovers" are highly context-specific (Patrick, 2006). It also costs less to prevent instability and conflict than to fix the damage once it's been done (Collier and Hoeffler, 2004). Finally, there is evidence that aid can, under the right conditions, be effective in fragile situations (see Question 5).

But the discussion should not stop here. To achieve change, a deeper investigation of the ways in which fragility matters is necessary: what dimensions matter most; how do they inter-relate; what are the channels of transmission among these different dimensions; and what are the ways out of fragility? Policies and programmes aimed at decreasing fragility will differ depending on which criteria are assumed to be fundamental. Furthermore, an inaccurate understanding of fragility may cause cases of genuine fragility to be overlooked.

Debates about fragility increasingly recognise its multiple dimensions in terms of state authority, capacity to respond to citizens' expectations, and legitimacy; and its deeply political and cultural roots. Yet, definitions and measures of fragility give very different weight to each of these dimensions. For example, some think that "structural economic vulnerability" is the central matter (Guillaumont and Guillaumont-Jeanneney, 2009), whereas others emphasise the social contract (OECD, 2011b; UNDP, 2012). The World Bank Country Policy and Institutional Assessment (CPIA) suggests that, by and large, what matters are institutions and policies. The Failed States Index (FSI), for its part, suggests that other factors should be taken into consideration, including measures of risk, demographic trends, and so on. Most recently, the *New Deal* (IDPS, 2011) represents an international consensus on the five key dimensions of fragility: legitimate politics (inclusive political settlements and conflict resolution); security; justice; economic foundations (employment and livelihoods); and revenues and services.

The debates around definitions and measurements of fragility have practical implications, as underscored by James Putzel (2010). For example, the CPIA score, which influences International Development Association (IDA) resource allocations, is arguably a good indicator of fragility understood in a political and dynamic sense, as well as a good predictor of future violence. One should however remain aware that there is no automatic correspondence between "thin" criteria used to flag fragility (bad policies, poor governance) and the "thick" conceptualisation of fragility (*e.g.* as a social contract issue; see the Introduction).

Box 1.1. The Arab Spring: implications for our understanding of fragility

The Arab Spring has made it clear that "thin" conceptions of fragility have limitations. Among Arab Spring countries, only Yemen was rated "Alert" (FSI score above 90) by the Failed State Index in 2010 and 2011.* This raises questions about how fragility is defined, measured and understood, and also highlights the importance of considering and understanding the nature and strength of the social contract between the state and citizens – which essentially failed in these countries. Tunisia for example had an FSI score equal to Brazil's in 2010. The governance and policies of this middle-income country were largely praised, and its population enjoyed relatively high living standards and levels of education. But these very features, in an interconnected world where technology has made access to information almost pervasive, may have created expectations among large numbers of young adults which the state was simply not able to satisfy; a clear failure of the social contract.

More generally, three aspects of the Arab Spring are worth emphasising:

1. Autocratic regimes are relatively stable at low and high-income levels but most vulnerable at intermediate levels of economic development (Lipset, 1959; Przeworski, 2000).
2. One needs to look beyond traditional governance indicators and state capacity when discussing fragility, to consider the features of state-society relations.
3. While fragility can be usefully understood as a lack of ability to adapt, there is also a need for greater consideration of demographic, technological and climatic factors, among others. Most current definitions and measures of fragility still probably take too little account of the nature and intensity of internal or external pressures, and of changes in values within a society. The emphasis is still very much placed on the ability to respond.

* As of 2012, Egypt, Syria and Yemen are now included in the list. The World Bank-African Development Bank-Asian Development Bank harmonised list of fragile and post-conflict countries (*http://siteresources.worldbank.org/EXTLICUS/Resources/511777-1269623894864/FCSHarmonizedListFY13.pdf*) excludes middle-income countries, except if they have hosted a peacekeeping or peacebuilding mission during the past three years. Libya and Syria join Yemen on the list by virtue of having a peacekeeping mission. Egypt and Tunisia can be considered as transition countries rather than fragile states; see for example the discussion in *www.fragilestates.org/2012/06/03/differentiating-between-fragile-states-and-transition-countries*.

Notes

1. The HDI combines indicators of life expectancy, education and income. See *http://hdr.undp.org/en/statistics/hdi/* for details on the methodology, revised in 2011.
2. Specifically, the *World Development Report* found that "for every three years a country is affected by major violence (battle deaths or excess deaths from homicides equivalent to a major war), poverty reduction lags behind by 2.7 percentage points" (World Bank, 2011).
3. In other words with an FSI above 90 for each corresponding year.
4. The prevalence of poverty refers to the percentage of the population below some specific poverty line; the concentration of poor refers to the share of poor people living in a specific country or groups of countries.
5. Year refers to date of latest survey. Information from the World Bank's *World Development Indicators* and Povcalnet (*http://iresearch.worldbank.org/PovcalNet/index.htm*)
6. Based on the 2011 OECD list of 45 fragile states (OECD, 2011a) and a USD 1.25 a day poverty line.

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Chapter 2

Financial flows in fragile states

ODA and philanthropic giving to fragile states has continued to grow, just as the multi-pronged engagement (development, trade and investment) of rising powers accelerated. ODA to fragile states reached USD 50 billion, or 38% of total ODA, in 2010. It represents the biggest financial inflow, followed by remittances and foreign direct investment (FDI). However, half of all ODA to fragile states goes to only seven "donor darlings", and remains very volatile: every fragile state has had at least one aid shock in the past 10 years.

As for private sector inflows, there remains significant scope for leveraging ODA and remittances to increase them. Three-quarters of FDI to fragile states going to just seven countries, all resource-rich. Again with the exception of resource-rich countries, they are increasingly locked out from international trade. Overall, fragile states are far from realising their tax potential.

Question 3. What are the main financial flows in fragile states?

Official development assistance (ODA) represents the biggest financial inflow to fragile states, followed by remittances and foreign direct investment (FDI). While the volume of these inflows has been on the rise, more is not always better. Aid has the potential to catalyse other flows and changes in private behaviour, but it does not always do so, especially if it lacks coherence with other policy objectives and is measured mainly against short-term results. Remittances increased following the financial crisis of 2008. FDI is concentrated in a small number of sectors in fragile states, typically in extractive industries.

The main financial flows in fragile states

Data for 2000-10 show a number of key features at the aggregate level (Figure 2.1). Official development assistance (ODA) is the main inflow of resources into fragile states, and its share has increased steadily over time. Remittances are the second largest source of external finance in volume; their share has also increased over the past few years, providing critical support to many communities. Net foreign direct investment (FDI) has also risen in volume over the decade, but remains at about half the level of ODA and remittances. Fragile states as a group have run large trade deficits, especially since the 2008 crisis; overall, trade deficits outweigh net FDI inflows two to one.

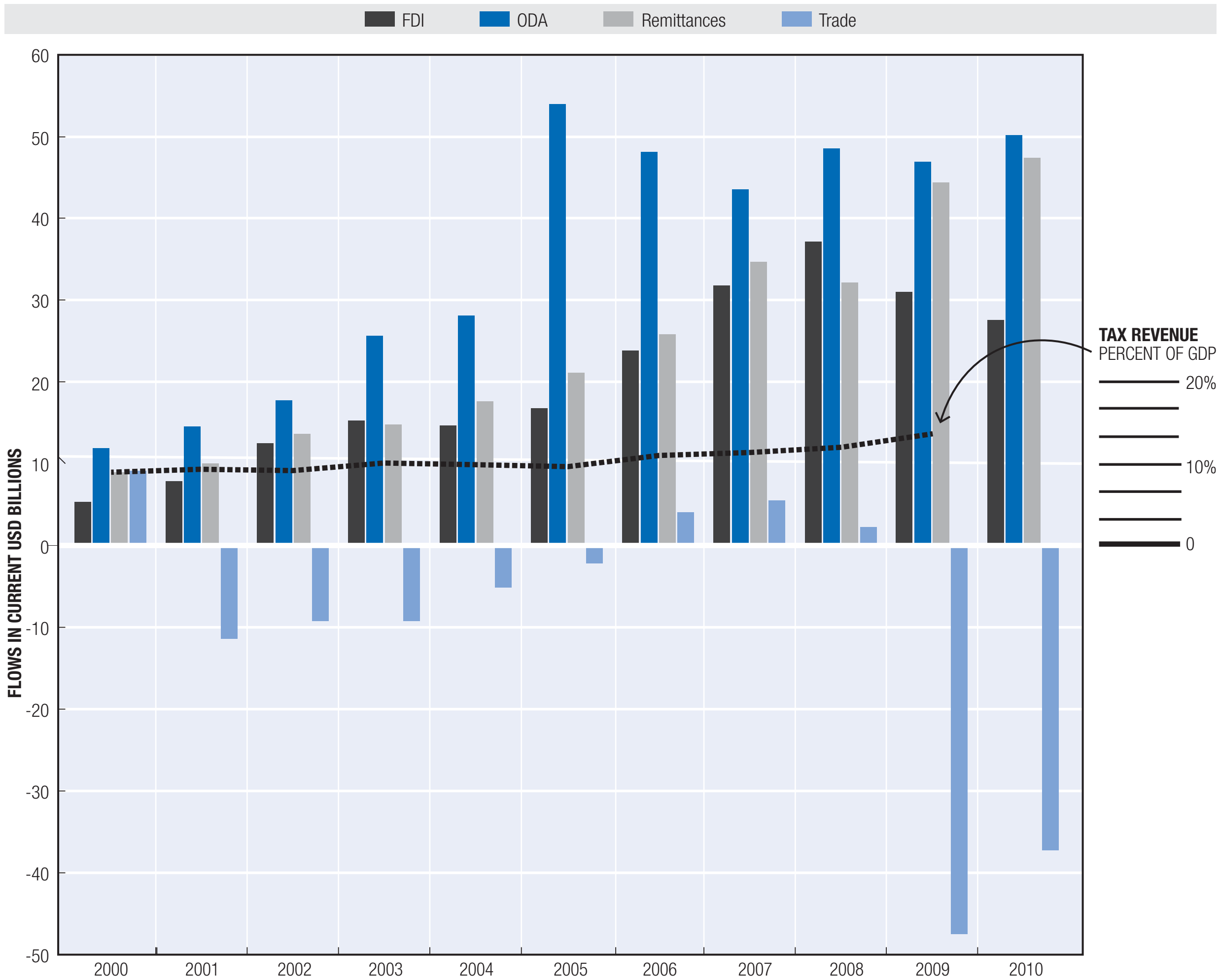
Financial flows are all part of the "development equation"; their mix and level reflect and affect the socioeconomic and political landscape of countries within which they circulate. However, different flows have different goals and cannot be compared without understanding their respective developmental impact and interactions. Moreover, fragile states engage in trade and investment relations amongst each other, so that one's deficits are another's surpluses. This also limits the significance of aggregate numbers. Finally, there is great variation within the group, for example in terms of dependency on aid. Overall volumes across fragile states say nothing about changes in the distribution of these resources. They also ignore differences in population size and GDP.[1]

There seems to be significant room for increased private sector flows. These do not currently represent a major source of finance for the group as a whole. This is to be expected given the depressing effect of fragility on the business climate, which, in turn, affects fragility. A similar argument can be made for the generally low level of tax revenues, which can be seen as both a cause and effect of fragility. However, the tax/GDP ratio has increased more or less steadily since 2000, and reached about 13% on average in 2009 in countries with available data (see Question 8).[2]

How do these flows interact?

These different flows have different goals and channels. Not every dollar is the same dollar, and more is not always better. There is a need to go beyond volumes to look at the exact nature, sources and interaction of these flows. In particular, whether aid catalyses other flows and changes in private behaviour is still debated – but it certainly can and should (Kharas *et al.*, 2011; Rogerson, 2011).

Figure 2.1. **Main flows to fragile state (2000-10)**



FLOWS IN CURRENT USD BILLIONS

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
FDI	5.34	7.87	12.52	15.11	14.64	16.75	23.83	31.79	37.16	30.99	27.59
ODA	11.88	14.52	17.74	25.43	28.10	53.92	48.08	43.55	48.49	46.90	50.04
Remittances	8.95	10.00	13.63	14.62	17.59	21.13	25.82	34.67	32.14	44.37	47.38
Trade	9.11	-11.39	-9.25	-9.42	-5.14	-2.19	4.07	5.48	2.29	-47.48	-37.25

TAX REVENUE PERCENT OF GDP

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
9.07%	9.39%	9.23%	10.19%	9.97%	9.77%	11.13%	11.46%	12.06%	13.65%	

Source: Authors' calculations, based on WDI, available at *http://hdr.undp.org/en/statistics/data/* and OECD International Development Statistics (IDS) online databases on aid and other resource flows, available at *www.oecd.org/dac/stats/idsonline.*

Aid and domestic revenues

Aid critics have long argued that aid may undermine a country's incentive to raise domestic revenues[3] – although there is also evidence of the opposite effect over both the long run and the more recent period of greater tax effort by many developing countries (Benedek *et al.*, 2012; Clist and Morrissey, 2008). This debate has particular resonance in fragile contexts as taxes, along with the national budget, are at the heart of the social contract between a state and its citizens. The level of taxes that a state can raise depends on all three dimensions of fragility – authority (notably territorial), capacity, and legitimacy. In turn, taxes provide important resources to reinforce these attributes.

Aid and private flows

Similarly, debates continue about whether aid creates adverse "Dutch-disease" effects on the manufacturing and export sectors,[4] and whether aid agencies pull some of the most educated local workforce out of the productive sectors or partner governments, contributing to brain drain. Again, these debates are of particular relevance in fragile contexts because fragility is often synonymous with low capacity and high aid dependency – whether measured by the ratio of ODA to GDP,[5] ODA to central government expenditures, or net ODA as a percent of gross capital formation:

- The 10 most aid-dependent countries in the world are Liberia, Tuvalu, Micronesia, Burundi, the Marshall Islands, Afghanistan, Timor-Leste, the Solomon Islands, Sierra-Leone and the Democratic Republic of Congo (ODA-to-GDP ratio, 2000-10 average; see Table 2.1).

Table 2.1. **The word's most aid-dependent countries and economies (ODA-to-GDP ratio, 2000-10 average)**

1	**Liberia**	**72.4%**
2	Tuvalu	43.7%
3	**Micronesia***	**42.2%**
4	**Burundi**	**38.9%**
5	**Marshall Islands***	**37.0%**
6	**Afghanistan**	**36.9%**
7	**Timor-Leste***	**36.5%**
8	**Solomon Islands***	**33.6%**
9	**Sierra Leone**	**31.4%**
10	**Congo, Dem. Rep.**	**27.1%**
11	Mozambique	25.7%
12	**West Bank and Gaza***	**25.5%**
13	Sao Tome and Principe	24.8%
14	**Iraq***	**22.8%**
15	Palau	22.6%
16	**Guinea-Bissau**	**22.3%**
17	**Eritrea**	**22.2%**
18	**Malawi**	**21.1%**
19	**Rwanda**	**19.9%**
20	**Haiti**	**17.1%**

Note: Fragile states are in bold. (*) denotes a middle-income fragile state.

Source: WDI, available at *http://hdr.undp.org/en/statistics/data/.*

- The most aid-dependent nations in terms of percentage of central government expenditures are Afghanistan, Niger and Madagascar (World Bank, 2009).
- The world's countries who most need external rather than domestic resources to fund growth-enhancing investment are the Central African Republic, Comoros and the Democratic Republic of Congo.[6]

Recognised good practice regarding international engagement in fragile situations is not limited to aid. Instead, the emphasis is on understanding the impact of aid on the domestic political economy and non-domestic factors affecting conflict or fragility. Indeed, incoherent policy objectives can do harm, especially in fragile situations. Development efforts in the run-up to the genocide in Rwanda in 1994 provide a dramatic case in point: measuring success through the narrow lens of short-term results, using "thin" indicators such as GDP growth and food availability[7] without regard to the impact of development programmes on social and political dynamics, can result in spectacular disaster (Uvin, 1998). Further, there is a broad consensus that extreme aid dependency is harmful and that aid to fragile states must trigger other flows and leverage behaviour change.[8] Rwanda and Liberia, for example, have made the reduction of aid dependency an explicit policy objective, and Rwanda has in fact cut its aid-to-GDP ratio by half over the past decade.

Remittances, FDI, trade: their correlation with economic growth

An important feature of remittances, as seen during the 2008 crisis and its aftermath, is their potential counter-cyclicality from the point of view of the receiving country (Frankel, 2009). The continuous rise of remittances has benefitted almost all developing countries, but has been especially marked in a number of fragile states with large diasporas, such as Eritrea, Haiti and Somalia (Lindley, 2007; DIIS, 2008; Hansen, 2008; World Bank, 2011). There are currently several avenues being pursued to try and mobilise the savings of diaspora members through bonds (Ketkar and Ratha, 2010; *The Economist*, 2011), as discussed in Question 7.

FDI and trade by contrast tend to be pro-cyclical (*i.e.* positively correlated with the overall state of the economy). In fragile situations, they are also concentrated in a small number of sectors, typically in extractive industries. Fragile states are very capital-poor compared to other developing countries and need a prolonged phase of "investing in investing" (Collier, 2007). FDI and trade can reduce fragility, notably by creating jobs and growth and enlarging the tax base, in combination with other measures: "International actors should have a political incentive to create economic incentives – perhaps through trade, perhaps through investment in economic capacity development – while working, where relevant, on improving public finance management. (…) There is, a priori, a case to be made that restrictive trade policy, especially as it relates to agriculture, textiles and government services, is at odds with attempts to encourage economic growth" (OECD, 2008a).

Question 4: How has development co-operation with fragile states evolved over the past decade?

Between 2000 and 2010, per capita ODA to fragile states grew by over 10% a year on average, but it remains highly concentrated. In 2010, half (49%) of total ODA to fragile states went to only 7 recipients (out of 47): Afghanistan, Ethiopia, the Democratic Republic of Congo, Haiti, the West Bank and Gaza, and Iraq.

*Development co-operation from non-DAC members to fragile states has increased in the past decade, along with growing trade and investment. With the exception of China, most of these countries (*e.g. *Brazil, India and South Africa) have a regional focus to their engagement.*

Technological innovation demonstrates new possibilities for philanthropic giving from both the developed and developed countries. The wireless transfer of aid through cell phones is especially useful in contexts with weak infrastructure. Philanthropic giving has increased but continues to be volatile and unpredictable, heavily dependent on media coverage, timing, and geopolitical considerations.

Development co-operation to fragile states comes from Development Assistance Committee (DAC) countries, other countries, philanthropic organisations, global/thematic funds, innovative financial instruments (Sandor *et al.*, 2009), and sovereign wealth funds. This chapter examines all but the last two, for which data is too sparse.

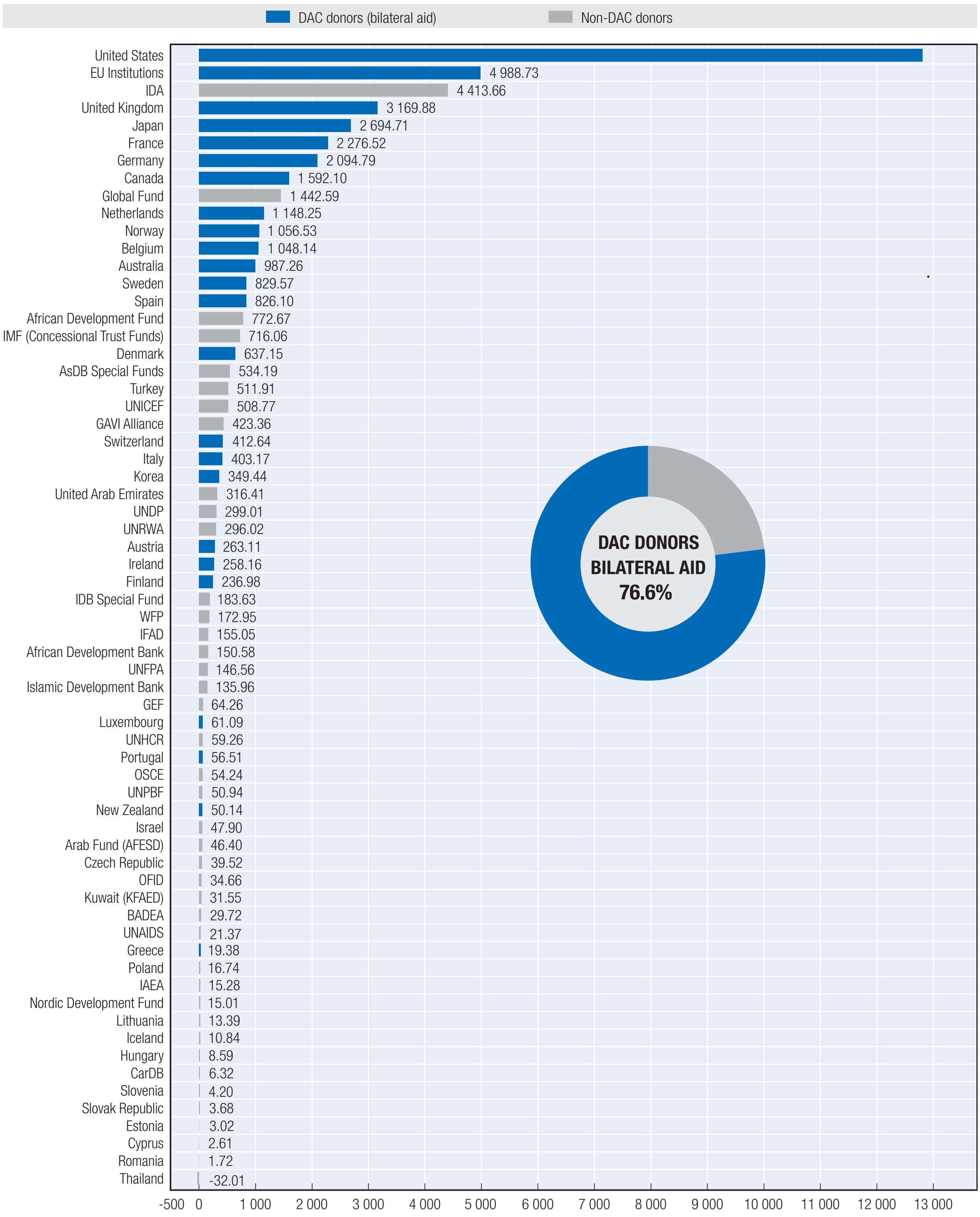
Development co-operation from DAC donors

DAC donor countries provide aid in the form of both ODA and non-ODA. Peacekeeping, for example, is funded by a blend of ODA and non-ODA funds (Box 2.4). Seven of the top ODA recipients globally are fragile (2008-10 average, OECD International Development Statistics): Afghanistan, Iraq, Ethiopia, the West Bank and Gaza, the Democratic Republic of Congo, Pakistan and Sudan and all have, or recently had, peacekeeping missions (including border control missions). Figure 2.2 ranks DAC donors by their levels of ODA to fragile states in 2010. (Please note Figure 2.2 contains information on Cyprus; see endnote 9.)

Between 2000 and 2010, per capita ODA to fragile states grew by 46%, while it only grew by 27% in non-fragile states (Figure 2.3). However, more recently (2008-10), there is no major difference in per capita ODA growth between fragile states and non-fragile states. ODA to fragile states represented USD 50 billion, or 38% of total ODA, in 2010.

The sharp spike in per capita ODA to fragile states between 2004 and 2007 owes largely to debt relief (*e.g.* to Iraq and Nigeria), but even without this, per capita ODA grew significantly. Specifically, ODA to poor people living in fragile states has risen sharply since 2000 (when it was a record low – see Figure 2.5) (Kharas and Rogerson, 2012). The growth in ODA per capita over the past decade is especially marked in low-income fragile states (LIFS) – notably in sub-Saharan African countries – but other fragile states have not been so fortunate. In several, per capita ODA has actually decreased (*e.g.* Angola, Eritrea and Bosnia and Herzegovina). In 2010, the fragile states or economies receiving the most ODA per capita were Micronesia, the Solomon Islands, the West Bank and Gaza, Liberia and Republic of Congo (Figure 2.4).

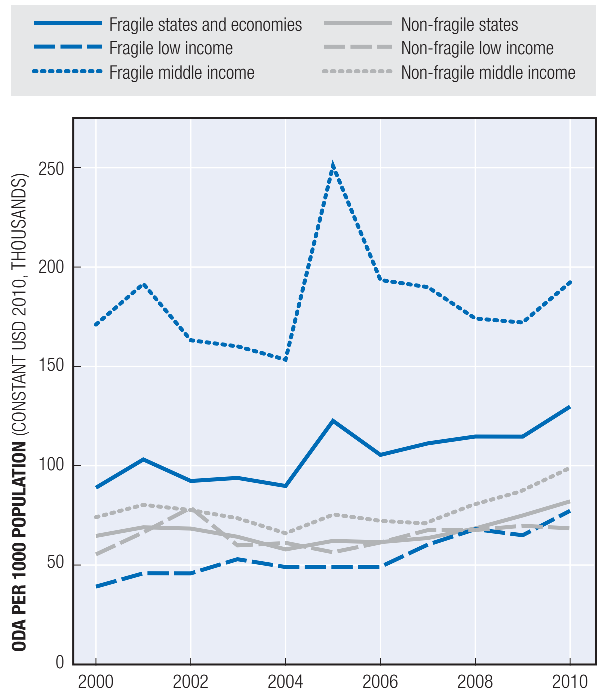
Figure 2.2. **Providers of development co-operation to fragile states (total ODA, 2010)**



Note: This figure covers providers of development co-operation reporting it to the DAC.

Source: OECD International Development Statistics (IDS) online databases on aid and other resource flows, available at *www.oecd.org/dac/stats/idsonline*.

Figure 2.3. **Per capita ODA to fragile states is higher than to non-fragile states (2000-10)**



Source: OECD International Development Statistics (IDS) online databases on aid and other resource flows, available at *www.oecd.org/dac/stats/idsonline.*

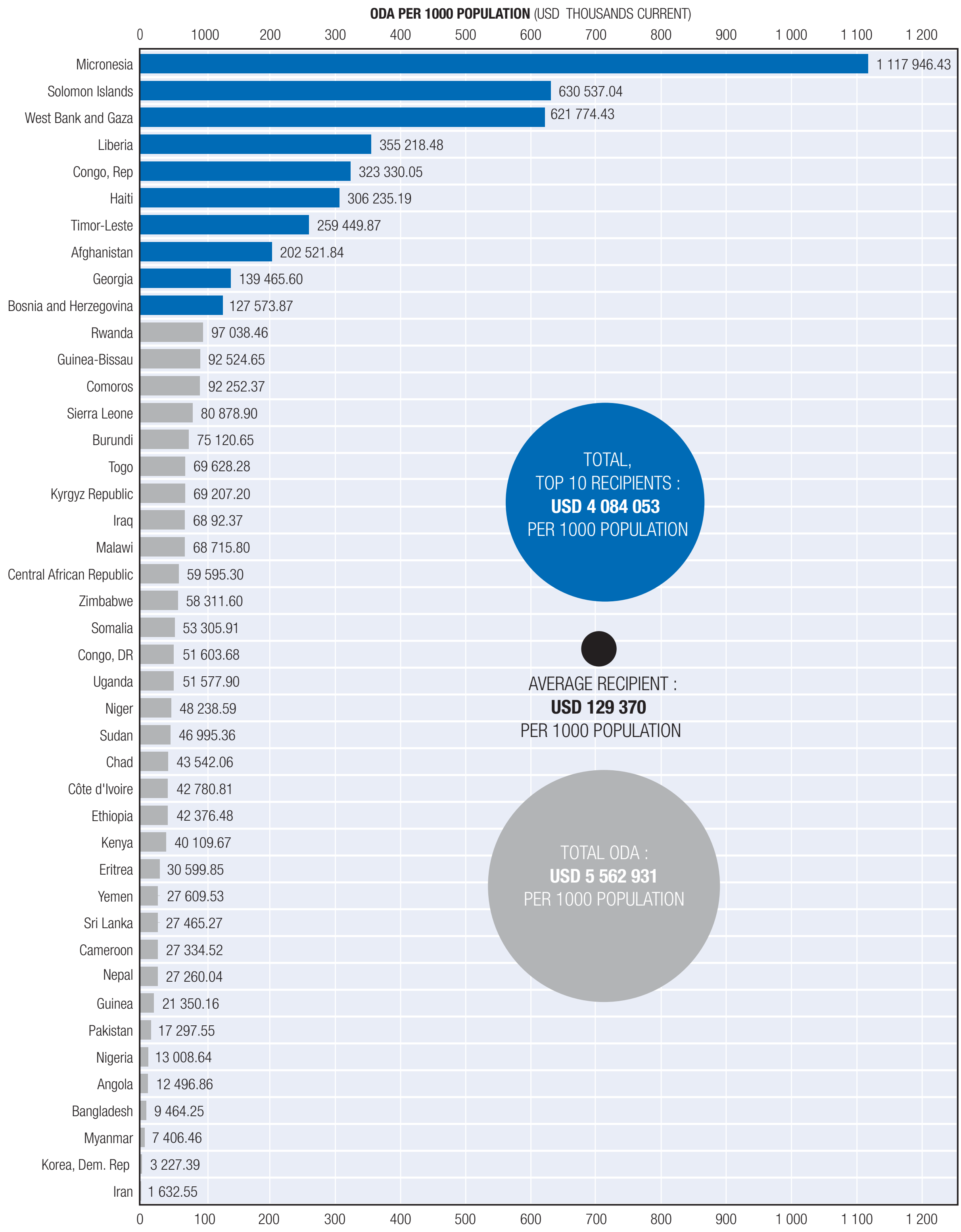
Looking at aid dependency, measured by ODA as a share of GDP, the trends are similar to ODA-per-capita trends: there is a marked increase in LIFS over the decade, but a decrease in MIFS since 2005 (Figure 2.6).

ODA is highly concentrated in a small number of countries. Half (49%) of total ODA to fragile states went to seven countries and territories in 2010 – which are also those that receive a large share of their ODA as humanitarian assistance (Table 2.2 and Figure 2.7). These seven countries include Haiti and Pakistan, both hit by dramatic natural disasters that year. This concentration has not changed much since 2009, when half of ODA benefitted eight countries.

Comparing fragile and non-fragile states, there are notable differences in how ODA is delivered (Figure 2.8).

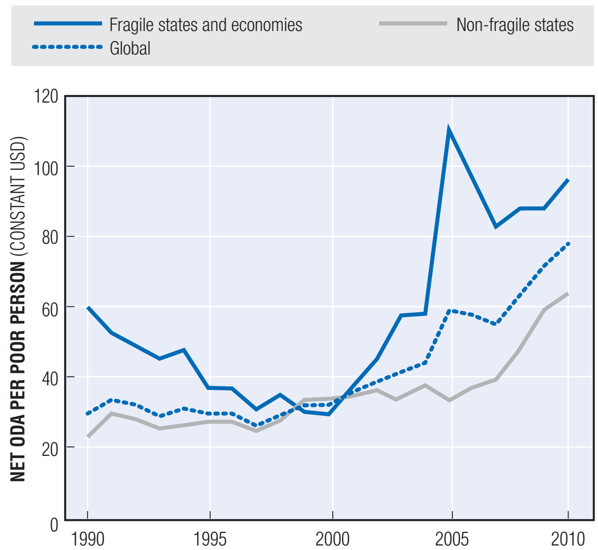
- In non-fragile countries, half of ODA is delivered through the public sector (*i.e.* the implementing partner is either the donor government, the recipient government or – in the case of delegated co-operation – a third country government); only 12% is disbursed through multilateral organisations. In fragile states, an average of 21% of ODA is delivered through multilateral channels and 34% through the public sector. This may in part reflect the relatively large proportion of aid to fragile states that is humanitarian and delivered by UN agencies.
- There is only a modest difference in the non-governmental organisation (NGO) channel between fragile and non-fragile countries – this is perhaps surprising given the central role played by NGOs in fragile states.

Figure 2.4. **ODA per capita to fragile states and economies (2010)**



Source: OECD International Development Statistics (IDS) online databases on aid and other resource flows, available at *www.oecd.org/dac/stats/idsonline*.

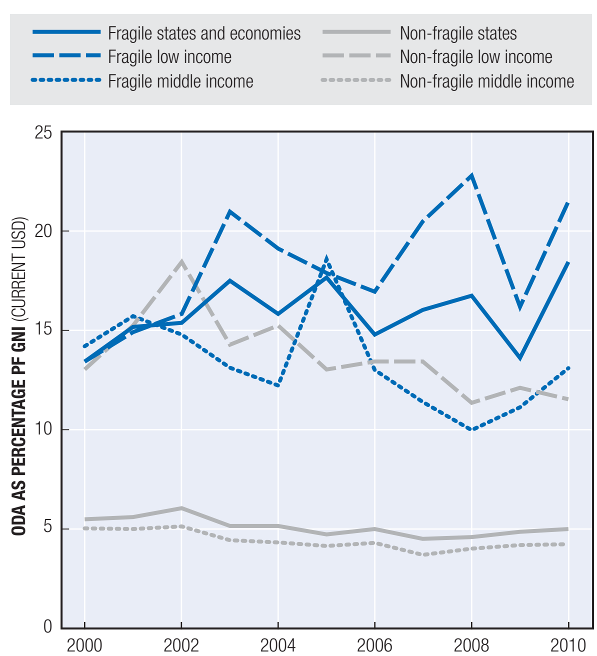
Figure 2.5. **Aid per poor person* has risen most sharply in fragile states**



Note: * "Poor person" refers to poverty incidence, or the population living in households spending less than USD 2 a day in 2005 purchasing power parity (PPP) terms. See source for further details.

Source: Kharas, H. and Rogerson, A. (2012), *Horizon 2025, Creative Destruction in the Aid Industry*, Overseas Development Institute, London, available at *www.odi.org.uk/resources/docs/7723.pdf*.

Figure 2.6. **Aid dependency and income groups, 2000-10**



Source: OECD International Development Statistics (IDS) online databases on aid and other resource flows, available at *www.oecd.org/dac/stats/idsonline*.

Table 2.2. **Top 10 recipients of official development assistance (ODA)**

(% of total ODA to fragile states, 2005 and 2010)

Country		ODA Rank 2010	Percent of total ODA to FS 2010	Percent of total humanitarian aid to FS 2010	ODA Rank 2005	Percent of total ODA to FS 2005	Percent of total humanitarian aid to FS 2005
Afghanistan	●	1	12.8%	7.1%	3	5.3%	5.1%
Ethiopia	●	2	7.1%	7.6%	4	3.6%	10.7%
Congo, DR	●	3	6.8%	5.3%	5	3.5%	5.1%
Haiti	▶	4	6.2%	19.1%	18	0.8%	1.1%
Pakistan	●	5	6.1%	17.2%	7	3.0%	8.2%
West Bank and Gaza	▶	6	5.1%	4.0%	12	1.9%	2.1%
Iraq	●	7	4.4%	2.4%	1	40.9%	11.0%
Nigeria	●	8	4.1%	0.1%	2	11.9%	0.2%
Sudan	●	9	4.1%	10.9%	6	3.4%	22.2%
Uganda	●	10	3.5%	1.0%	10	2.2%	2.9%
Bangladesh	◀	13	2.8%	1.0%	9	2.4%	0.3%
Congo, Rep.	◀	14	2.6%	0.2%	8	2.6%	0.2%
Total percent received by top 10 ODA recipients			**60.1%**	**74.8%**		**76.6%**	**62.9%**

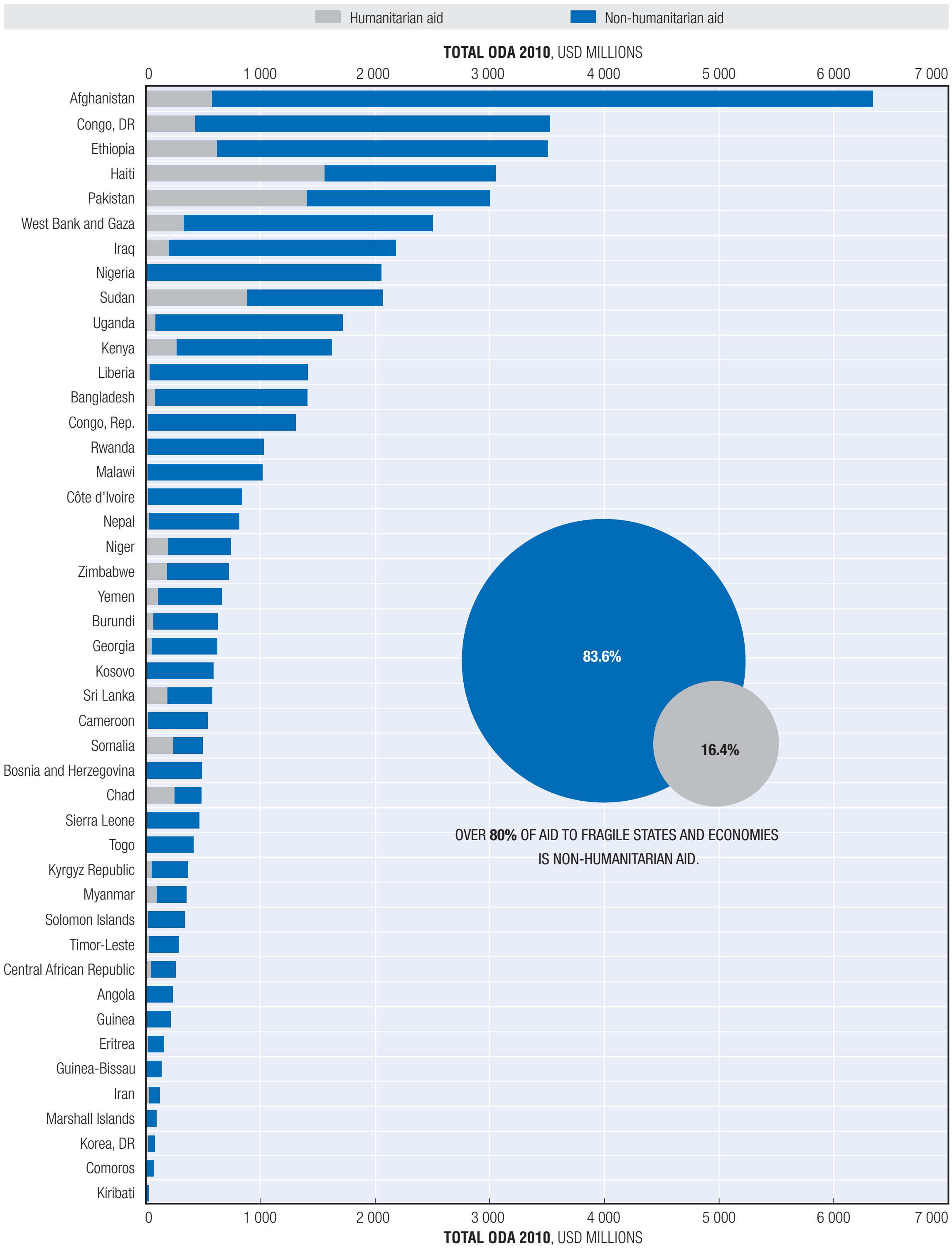
● In top 10 both years ▶ Into top 10 2005-10 ◀ Out of top 10 2005-10

Source: OECD International Development Statistics (IDS) online databases on aid and other resource flows, available at *www.oecd.org/dac/stats/idsonline.*

What is ODA to fragile states for? Like in more stable contexts, aid can play a unique role in saving lives, bringing about structural change for poverty reduction, and catalysing non-aid flows and behaviours. But in fragile situations the *New Deal* identifies five peacebuilding and statebuilding goals (Box 2.1) as the most strategic and effective objectives. Looking at sector composition of ODA in fragile states, it has changed over the years, with a notable growth in four areas between 2000 and 2010: government and civil society; health; economic infrastructure and services; and humanitarian aid (Figures 2.9 and 2.10). However, at the aggregate level it is difficult to determine *1)* whether these trends have been going in the "right" direction; and *2)* the optimal allocation of ODA. This analysis can only be done per country, based on context.

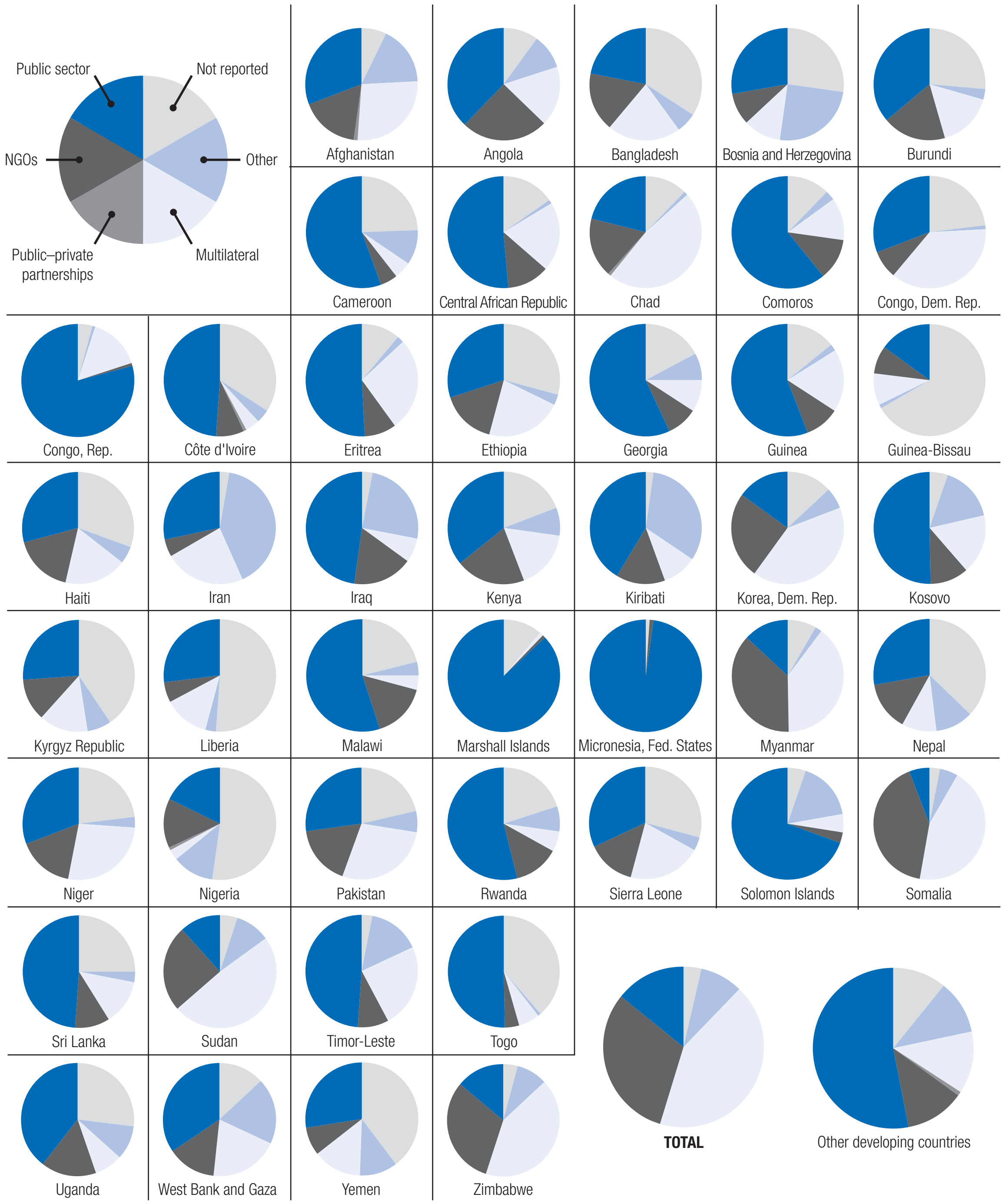
For humanitarian aid, there are encouraging signs that donors are heeding the call to increase development investments in fragile states, and are relying less on their humanitarian budgets to fund recovery and transition. Figure 2.9 shows that in most fragile states, development spending significantly outweighed humanitarian spending in 2010. Even in fragile states that experienced major humanitarian crises in 2010 – for example the floods that hit Pakistan and the massive earthquake in Haiti – development disbursements were on par with humanitarian spending (which was 46% of ODA in Pakistan and 50% in Haiti).

Figure 2.7. **Half of ODA to fragile states and economies goes to just seven recipients (2010)**



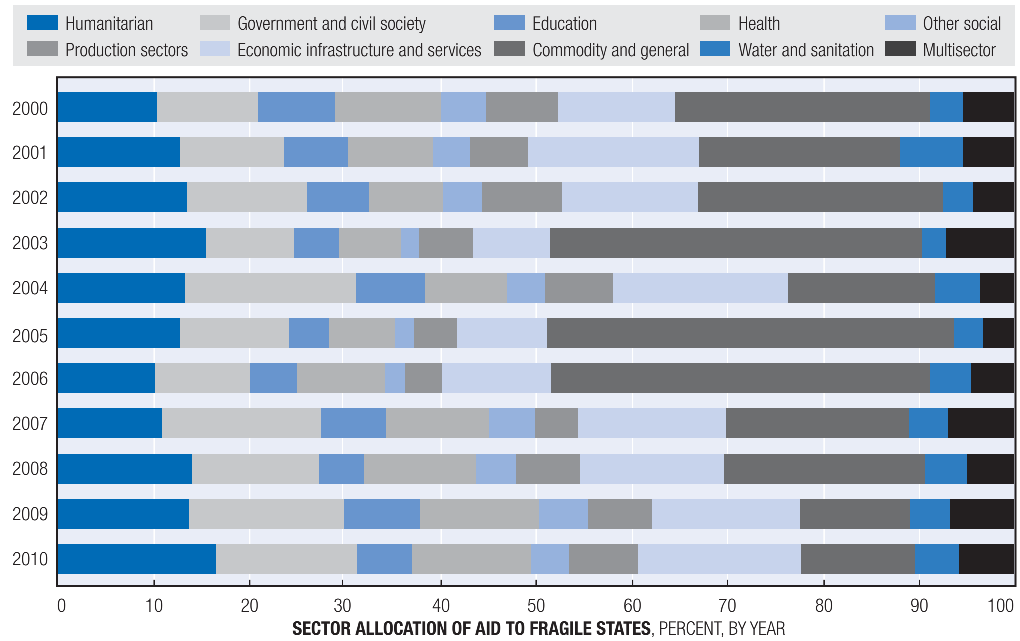
Source: OECD International Development Statistics (IDS) online databases on aid and other resource flows, available at *www.oecd.org/dac/stats/idsonline.*

Figure 2.8. **Favoured channels of ODA delivery in fragile and non-fragile contexts**



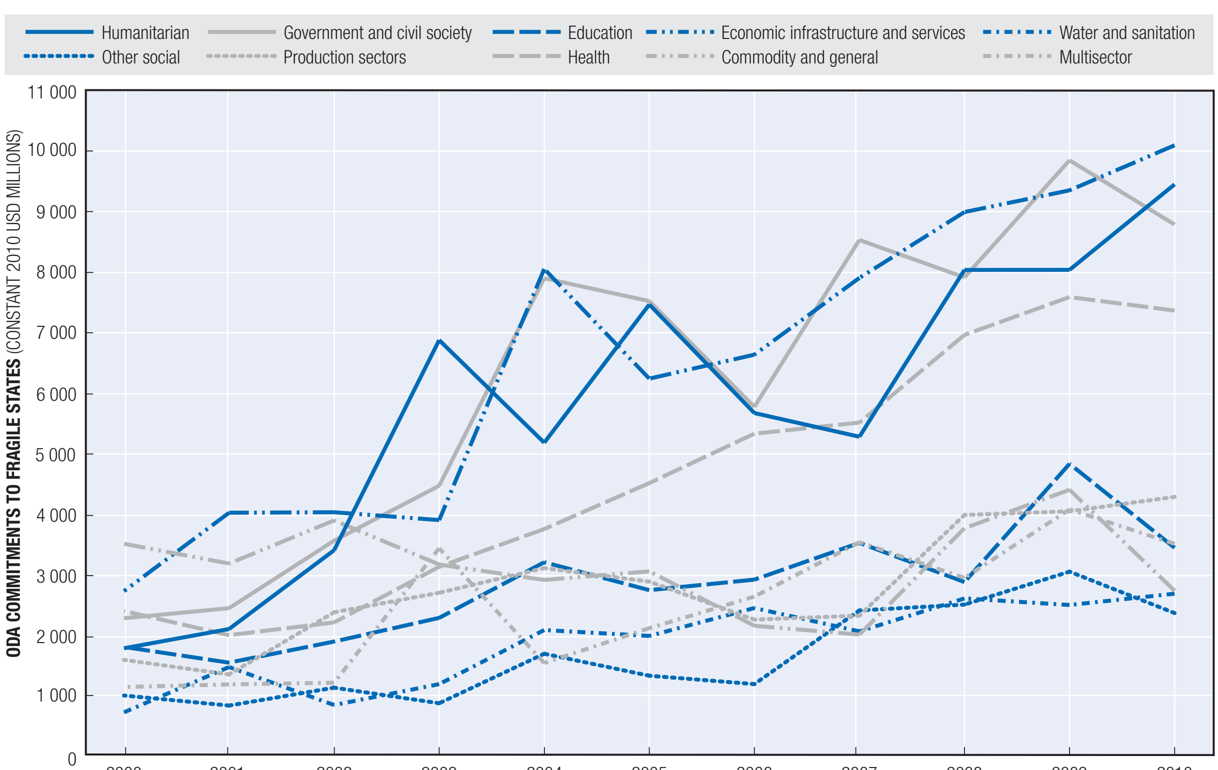
Source: OECD International Development Statistics (IDS) online databases on aid and other resource flows, available at *www.oecd.org/dac/stats/idsonline.*

Figure 2.9. **ODA allocations to fragile states by sector (2000-10)**
(% of total allocable aid, excluding debt relief)



Source: OECD International Development Statistics (IDS) online databases on aid and other resource flows, available at *www.oecd.org/dac/stats/idsonline.*

Figure 2.10. **ODA allocations to fragile states by sector (2000-10)**
(volume of allocable aid, constant USD, excluding debt relief)



Source: OECD International Development Statistics (IDS) online databases on aid and other resource flows, available at *www.oecd.org/dac/stats/idsonline.*

Box 2.1. **Can we assess donor activities against the New Deal's peacebuilding and statebuilding goals?**

One could use certain sector codes used in the OECD DAC's Creditor Reporting System* as proxies for some of the *New Deal's* five specific goals, but this will give very incomplete and possibly insignificant information (Table 2.3).

Current sector codes make it difficult to ascertain whether programmes and projects contribute to the *New Deal*'s goals: a road construction or job creation programme would normally be labelled under infrastructure and economic recovery, but they could also qualify as a peacebuilding activity if it has an explicit objective of bridging social divides, for example. Unless there is analysis of the specificities of each project, and unless peacebuilding and statebuilding markers are developed for donors to report on whether a project has a peacebuilding or statebuilding objective, no general conclusion can be drawn on the peacebuilding and statebuilding focus of international support at aggregate level.

Table 2.3. **Measuring contributions to peacebuilding and statebuilding goals through proxies**

Goal	Detail	Example of possible sector proxy	Corresponding OECD Creditor Reporting System code
Legitimate politics	Foster inclusive political settlements and conflict resolution	Civilian peacebuilding, conflict prevention and resolution	15220
Security	Establish and strengthen people's security	Security system management and reform	15210
		Participation in international peacekeeping operations	15230
		Reintegration and small arms and light weapons control	15240
		Removal of landmines and explosive remnants of war	15250
Justice	Address injustice and increase people's access to justice	Legal and judicial development	15130
Economic foundations	Generate employment and improve livelihoods	No specific codes beyond "economic infrastructure and services" (covering transport, communications, energy, banking and finance, business services) and "production sectors" (covering agriculture, forestry, fishing, industry, minerals, construction and tourism)	210, 220, 230, 240, 250 311, 312, 313, 321, 322, 323, 331, 332
Revenues and services	Manage revenue and build capacity for accountable and fair service delivery	Public sector policy and administrative management	15110
		Public finance management	15111

* The OECD DAC's Creditor Reporting System (CRS) contains an internationally recognised database on the geographical and sectoral breakdown of ODA. CRS codes allow donors to report the sector allocation of each programme, *i.e.* which specific area of the recipient's economic or social structure the transfer is intended to foster. Some contributions are not susceptible to allocation by sector and are reported as non-sector allocable aid (*e.g.* budget support and actions relating to debt).

Sources: International Dialogue on Peacebuilding and Statebuilding (2011), *New Deal for Engagement in Fragile States*, IDPS, OECD, Paris, available at *www.oecd.org/international%20dialogue/49151944.pdf*; and OECD Creditor Reporting System.

Box 2.2. **Peacekeeping in fragile states**

Peacekeeping represents an important element of international engagement in fragile states.* Between 2000 and 2010, the number of troops deployed for peacekeeping (UN and regional peacekeepers and personnel deployed in NATO operations) grew markedly, to reach over 250 000 troops (Figure 2.11). Total military peacekeeping grew by 32% between 2009 and 2010, with a sharp increase since 2009 driven by the expansion of NATO involvement in Afghanistan.

- NATO's International Security Assistance Force in Afghanistan grew by 84% between 2009 and 2010, reaching over 130 000 troops. This represents more troops than in all the UN missions combined.
- African Union peacekeepers with the African Union Mission in Somalia (AMISOM) grew by 40% to over 17 000 troops in 2012.

UN peacekeeping also grew, though by a more modest 2.4% in terms of troops. MONUSCO (Dem. Rep. Congo) and UNAMID (Darfur) are the biggest UN missions, with 19 083 and 21 067 uniformed personnel respectively. UNIFIL (Lebanon), MINUSTAH (Haiti) and UNOCI (Côte d'Ivoire) each have over 10 000 uniformed personnel deployed (as of July 2012).

Recent UN scale-ups:

- In July 2011, the UN authorised the deployment of UNMISS (South Sudan), the first new UN mission since UNAMID in 2007. It planned to recruit 5 544 troops by February 2012, resourced by a budget of over USD 722 million for fiscal year 2011/12.
- In the Democratic Republic of Congo, the MONUC/MONUSCO budget was increased slightly from fiscal year 2009/10 to fiscal year 2010/11, in spite of tense negotiations with the Congolese government over the timeline for troop withdrawal.
- UNAMID and MINURSO (Western Sahara) also saw increased budgets in 2010.
- In addition, the UN increased its support for the AMISOM budget in Somalia.

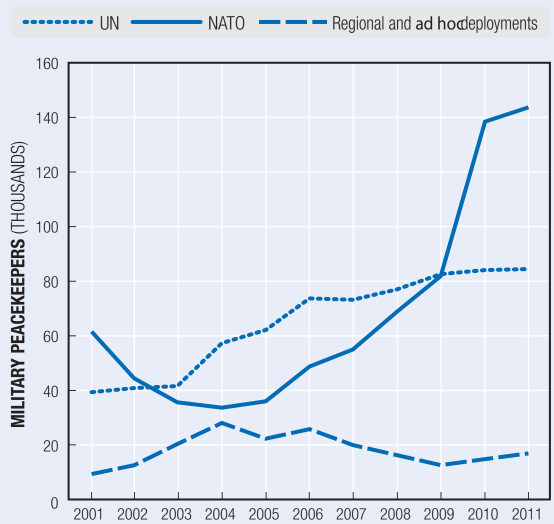
Recent UN downscales:

- Between July 2009 and June 2011, the budgets of UNMIS (Sudan), UNIFIL, UNMIL (Liberia), MINUSTAH (Haiti), and UNOCI (Côte d'Ivoire) were reduced.
- In June 2009, UNOMIG (Georgia) came to an end, although a Monitoring Mission continues with over 300 civilian police and observers.
- MINURCAT (Central African Republic and Chad) completed its withdrawal in December 2010.
- In Haiti, MINUSTAH personnel numbers are still higher than before the earthquake, but the overall budgeted expenditure for 2010/11 was USD 380 million in contrast to the USD 732 million spent between July 2009 and June 2010.

Pakistan, Bangladesh, India, Egypt and Nigeria are the largest contributors of military troops to UN-commanded missions; the US, UK, Germany, Italy and France are the largest contributors to non-UN commanded missions (of which NATO represents 90% of troops, and the African Union, the EU, the Economic Community of Central African States and *ad hoc* coalitions the remainder). The US is the top contributor to non-UN commanded mission, with 92 173 troops. The United Kingdom is the second highest contributor, at 9 600.

Box 2.2. **Peacekeeping in fragile states** *(continued)*

Figure 2.11. **NATO, UN and regional peacekeeping troops (2001-11)**



* Only part of peacekeeping qualifies as ODA. The enforcement aspects of peacekeeping do not count as ODA; neither do activities carried out for non-developmental reasons.

Source: CIC (Centre on International Cooperation) (2011), *Annual Review of Global Peace Operations*, CIC, New York University, New York. DPKO website: *www.un.org/en/peacekeeping/about/dpko/.*

Development co-operation from beyond the DAC membership

Data on development partners beyond the DAC membership are scant and do not necessarily follow common reporting standards (*i.e.* definitions and means of measurement), except for those who report their aid to the DAC in the same way as DAC donors (Figure 2.2).[10] However, it is clear that they play significant and growing roles in fragile states: China, India, Brazil, South Africa, and the Gulf states chiefly, and Colombia, Venezuela, Turkey, and Indonesia to some extent, (Sherman *et al.*, 2011).

China and India have rising aid budgets. China's foreign aid grew by nearly 30% each year from 2004 to 2009. In 2009, China pledged to provide USD 10 billion in concessional loans to Africa between 2010 and 2012. In 2011, China published its first ever aid White Paper (cited in Provost, 2011), which reaffirmed the country's intention to consolidate its position as a major aid actor in the decade ahead. China has played and will most likely continue to play an increasing role in fragile and conflict-affected states as part of a growing focus on least developed countries (LDCs). LDCs accounted for 50% of China's aid in 2010, up from 40% in 2009 (Wainright, 2011).[11]

As for India, it recently set up its own global aid agency, the Development Partnership Administration (DPA), with an estimated budget of about USD 15 billion to be disbursed between 2012 and 2017 (Taneja, 2012). Although India contests the notion of "fragile states", the DPA's portfolio will nevertheless be heavily concentrated in fragile states, with USD 7.5 billion to benefit African countries, USD 1 to USD 2 billion to Afghanistan, USD 1 billion to Myanmar and substantial aid to neighbouring countries like Nepal (India Africa Connect, n.d.).

In addition, multilateral engagement remains an important means through which rising powers are directly engaging in fragile states. For example, India currently supplies 8 100 troops to United Nations (UN) peacekeeping missions across the world, while China has nearly 2 000 personnel serving. Both also take part in multilateral anti-piracy operations.

While aid to fragile states from rising powers like India and China will grow, it will be their wider economic co-operation that will most define their engagement in the near future – be it the provision of market-rate loans, export credits, investment in extractive industries or trade opportunities. Although there rarely are explicit whole-of-government policies, and varying degrees of governmental control over state-owned enterprises, (Brautigam, 2009), China and India offer an often more focused package of trade, aid and investment than DAC donors, reflecting a host of security, economic, geopolitical and cultural considerations (Box 2.2).

China, and to a lesser extent India, are also asserting themselves as political actors with stakes at risk from conflict and instability, and are being asked by governments and regional organisations in Africa and by more traditional actors to play a larger role in addressing international crises. They are starting to press host governments to address internal conflicts, as China has done in Sudan (Saferworld, 2012). Turkey has chosen to dedicate significant diplomatic efforts to its engagement in Somalia. While currently *ad hoc* and pragmatic, over time such responses to specific conflicts may become more established policy. With the exception of China's global reach, many rising powers have long been key actors in the conflict-affected states of their immediate regions – witness the peacekeeping roles played by Nigeria in Liberia, South Africa in Burundi and Brazil in Haiti, or India's engagement in Sri Lanka, Nepal and Myanmar.

With their own set of interests, identities and traditions, it is clear that these powers will seek to promote stability in quite different ways from one another and from DAC donors. For example, the link between state-society relations and sustainable peace, the definition of good governance and the limits of sovereignty, will likely remain contested issues.

At the same time, it is evident that strategic decisions by non-DAC providers of development co-operation (be they BRICS, MIKTs, CIVETs, "Next 11" or others[12]) will increasingly affect fragile states. More collaborative and perhaps innovative approaches will lead to more effective engagement. There is a need for greater dialogue, mutual understanding and joint initiatives on the ground to build trust and confidence, and the architecture of global governance needs to accommodate these changing global dynamics (Saferworld, 2012). Non-DAC development partners need to be increasingly involved in discussions and reflections on the policies that can best build state and societal resilience.

Box 2.3. **China and South Sudan**

In July 2012, Chinese President Hu Jintao announced at the Forum on China-Africa Co-operation in Beijing that deeper co-operation on peace and security in Africa would be a key priority for China over the next three years. Perhaps more than anywhere else on the continent, because of the entanglement of trade, security and diplomatic concerns, South Sudan presents a test case for Beijing's stated intention to deepen its engagement on conflict and fragility.

Box 2.3. **China and South Sudan** *(continued)*

Despite historically close ties to the Khartoum government and an officially-stated aversion to secessionism, China responded pragmatically to South Sudan's breakaway from Sudan in 2011. Ties were built with South Sudan's leadership several years before independence, statements of support and observers were provided for the January 2011 referendum, and the Chinese consulate in Juba was upgraded to the status of embassy on 9 July, the day of South Sudan's independence. With the aim of improving political ties, several high-level delegations have since been exchanged between the two countries, with South Sudanese President Salva Kiir visiting Beijing in April 2012.

China has had to play a delicate balancing act in its relations with Juba and Khartoum. It has on several occasions sent its Special Representative on African Affairs to help cool tensions between the two. While reluctant to take a leading role in mediating their armed dispute, China has sought to encourage both sides to accept the efforts of the African Union, following the principle of "African solutions for African problems". China has also played a significant role at the United Nations Security Council, seeking to develop international consensus while backing strongly-worded resolutions, including those containing references to sanctions.

With around two-thirds of pre-succession Sudan's oil now in South Sudan, Chinese oil companies have had to manage often turbulent relations with South Sudan's leaders. Aside from the issue of the government's halting of all oil production, differences remain on other issues, for example on the level of contribution oil companies should be making to social welfare. Despite this, both the government and companies pragmatically accept that their co-operation will likely last well into the future.

Besides oil, China's potential role in the development of much-needed infrastructure perhaps receives most attention. Many in South Sudan believe that China's past assistance in this regard primarily benefited the north of Sudan, fuelling the very marginalisation that drove the South's struggle for independence. However, today people in South Sudan expect China to be the source of future roads, schools, universities, hospitals, electric grids and a variety of other projects. Officials in Beijing see economic co-operation with South Sudan, most pertinently in the infrastructure sector, as showing the Chinese government's willingness to play a larger role in providing post-conflict assistance in Africa. Chinese officials and analysts further argue that because poverty is a root cause of conflict, long-term peace is dependent on development. Nonetheless, while Chinese funding has been committed to some projects, including for Juba's international airport, it appears that agreement on a much larger package of loans is still elusive and possibly dependent on an improved security situation and a resumption of oil production. As with traditional donors, the complicated links between security and development are increasingly apparent for China.

Chinese development co-operation in the future may also be increasingly directed at local communities, through "people-to-people exchanges". Furthermore, China has started training South Sudanese officials and civil servants in order to increase public service and management capacity. Indeed, capacity building of the state is another area of significant interest for Chinese officials and analysts. Drawing on China's own experience, they often define stability in terms of the state's capacity to govern its sovereign territory.

The world's youngest country may still present many challenges to one of the world's oldest and largest powers. But China's engagement in South Sudan may lead to new practices and policy in the area of peace and security, especially for the best way to deliver an economic peace dividend and support state capacity.

Source: Information provided to the authors by Saferworld.

Philanthropic organisations

Private philanthropy to fragile states – which includes giving from foundations, corporations, private and voluntary organisations (PVOs), universities, and religious organisations – has increased in the past few years (Adelman, 2009). However, comprehensive data and data specific to fragile states are difficult to collect. US philanthropic giving to all countries increased to USD 39 billion in 2010 from USD 37.5 billion in 2009, entirely driven by a rise in PVO giving (which most closely represents giving by individuals) and making up for a drop in corporate donations. PVO funds are critical to fragile states since the largest proportion goes to disaster relief or support for refugees, while less than 1% of giving from foundations goes to this sector.

The 2010 earthquake in Haiti provided a striking example of the power of philanthropic giving and of the trends that will shape its future, including technological innovation (Box 2.4). The much lower level of giving from private individuals and organisations that went to Pakistan after the massive floods of 2010[13] – about five times less than in Haiti – also serves as a reminder that philanthropic giving is highly sensitive to factors that should not directly influence ODA – media coverage, timing, geopolitical considerations, and so on (The Atlantic, 2010; Ferris, 2010).

Box 2.4. **Philanthropy and the Haiti earthquake**

The January 2010 earthquake that killed an estimated 230 000 people in Haiti was followed by an unprecedented level of international financial help. Massive official support from more than 100 countries totalled USD 15 billion for both short-term aid and long-term reconstruction. Money also poured in from individuals and corporations, with PVO donations eventually reaching USD 1.4 billion. Mobile phone technology allowed the Red Cross to raise an unprecedented USD 32 million in USD 10 donations sent via text message. Some of the largest total donations were for faith-based organisations, many of which have a long history of working in Haiti. The disaster resulted in the creation of several specific philanthropic efforts. The high-profile nature of many individuals involved in the relief effort and dedicated TV shows such as *The Hope for Haiti* telethon also helped to raise money. Corporations also became involved in the relief effort, donating about USD 150 million. New aid approaches that involve local communities and technology-driven solutions, such as the provision of aid wirelessly through cell phones to overcome weak infrastructure, proved especially successful.

Source: Hudson Institute (2011), *The Index of Global Philanthropy and Remittances*, Hudson Institute, Washington, DC, available at *www.hudson.org/files/documents/2011%20Index%20of%20Global%20Philanthropy%20and%20Remittances%20downloadable%20version.pdf.*

Outside the US, available data indicate that philanthropy from Europe and Asia is on the rise: it is estimated that non-US private and voluntary giving totalled USD 16.9 billion between 2008 and 2010 in the 22 other countries[14] covered by OECD statistics.[15]

South-South philanthropy is also on the rise, especially in the Arab world, and helped in part by mobile phone technology. For example, in the 2011 famine that affected Kenya and many of its neighbours, 3.5 million people in the region were deemed to be at risk of food shortages. During this famine, a consortium of Kenyan corporations together with the Kenyan Red Cross launched the *Kenyans for Kenya* campaign, with the goal of raising 500 million Kenyan Shillings (USD 5.2 million) from within the country. Using new technology such as M-PESA (see Question 10), the goal was met within two weeks (See Africa Differently, 2011; Think M-Pesa, 2011).

Global funds

Global funds – such as the GAVI Alliance (formerly the Global Alliance for Vaccine and Immunization); the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM); the Global Environment Fund (GEF); and the Global Partnership for Education – are trust funds that pool resources for specific issues of global importance. Funding from these sources for fragile states is relatively small compared to bilateral and multilateral aid, but appears to be growing. It is also concentrated in a few countries (OECD, 2008c). In some countries, global funds play a central role: for example in Ethiopia, the GFATM is the sixth largest donor, with a cumulative USD 4.6 billion disbursed between 2003 and 2010 (USD 1.2 billion in 2010). In addition, some funds are adapting their business model for fragile settings (*e.g.* GAVI), or considering doing so (*e.g.* the GFATM). Global funds are typically public-private partnerships: finance for these types of funds often comes from bilateral donors in co-operation with private donors (individuals and corporations), and from multiple sectors, including governments, the private sector, and philanthropic foundations – such as the Bill and Melinda Gates Foundation and the Rockefeller Foundation.

GAVI is a public-private partnership focused on saving children's lives and protecting people's health by increasing access to immunisation in poor countries. It aims to *1)* accelerate the uptake and use of under-used and new vaccines; *2)* strengthen the capacity of integrated health systems to deliver immunisation; *3)* increase the predictability of global, individual, and other innovative financing and improve the sustainability of national financing for immunisation; and *4)* shape vaccine markets. Since 2001, GAVI has disbursed USD 2.8 billion in 42 of the 47 fragile states listed in Table 0.1 (or 72% of the total support disbursed by GAVI). A multilateral aid review by DfID found that "GAVI works in a high number of fragile states and adapts its policies and programme implementation to deliver appropriate support" (DfID, 2011a). In November 2011, recognising the specific challenges of working in fragile situations, the GAVI Alliance Board requested the organisation's Secretariat "to develop a policy that clearly defines the GAVI Alliance's approach to fragile and under-performing countries". Through a consultative process, a framework for a country-by-country approach for fragile and underperforming countries has been developed and will be reviewed by GAVI's governance committees at the end of 2012.

A review of GFATM activities found that it has invested heavily in fragile states, with nearly USD 5 billion disbursed by mid-2010 (about 40% of active grants were in fragile states, reflecting the disproportionate burden they shoulder of AIDS, tuberculosis and malaria; Bornemisza *et al.*, 2010). The review found that although "the majority of these grants, including those in countries with recent humanitarian crises, [were] performing well (…), the performance of grants in fragile states, and particularly those with humanitarian crises, is lower than that of grants in other recipient countries" (*ibid.*). The GFATM has been under increased scrutiny since a 2011 corruption scandal and it remains to be seen whether the new executive director will decide to alter the pattern of using the "same business model in fragile and non-fragile states" and instead favour policies and practices that are more flexible and responsive to fragile situations (Boseley, 2011; DfID, 2011b; MacDonald, 2012).

Another fund whose activities are especially relevant to fragile situations is the Global Environmental Facility (GEF), established in 1991 to provide grants to international institutions, governments and civil society for issues related to the environment and sustainable development, such as biodiversity and climate change adaptation and mitigation. Over the years, through its Least Developed Countries Fund and Special Climate Change Fund, the GEF has allocated a total of USD 137 million towards 33 projects in 27 fragile states, as well as supporting the preparation of National Adaptation Programs of Action in 28 fragile and least developed countries (GEF, 2012). A recent evaluation found that while the fund did not have "a policy or special procedure for working in fragile states", it did make "some efforts to make access to funding easier for least developed countries, small island developing states and fragile states" (Australian Government, 2012).

Question 5: How has the quality of aid to fragile states changed over the past decade?

Aid volatility is often higher in fragile states than non-fragile states, and each of the fragile states has had at least one aid shock (a change of more than 15% of ODA per capita) in the past 10 years.

Fragmentation and concentration of aid are still challenges for most fragile states. "Donor darlings" (e.g. *Afghanistan) struggle with an overabundance of small donors, making co-ordination difficult. On the other extreme, countries such as the Republic of Congo and Iraq depend on one donor for over half their aid – a level of concentration that is considered excessive.*

As in all developing countries, but most acutely in fragile situations, aid is one among many international efforts striving to bring about development. Consequently, evaluations of projects and programmes in fragile situations rightly tend to focus on the impact of international engagement as a whole, rather than of aid alone. Yet aid remains a special instrument because of its aims to catalyse structural change, to leverage other flows and different behaviour from other policy communities and to target the most vulnerable. In addition, aid dependency is high in low-income fragile states. Therefore the quality of aid remains a central issue, and the *New Deal* puts renewed focus on it (see the "TRUST" commitments in IDPS, 2011).

The quality of aid to fragile states can be gauged using the principles of ownership, alignment and harmonisation, as defined by the *Paris Declaration on Aid Effectiveness* (analysed in OECD, 2006; OECD, 2008d; and OECD, 2011a).[16] This section takes into account more recent ODA data and focuses on aid volatility, especially aid shocks; as well as donor concentration and fragmentation. Box 2.5 summarises some recent evaluations of aid to fragile states.

Box 2.5. **Recent evaluations of aid to fragile states**

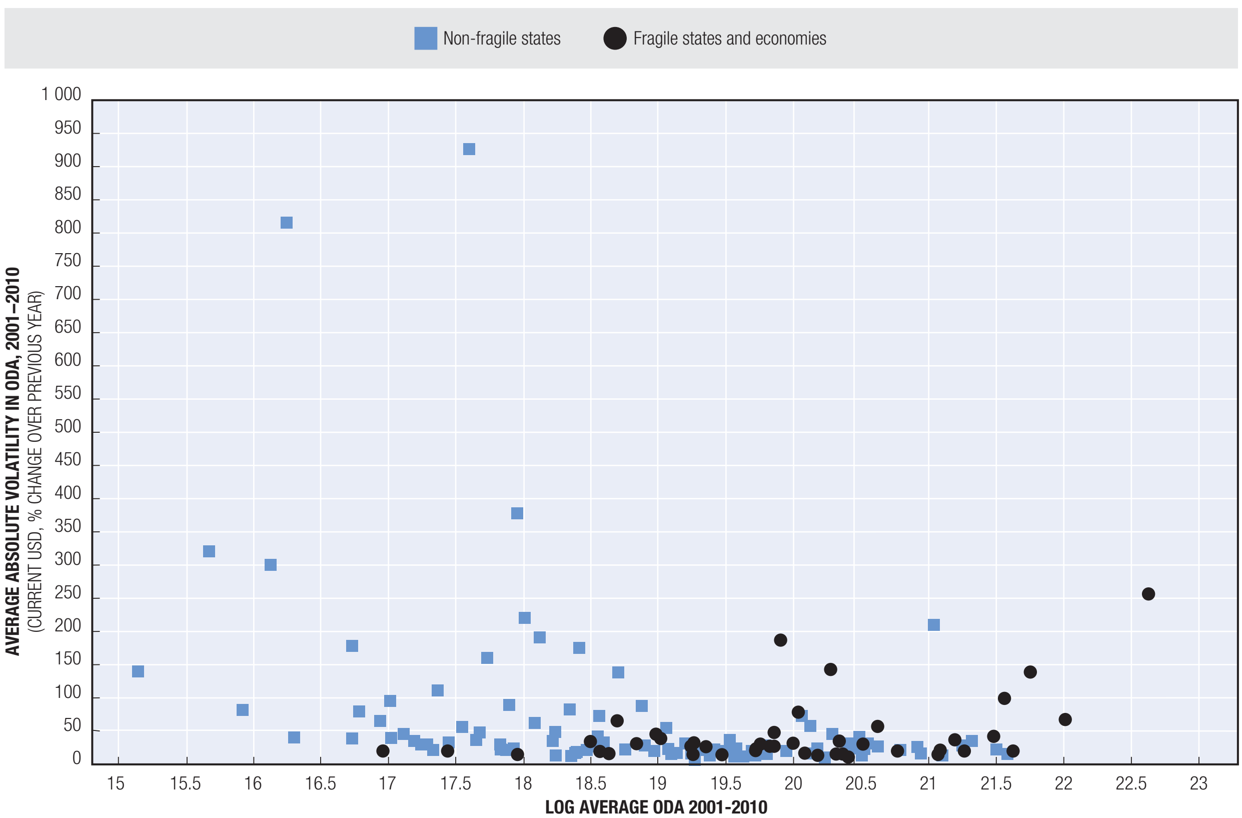
Some recent evaluations point to progress in the quality of aid provided to fragile states:

- The performance ratings of aid projects in fragile states have increased in the past 20 years, almost closing the gap with aid performance in stable states according to some evaluations (Chandy, 2011).
- The World Bank's 2011 annual evaluation report noted that the satisfactory rating for projects in fragile states is no longer significantly different from that for other countries (IEG, 2011).
- Grants to fragile states managed by the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) also performed well across all measures, with 83% of targets met (Bornemisza *et al.*, 2010).

Volatility and aid shocks

Between 2000 and 2010, volatility and aid shocks – defined as a change of more than 15% in ODA per capita from one year to another – were broadly on the decrease in fragile states. This may be the result of countless calls for greater aid predictability. Nevertheless, over the decade aid has remained more volatile in fragile states than in non-fragile states (Figure 2.12); every fragile state has had at least one aid shock (Table 2.4); and all have experienced considerable volatility. In some countries this has been extreme: for example, Iraq, Nigeria and the Republic of Congo saw variations of between 900% and 1 500% between 2003 and 2006, in part reflecting exceptional debt relief (Figure 2.13).

Figure 2.12. **Aid volatility is generally slightly higher in fragile states than in non-fragile states**



Source: OECD International Development Statistics (IDS) online databases on aid and other resource flows, available at *www.oecd.org/dac/stats/idsonline.*

Donor fragmentation and concentration

In both stable and fragile developing countries, donor concentration is generally encouraged.[17] Several donor darlings (countries with lots of aid and donors; Figure 2.14), have a large number of small donors, which is discouraged. For example, Afghanistan and Kenya both have 37 donors providing country programmable aid (including DAC donors and multilateral organisations); in the case of Afghanistan, as many as 27 of these are rated non-significant, while for Kenya the number is a little lower, at 15.[18]

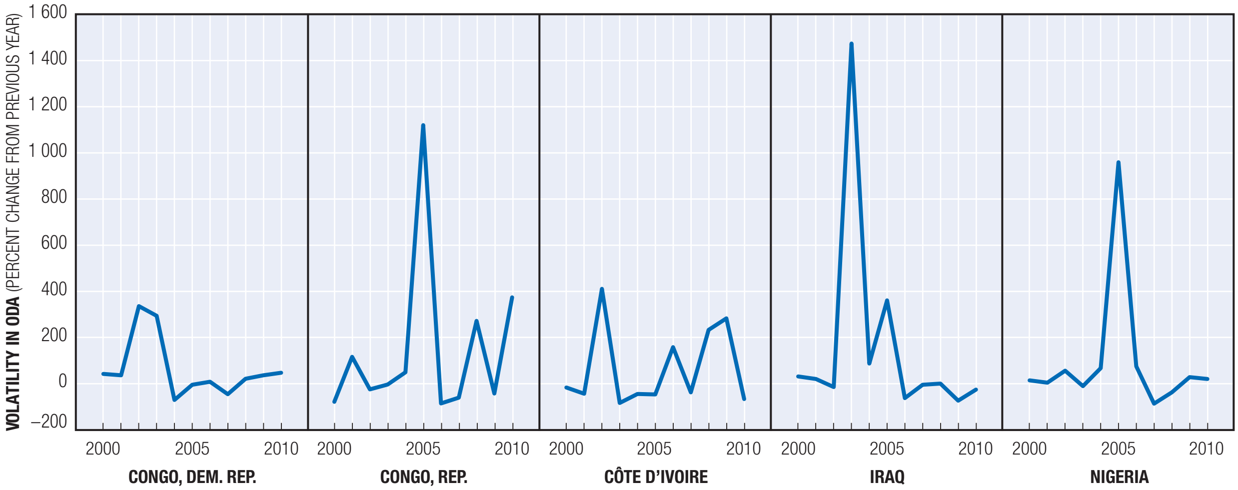
Table 2.4. **Every fragile state/economy has had at least one aid shock (2000-10)**

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Afghanistan	6	216	171	7	32	19	1	58	-5	30	1
Angola	-18	-3	33	4	116	-65	-61	40	40	-32	-2
Bangladesh	-1	-6	-17	33	-7	-9	-10	13	33	-38	13
Bosnia and Herzegovina	-36	-15	-17	-17	15	-22	-5	2	-28	-6	18
Burundi	33	58	12	12	45	-3	15	2	3	10	13
Cameroon	-5	25	27	20	-19	-49	302	1	-73	22	-16
Central African Republic	-35	10	-25	-26	93	-21	46	21	40	-4	9
Chad	-24	49	14	-6	20	12	-27	14	10	37	-13
Comoros	-2	44	-5	-24	-3	-15	35	27	-14	25	36
Congo, DR	45	39	339	297	-68	-2	11	-43	24	39	50
Congo, Rep	-76	119	-22	-1	52	1 124	-83	-58	275	-40	377
Côte d'Ivoire	-14	-41	414	-81	-42	-44	161	-35	236	286	-64
Eritrea	23	66	-26	22	-23	27	-64	15	-13	2	9
Ethiopia	12	64	14	6	4	3	2	15	26	19	-8
Georgia	-31	78	2	-33	26	-9	19	-1	124	4	-31
Guinea	-33	96	-16	-12	0	-30	-16	23	35	-34	4
Guinea-Bissau	72	-23	-10	112	-55	-15	27	28	3	12	-3
Haiti	-21	-17	-11	23	33	38	31	12	24	25	171
Iraq	34	23	-12	1 478	90	364	-60	-2	3	-71	-23
Kenya	75	-1	-23	18	17	12	22	30	-2	34	-9
Kiribati	-6	-15	47	-21	-22	59	-3	-4	-9	5	-26
Korea, DR	-54	61	84	-54	13	-46	-39	6	100	-68	17
Kyrgyz Republic	-22	-7	-5	-4	25	-1	16	-21	22	-9	16
Liberia	-24	-42	38	73	80	2	14	151	68	-58	177
Malawi	2	-2	-13	19	-12	12	21	-4	19	-12	31
Marshall Islands	-8	26	-16	-13	-13	9	-6	-8	-1	10	51
Micronesia	-8	34	-19	0	-27	20	-1	3	-21	27	2
Myanmar	30	27	-5	-5	-8	14	-2	26	154	-31	-2
Nepal	14	7	-17	21	-17	-2	21	6	9	28	-5
Niger	19	29	9	38	3	-6	1	-8	5	-21	60
Nigeria	17	7	59	-8	70	963	78	-84	-35	31	23
Pakistan	-6	188	11	-55	25	12	29	-5	-35	86	7
Rwanda	-8	-4	12	-19	32	14	1	11	24	3	11
Sierra Leone	153	95	6	-23	2	-12	10	32	-35	24	4
Solomon Islands	102	-4	-52	111	54	48	0	7	-13	-2	36
Somalia	-2	43	-5	2	2	14	56	-8	86	-11	-25
Sri Lanka	5	36	2	72	-30	126	-33	-30	14	-1	-20
Sudan	-1	-12	40	83	46	77	9	-4	17	-5	-14
Timor-Leste	50	-16	2	-33	-17	11	10	21	-5	-19	26
Togo	9	-32	6	-17	20	23	-6	39	152	60	-16
Uganda	49	-1	-17	19	11	-4	27	2	-9	13	-4
West Bank and Gaza	25	51	-6	-8	2	-14	30	15	35	18	-11
Yemen	-28	25	-44	-3	-1	8	-5	-23	70	35	19
Zimbabwe	-24	-1	12	-18	-8	97	-29	60	26	25	-3

Less than 15% volatility   15-50% volatility   50-100% volatility   Greater than 100% volatility

Source: OECD International Development Statistics (IDS) online databases on aid and other resource flows, available at *www.oecd.org/dac/stats/idsonline.*

Figure 2.13. **Extreme aid shocks (selected fragile states, 2000-10)**

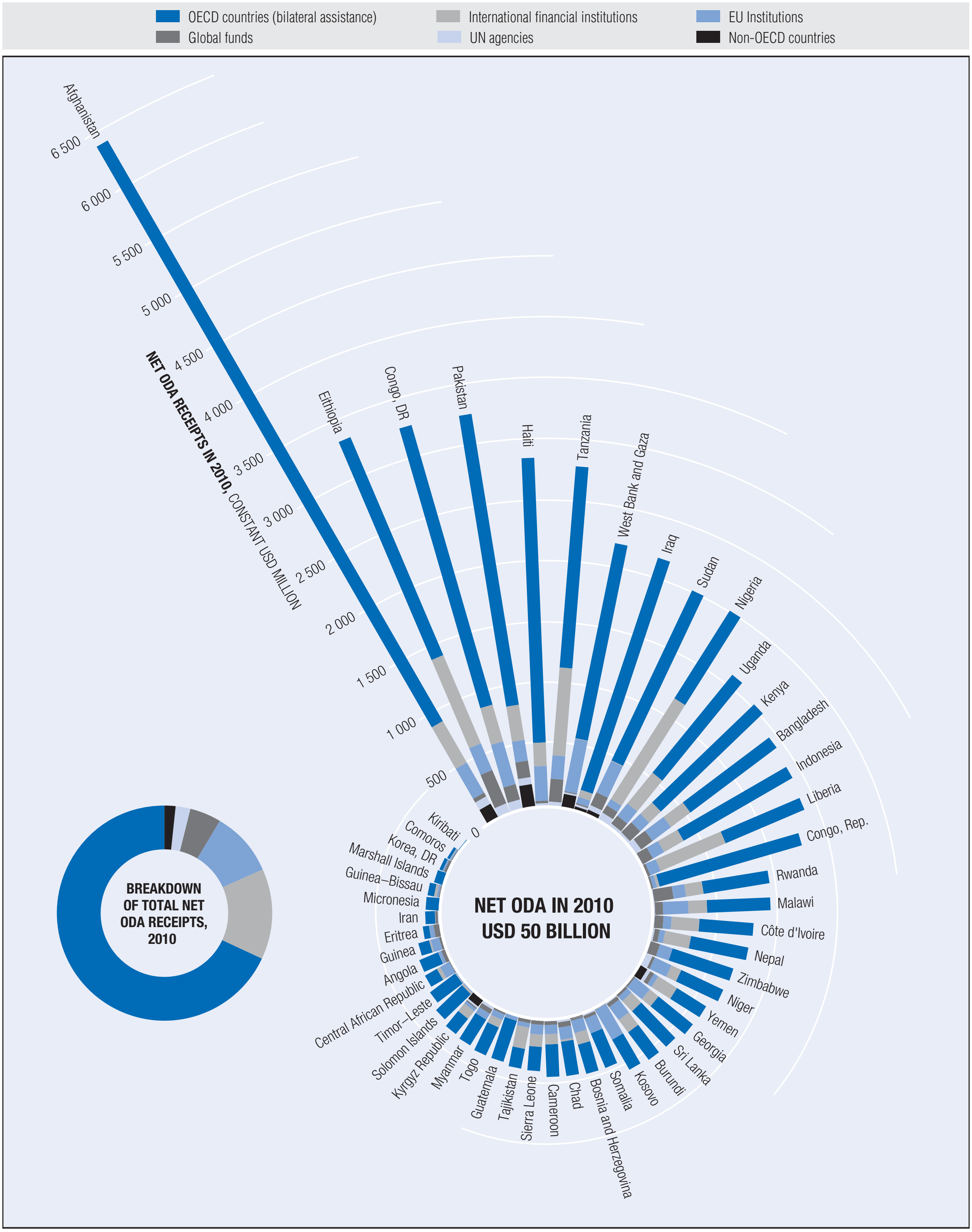


Source: OECD International Development Statistics (IDS) online databases on aid and other resource flows, available at *www.oecd.org/dac/stats/idsonline.*

It is notable that between 2004 and 2009, the increase in the number of non-significant donors in fragile and conflict-affected states was three times higher than the increase in non-fragile states (OECD, 2011c). The average number of non-significant donors in fragile states increased from 8 in 2004 to 10.6 in 2009, while in non-fragile states the average only increased slightly, from 7.1 to 7.7.

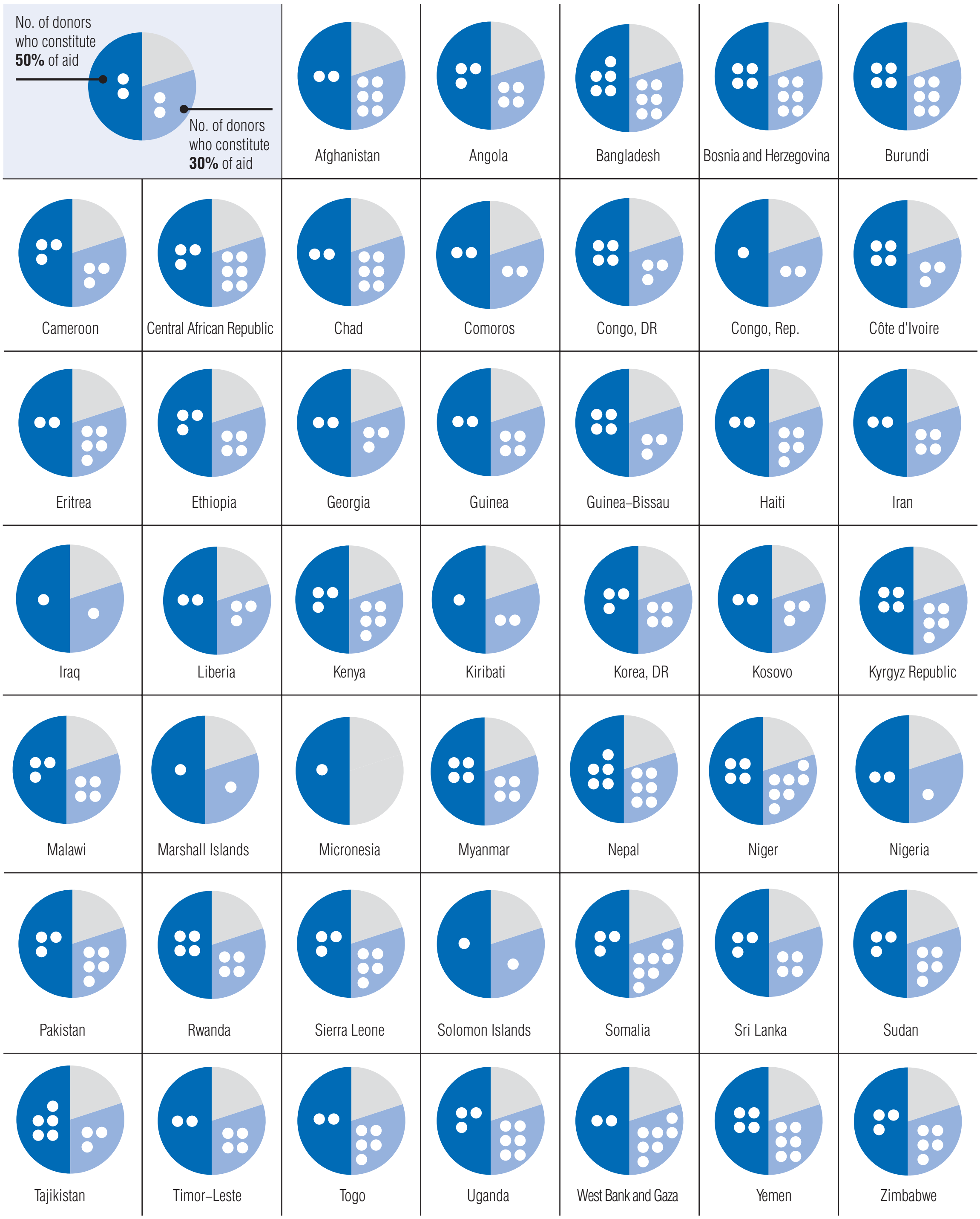
Extreme donor concentration can also be a matter of concern. The Republic of Congo, Iraq and the four small-island states of Kiribati, the Marshall Islands, Micronesia and the Solomon Islands all depend on one donor for over half of their aid (Figure 2.14).

Figure 2.14. **Donor darlings and donor orphans among fragile states (2010)**



Note: This figure covers providers of development co-operation reporting it to the DAC.
Source: OECD International Development Statistics (IDS) online databases on aid and other resource flows, available at *www.oecd.org/dac/stats/idsonline.*

Figure 2.15. **Donor concentration and fragmentation in fragile states and economies (2010)**



Source: OECD International Development Statistics (IDS) online databases on aid and other resource flows, available at *www.oecd.org/dac/stats/idsonline*.

Question 6: Do fragile states benefit from foreign direct investment and international trade?

Foreign direct investment (FDI) represents on average a marginal inflow to fragile state. It is extremely concentrated in a small number of countries. In 2010, three-quarters of FDI went to only seven countries, all middle-income and/or resource-rich.

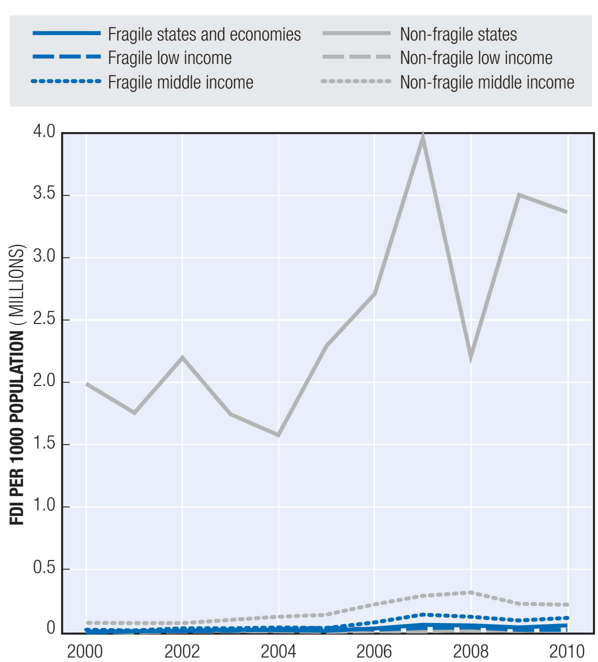
Trade deficits are typical for fragile states as a group, at all levels of income, due to infrastructure and institutional gaps that are detrimental to exports, as well as quality and positioning factors. Between 2000 and 2008, trade deficits decreased. Trade dropped significantly in 2009 as a result of the food, fuel and financial crises, but made a modest recovery in 2010, notably in middle-income and resource-rich fragile states.

Foreign direct investment (FDI)

FDI remains marginal in the vast majority of fragile states. However FDI per capita has grown on average 50% faster in fragile states than in non-fragile states since 2000. This positive trend concerns all subgroups of fragile states (Figure 2.16).

The 2008 crisis appears to have had a negative impact on FDI flows to fragile states and subgroups, especially middle-income fragile states. For example, Cameroon and Yemen saw negative per capita FDI growth rates during the period. Per capita FDI to LIFS has been more resilient, with Nepal, Timor-Leste, Chad and Niger recording particularly noteworthy increases in FDI inflows since 2008 (Figure 2.16).

Figure 2.16. **Limited but growing FDI to fragile states (2000-10)**



Sources: Authors'calculations based on: World Bank, The (2012a), *World Development Indicators,* website accessed June 2012 at *http://databank.worldbank.org/ddp/home.do?Step=12&id=4&CNO=2.*

FDI is extremely concentrated in a small number of countries. In 2010, three-quarters went to only seven countries, all middle income and/or resource-rich: the Democratic Republic of Congo, Iran, Iraq, Nigeria, Pakistan, the Republic of Congo and Sudan (Table 2.5).

Table 2.5. **Three-quarters of foreign direct investment (FDI) to fragile states went to only seven countries (2010)**

Country		FDI rank 2010	Percent of total FDI to FS 2010	FDI Rank 2005	Percent of total FDI to FS 2005
Nigeria	●	1	21.9%	1	29.8%
Iran	●	2	13.1%	2	18.8%
Congo, DR	■	3	10.7%	NA	NA
Congo, Rep	●	4	10.2%	8	3.1%
Sudan	●	5	7.5%	3	13.8%
Pakistan	●	6	7.3%	4	13.2%
Iraq	●	7	5.2%	7	3.1%
Niger	▶	8	3.4%	25	0.3%
Bangladesh	●	9	3.3%	5	4.9%
Myanmar	▶	10	3.3%	15	1.4%
Uganda	◀	11	3.0%	10	2.3%
Bosnia and Herzegovina	◀	22	0.8%	6	3.6%
Georgia	◀	12	3.0%	9	2.7%
Total percent received by top 10 FDI recipients			**85.9%**		**95.2%**

● In top 10 both years ▶ Into top 10 2005-10 ◀ Out of top 10 2005-10 ■ Unknown; missing data

Source: Authors' calculation, based on World Bank, The (2012a), *World Development Indicators,* website accessed June 2012 at *http://databank.worldbank.org/ddp/home.do?Step=12&id=4&CNO=2*.

Trade

Trade deficits are typical for fragile states as a group, at all levels of income (Figure 2.17). This reflects infrastructure and institutional gaps that are detrimental to exports, as well as quality and positioning factors (European Communities, 2009; Mold and Prizzon, 2010). Between 2000 and 2008, trade deficits decreased. But trade, like FDI, saw a sharp drop in 2009 – followed by a modest recovery in 2010, especially in middle-income fragile states and fragile resource-rich countries.

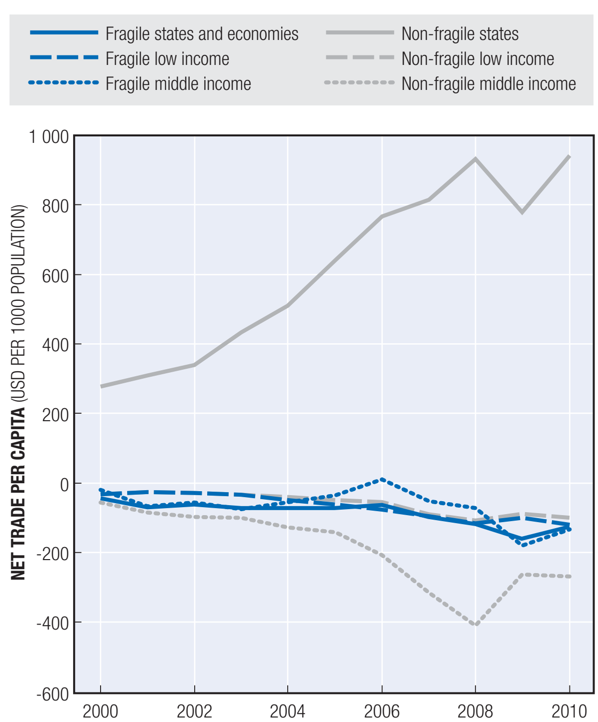
Commodity price volatility affects the trade balance of fragile states (but can result in an inaccurate picture of trade flows). This can vary greatly between countries, especially between natural resource-rich and resource-poor countries on the one hand, and net food exporters and net food importers on the other. There is also evidence of a differential impact on political stability of price swings in capital-intensive *versus* labour-intensive export sectors (Vargas and Dube, 2007).

Trade is increasingly characterised by the emergence of global value chains, which encompass the geographically-dispersed range of activities needed to bring a product from its conception to its end use and beyond. This has two consequences for fragile states: on the one hand, it allows industrialisation at a much earlier stage of development as firms choose to move fragments of their production chain to countries where labour is cheaper or where other locational advantages confer a competitive cost advantage on the whole global value chain. For example the garment industry in Haiti is the focus of much attention as it combines a good labour force and access to the US market with low production costs (Collier, 2009). On the other hand, global value chains penalise countries that are poorly connected to global markets due to natural barriers, poorly-functioning institutions, or trade restrictions. Among the 30 countries at the bottom of the 2012 World Bank *Ease of Doing Business* list, 20 are fragile states (World Bank, 2012b). Aid for trade support can help fragile states alleviate these binding constraints by reducing trade costs and promoting linkage to regional and global value chains.

Another important structural feature has been the growing role of India and China as trading partners and investors over the past decade. Both countries have been particularly active in a few African fragile states – in addition to their regional influence in South Asia. Their economic involvement in Africa has intensified: India's trade volume reached USD 40 billion in 2008-09, while China overtook India in 1999, skyrocketing from USD 6 billion in 1998 to USD 107 billion in 2008 (Kalley, 2010). By and large, both countries' policy is of non-interference and respect for the sovereignty of partner countries; nevertheless, the sharp rise of their trade and investment in minerals, oil and agricultural products, spurred by their rapid industrial growth, can change the dynamics of fragility in these countries.

For these dynamics to change for the better, a better understanding of the conditions under which trade and investment – from OECD and non-OECD countries alike – can bring about peace and prosperity in fragile states, where standards for corporate social responsibility and government's enforcement capacity tend to be poor, is needed.

Figure 2.17. **The tax gap between fragile and non-fragile countries is closing (2000-10)**
(Taxes as % of GDP)



Source: Authors' calculations based on World Bank, The World Bank, The (2012a), *World Development Indicators*, website accessed June 2012 at *http://databank.worldbank.org/ddp/home.do?Step=12&id=4&CNO=2*.

Question 7. How important are flows from diasporas?

Remittance flows to fragile states have grown, but remain highly concentrated, with 80% going to just five countries: Bangladesh, Nigeria, Pakistan, Sri Lanka, and Nepal. The cost of sending remittances to fragile states varies widely, with lows and highs ranging from 2.2% to 22.5%. The G8 and G20 have committed to lower the costs of remittances from an average of around 10% to 5% by 2014.

Diasporas have become major actors in fragile states (DIIS, 2008). A large body of literature outlines the importance of remittances as a source of external finance, and their use and impact on development issues such as health and education, nutrition and poverty, productive investment, socio-economic equality, women's empowerment, and even climate change mitigation (OECD, 2005).[19] In some cases, remittances have also played a role in fuelling conflict (van Hear, 2003). Diasporas can also affect conditions back home through the transfer of norms and values ("social remittances"[20]). The Internet is a medium through which diasporas can play a stabilising or destabilising role, as exemplified by the role of the Mexican *Zapatista*, Afghan *Hazara,* Eritrean and Haitian "digital diasporas" in recent years (Bernal, 2006; Grant, 2004; Bimber *et al*., 2005; Dade, 2006).

Quantitatively, remittance flows continue to be especially important in a few small-island states as well as in post-conflict countries, both of which tend to have large diasporas. Data show that remittance flows to fragile states are growing, but remain highly concentrated. Eighty percent of all recorded remittances to fragile states go to just five countries (Table 2.6). These five countries include the three most populous fragile states – Bangladesh, Nigeria and Pakistan – but also much smaller countries: Sri Lanka and Nepal. Relative to population, the West Bank and Gaza, the Kyrgyz Republic, Sri Lanka, Georgia and Haiti are the largest recipients of remittances. Compared with non-fragile states, however, Lebanon and Tonga receive three and two times as many remittances per capita, respectively, than the largest recipient amongst fragile states – the West Bank and Gaza.[21]

Since 2008, remittances to middle-income fragile states and fragile states outside of sub-Saharan Africa have grown the fastest on average. Over the entire 2000-10 period, fragile low-income and fragile resource-poor states benefited from the greatest increases.

The cost of sending remittances to fragile states varies widely: between 2.2% from Saudi Arabia to Pakistan, and 22.6% from Tanzania to Uganda (World Bank, 2012d). The G8 and G20 have committed to lower the costs of remittances from an average of around 10% to 5% by 2014 (G8, 2009; G20, 2011). Stable exchange rates and developed banking systems tend to lower the price of remittances (Freund and Spatafora, 2008).

In the case of fragile states, a question that warrants significantly more attention is whether and how remittances could be leveraged to strengthen the resilience of societies and the state.

Alongside remittances, diaspora bonds (hard currency-denominated bonds issued by the country of origin and purchased by expatriated nationals) are a way nationals living abroad can finance development back home (Ketkar and Ratha, 2009; *The Economist*, 2011). Fragile states face challenges in using such bonds – for example, governments might lack a capable legal system for contract enforcement, instability may scare off would-be buyers and people who have fled an oppressive regime do not intend to then finance it.

Table 2.6. **Two-thirds of all recorded remittance flows to fragile states go to three countries**

Country		Remittances rank 2010	Percent of total remittances to FS 2010	Remittances rank 2005	Percent of total remittances to FS 2005
Bangladesh	●	1	22.9%	1	20.4%
Nigeria	●	2	21.1%	3	15.4%
Pakistan	●	3	20.4%	2	20.2%
Sri Lanka	●	4	7.6%	4	8.2%
Nepal	●	5	7.3%	6	5.4%
Kenya	●	6	3.6%	9	3.5%
Sudan	●	7	3.0%	7	4.8%
Haiti	●	8	2.8%	8	4.4%
Yemen	●	9	2.5%	5	5.6%
West Bank and Gaza	●	10	2.3%	10	3.3%
Total percent received by top 10 remittance recipients			**93.4%**		**91.3%**

● In top 10 both years ▶ Into top 10 2005-10 ◀ Out of top 10 2005-10

Source: Authors' calculations based on: World Bank, The (2012a), *World Development Indicators*, website accessed June 2012 at *http://databank.worldbank.org/ddp/home.do?Step=12&id=4&CNO=2.*

Despite these challenges, a number of fragile states have already started issuing and selling diaspora bonds and the prospects for their development are promising. In 2011, the Kenyan government was reportedly planning on raising up to USD 600 million through this mechanism (Reuters, 2011). Ethiopia is launching a campaign called "The Grand Renaissance Dam Bond", although the first such campaign (launched in 2009) largely failed (Fatunla, 2012). Nigeria is also planning to raise USD 100 million in diaspora bonds to finance infrastructure and development projects (Aderinokun, 2012), while the governor of the Central Bank of Bangladesh has also expressed strong interest (World Bank, 2012d). With the right conditions in place, diaspora bonds and state resilience can be mutually reinforcing, creating a web of incentives and obligations. Diaspora bonds are a form of "crowdfunding"[22] and provide yet another example of the growing role that "the crowd" can play in the realm of public affairs, spurred to a large extent by technological innovation.

Question 8: Are fragile states able to mobilise tax revenue?

Fragile states have nearly closed the "tax gap" with non-fragile states over the past decade. Despite the capacity to levy taxes, the performance of resource-rich countries in mobilising tax has been relatively low, with a slight decrease since the global crisis in 2008. A number of fragile states have implemented administrative and tax reforms, with mixed results. However, large informal economies within fragile states continue to elude taxes.

Whereas natural resources are a blessing in stable countries, they tend to be a curse in fragile states. Governments that can derive revenue from natural resources have less incentive to uphold a strong social contract. However, if properly managed, natural resources represent large potential for jobs, growth and domestic revenues. A growing number of fragile states are renegotiating contracts and initiating policy reforms to get a better deal from their extractive industries. In recent years, there have also been international, national and industry initiatives for responsible supply chains of minerals, so as to prevent financing of illegal armed groups and serious human rights abuses.

Most fragile states, especially countries that have experienced or are experiencing conflict, face particular challenges in raising taxes (IMF, 2011). However, over the past decade, according to available data, fragile states have almost closed the "tax gap" with non-fragile states (Figure 2.18). While the trend must be treated with great caution given the paucity of data for some countries (it is likely that missing observations would drive the average down) and wide variation among individual countries, this is an encouraging development. In particular, the average tax rate for middle-income fragile states seems to have overtaken that of non-fragile countries. A number of small low-income countries are showing strong levels of tax effort – the ratio of the actual to potential tax revenue) – *e.g.* Liberia, Comoros and Cape Verde (Stijns, 2010).

But these trends and averages obscure significant nuances and challenges. Since 2008, the tax rate has increased fastest in low-income, resource-poor and non-African fragile countries, while it has decreased in resource-rich fragile countries. Resource-rich countries are often able to levy significant taxes (see Figure 2.19), but their tax effortis often relatively low. This is especially true of oil-producing countries such as Chad, Angola, Nigeria, Sudan, and the Republic of Congo (Stijns, 2010), reflecting a number of well-known challenges associated with natural resource endowment, discussed next.

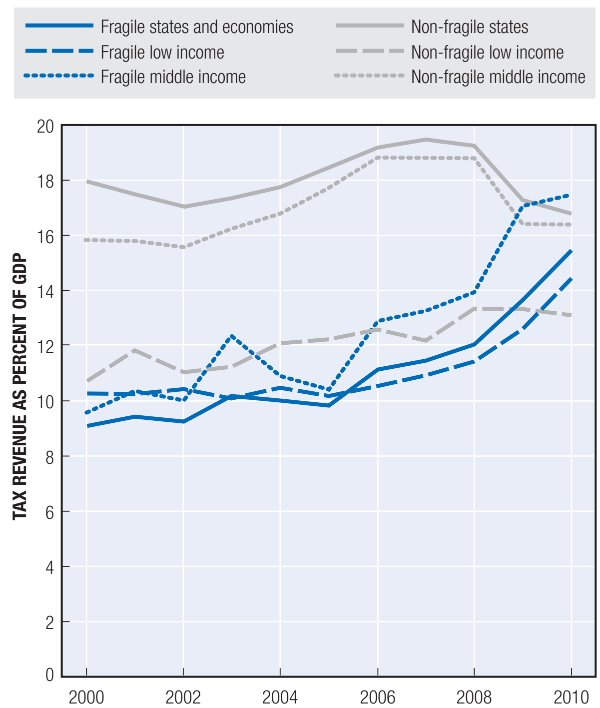
Natural resources, tax and fragility

The number of developing countries' economies that depend on commodities has risen from 46 to 61 between 1996 and 2010 (Haglund, 2011). Nearly one-in-four fragile states is mineral or fuel-dependent (Table 0.2, Introduction). Moreover, some fragile states are discovering untapped mineral reserves, for example in Afghanistan where such resources are valued at USD 1 trillion.

Whereas natural resources are a blessing in stable countries, they tend to be a curse in fragile states for two main reasons (Auty, 1993; Bannon and Collier, 2003; Collier, 2007):

Figure 2.18. **The tax gap between fragile and non-fragile countries is closing (2000-10)**

(taxes as a % of GDP)

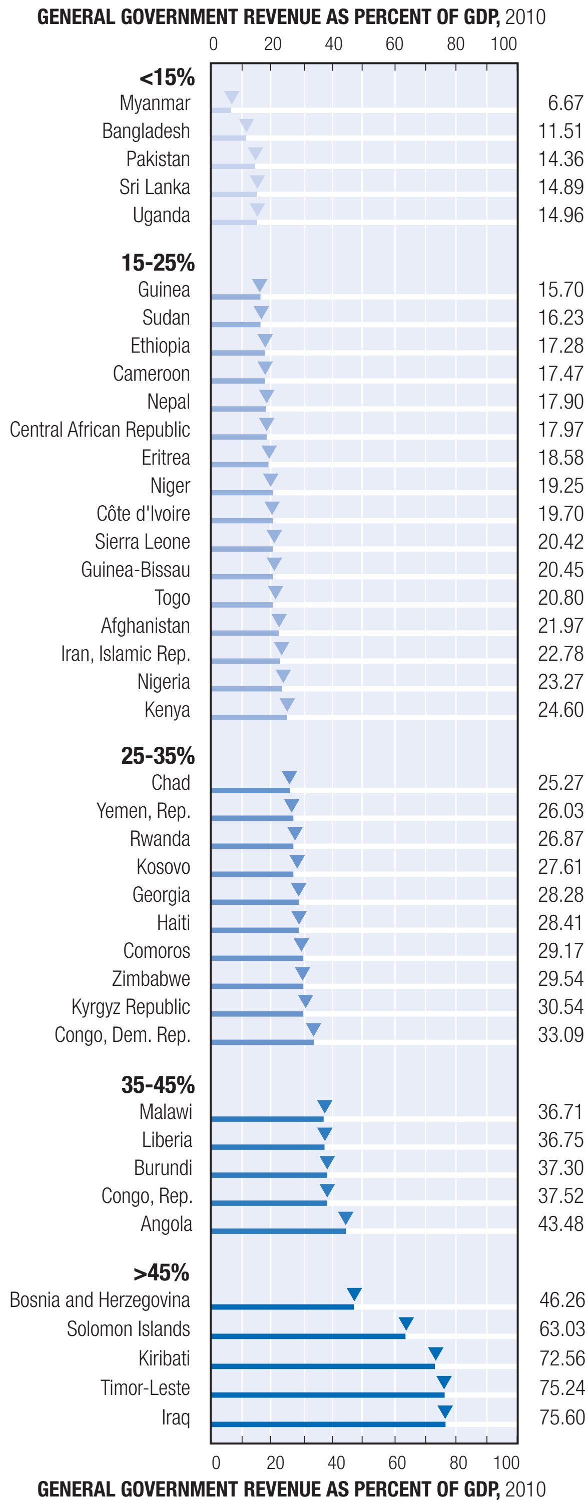


Source: Authors' calculations based on: World Bank, The (2012a), *World Development Indicators*, website accessed June 2012 at *http://databank.worldbank.org/ddp/home.do?Step=12&id=4&CNO=2*.

- Undermining governance: natural resources and particularly minerals have the potential to be plundered, to feed insurgencies, to encourage political and economic capture of rents from natural resources by local elites and to create opportunities for corruption. They mean that governments have a source of revenue that is not dependent on taxing its citizens – thus there is less of an incentive to build and uphold a strong social contract.[23] A radical approach to addressing this problem would be to directly redistribute windfalls to citizens, whose taxes would then be used to finance public expenditures, thereby restoring the social contract (Devarajan *et al.*, 2011).
- Undermining the wider economy: natural resource dependency can cause "Dutch disease"; drive interest rates up; limit incentives for investment in manufacturing and services and ultimately stifle growth. This is the experience of 21 African countries with substantial oil, gas and mineral resources (Gyimah-Brempong, 2001). Such dependency also further exposes economies to boom-and-bust commodity cycles (see Sachs and Warner, 1999; Le Billon, 2006). A significant drop in commodity prices would place a major strain on public finances in countries that are dependent on commodity exports (Table 2.7).

At the same time, natural resources also represent large potential for jobs, growth and domestic revenues. In the Democratic Republic of Congo, for example, an estimated 20 million livelihoods depend on the mining sector, which was the first source of growth in 2010. Yet very few domestic revenues are derived from minerals, with an estimated 90% of gold smuggled illegally, notably to fund armed groups (African Union/UNECA, 2009;

Figure 2.19. **Government revenue-to-GDP ratio (2010)**



Source: IMF (2012a), *World Economic Outlook Database*, April 2012, website, available at *www.imf.org/external/pubs/ft/weo/2012/01/weodata/weoselco.aspx?g=2200&sg=All+countries+%2f+Emerging+and+developing+economies,* accessed 27 September 2012.

Table 2.7. **Without oil and gas, some fragile states would have significant fiscal shortfalls (2005-11)**

(non-resource fiscal balance – overall balance minus resource revenues, as % of GDP)

Country	2005	2006	2007	2008	2009	2010	2011
Angola	- NA	-22.4	-25.8	-32.3	-29.2	-26.2	-26.3
Cameroon	-1.4	-0.5	-1.9	-5.6	-5.0	-6.8	-9.5
Guinea	-4.7	-7.0	-5.1	-2.0	-8.9	-16.4	n.a.
Iran	1.1	-16.2	-10.2	-12.2	-8.5	-9.5	n.a.
Iraq	-46.8	-47.7	-33.6	-36.8	-34.9	-35.0	-43.9
Nigeria	-22.9	-21.4	-22.3	-22.0	-23.1	-25.9	n.a.
Sudan	-15.3	-15.5	-17.0	-15.7	-11.5	-10.5	n.a.
Timor-Leste	-	-	-	-17.9	-21.3	-22.2	-25.4
Yemen	-22.2	-23.1	-24.3	-27.2	-20.3	-19.4	n.a.

Note: n.a. denotes that data is not available.

Sources: IMF (2012b), "Article IV Staff Reports", IMF website, at *www.imf.org/external/np/a4pilot/doc.htm*; EIU Calculation, at *www.eiu.com/index.asp?&rf=0*; National Central Banks and Ministries of Finance.

Global Witness 2009; Global Witness 2011; UN Group of Experts on the Illegal Exploitation of Natural Resources in the Democratic Republic of Congo, 2011). Addressing the curse of natural resources requires *1)* understanding who stands to win and lose from reform and transparency in extractive industries; *2)* extending the reach of the state in areas such as border control, public financial management and the provision of security; and *3)* empowering citizens, parliamentarians, and the media.

A growing number of fragile states are renegotiating contracts and initiating policy reforms to get a better deal from their extractive industries. In Sierra Leone, the recently-completed London Mining contract renegotiation should net the government hundreds of millions of dollars over the 25-year contract term. In Guinea, the new 2011 mining code increases state participation and includes over 20 provisions designed to increase transparency and accountability in the management of the mining sector, adopting the principles of the Extractive Industries Transparency Initiative (Box 2.6).

Box 2.6. **Transparency for extractive industries**

Since its launch in 2003, the Extractive Industries Transparency Initiative (EITI) has emerged as a global norm for revenue transparency in oil, gas, and mining. It is now implemented by most resource-rich fragile states, including Afghanistan, Cameroon, Central African Republic, the Democratic Republic of Congo, the Republic of Congo, Côte d'Ivoire, Guinea, Iraq, Liberia, Niger, Nigeria, Sierra Leone, Timor-Leste and Yemen. The EITI monitors and compares company payments and government revenues at the country level. For instance, Nigeria's 2005 report showed that over USD 500 million in oil taxes had not been collected or had gone missing – more than seven times the amount the government had spent on agriculture that year.

There are also various recent global, regional, country-level and industry-specific initiatives for cleaning up the mineral supply chain. Even if company payments and government revenues match, there is evidence that, between extraction and exportation, minerals can finance illegal armed groups and lead to serious human rights abuses (for example when non-state armed groups control mines or taxation, or extort money or minerals). For example, OECD ministers have endorsed guidance for companies to conduct due diligence when sourcing minerals from conflict zones (OECD, 2011c). The International Conference of the Great Lakes Region has endorsed similar standards, which have been turned into law by member countries such as the Democratic Republic of Congo (ICGLR, 2010; Global Witness, 2012). The US Dodd-Frank Act (2010) and its SEC Regulations (2012) contain provisions for companies sourcing minerals from the eastern part of the country to ensure these are not "conflict minerals". The tin, gold and electronics industries are all piloting these standards in eastern Dem. Rep. of Congo and adjacent countries.

Tax reform

Fragile states have implemented various administrative and tax reforms in the past two decades. Some have enjoyed impressive progress (*e.g.* Mozambique and Liberia, see Box 2.7), while in others conflict or governance issues have hindered progress (*e.g.* Dem. Rep. of Congo, Haiti and Sierra Leone). Sometimes progress has been followed by stagnation or decline (*e.g.* Guatemala, Honduras, and Zambia).

Box 2.7. **Tax reform in Mozambique and Liberia**

In Mozambique, the extensive reform efforts since the end of the devastating civil war in 1992 led to an increase in revenue collection (excluding receipts from natural resources) – from 8.5% of GDP in 1992-93 to around 15% in 2011. Initial efforts focused on simplifying tariffs and overhauling customs administration; then on reforming domestic indirect taxes, replacing cascading taxes with a value-added tax (VAT) and selective excises, and strengthening the domestic tax administration; and finally on direct taxes and the creation of a revenue authority.

In Liberia, tax revenue recovered from 6.2% of GDP in 2003 to almost 20% by 2009. Initial efforts focused on the major revenue sources of customs. Attention then turned to administrative reform and a range of policy issues, including a fiscal framework for natural resources (petroleum, mining, forestry, and logging). Next steps include transition to a common external tariff and the replacement of the sales tax by a VAT, as agreed within the Economic Community of West African States (ECOWAS). Medium-term tax revenues from natural resources have however recently been put at risk by a number of special concessions in the mining sector, and by problems in enforcing land rental under forestry contracts.

Source: IMF (International Monetary Fund) (2011), *Revenue Mobilization in Developing Countries*, IMF, Washington, DC, USA, available at *www.imf.org/external/np/pp/eng/2011/030811.pdf.*

Illicit flows and fragile states

Finally, fragile states send and receive large illicit flows at the cost of development and security. Every year huge sums of money are transferred illegally out of developing countries. These illicit financial flows (IFFs) strip developing countries of resources that could be used to finance much-needed public services. The social and economic impacts on developing countries are particularly severe given their smaller resource base and markets. Also, the underlying criminal activities that generate such illicit flows have a deleterious effect on governance and security, especially in fragile states.

Global Financial Integrity (GFI) estimates that developing countries lost between 723 and 844 billion USD per year between 1999 and 2009 (Kar and Freitas, 2011). IFFs from the 48 least developed countries reached a total of USD 197 billion between 2000 and 2008. The same report notes an upward trend in IFFs from LDCs, from USD 9.7 billion in 2000 to over USD 26 billion in 2008 – representing an annual growth of 6% (UNDP, 2011b). The countries most affected tend to be resource-rich developing countries, often states with a history of conflict and fragility. Eight of the top ten exporters of illicit flows (cumulative flows, 1990-2008) are fragile states: Bangladesh, Angola, Chad, Yemen, Nepal, Uganda, Myanmar and Ethiopia.

These are staggering amounts, especially when compared with these countries' own spending on social programmes and the aid they received over the same period. Levels of IFFs from Angola between 2000 and 2008 reached USD 34 billion, or five times the country's total public expenditure on health (USD 6 billion) and almost nine times the ODA it received (USD 3.8 billion) over the same period. IFFs from Chad exceeded public health expenditure (USD 1.1 billion) and ODA received (USD 2.6 billion) by the factors of 14 and 6, respectively. Similarly, levels of IFFs from Myanmar reached five times the amount of ODA (USD 1.6 billion), while those from Sudan were equivalent to more than one and a half the sum of public health expenditure (circa USD 4.1 billion) and about two-thirds of total ODA (USD 10.9 billion) received.

Policy responses to this complex and multifaceted issue need to be comprehensive. They should include a wide range of reforms – from strengthening efforts against money-laundering to customs reform, building skills for transfer pricing, and improving the investigative skills of judicial authorities. In the short term, the priority should be to strengthen existing firewalls to prevent such flows from entering OECD countries. A forthcoming report[24] reviewing OECD country efforts on curbing IFFs from developing countries has identified a number of gaps that will require action in order to avoid OECD countries becoming safe havens for illicit funds. This report identifies the need for strengthened compliance with customer due diligence regimes for financial institutions and other actors that are particularly exposed to money laundering (real estate agents, precious metals dealers, casinos, and so on); improved collection and access to beneficial ownership information; and better sharing of taxation information.

Notes

1. For instance, most flows are commonly expressed as a share of GDP. While doing so is economically correct, since net FDI inflows and net trade (as well as taxes) do constitute shares of GDP in national accounting, similar growth rates in FDI and GDP cancel out. Thus, two countries – one with fast rising FDI and GDP, and another with declining FDI and declining GDP – would be strictly indistinguishable according to that indicator. Another less orthodox but usually preferable option is to normalise flows per capita, giving the dollar value of FDI received per habitant. The advantage of this approach is that it includes population growth in the assessment of the value of any given flow.

2. For reference, OECD countries collected on average 34% of their GDP in tax (2011). Data for 2010 are not cited here due to significant data gaps for this year.

3. Domestic revenues are very distinct from other flows, being under the direct control of the state. They include tax and non-tax revenues (such as revenue from state-owned companies or sovereign wealth funds). They do not represent an inflow to the country – being domestic – but they do include part of the inflows received in a given year, directly (through taxes on export receipts for instance) or indirectly (through VAT if remittances are spent the year they are received).

4. For a good explanation, see *http://blogs.cgdev.org/globaldevelopment/2009/12/does-aid-cause-dutch-disease.php.*

5. A more accurate ratio is ODA to GNI, but this report uses GDP rather than GNI because data for the former are much more complete.

6. The ratios are 111%, 76% and 74% respectively (ODA as a percentage of gross capital formation, 2009) (UNDP, 2011b).

7. Recognising that food insecurity in protracted crisis is a serious issue, however, the international community is developing an Agenda for Action to address it. For more information, see: *www.fao.org/docrep/meeting/026/me888e.pdf.*

8. For example, the OECD DAC *Principles for Good International Engagement in Fragile States and Situations* (OECD, 2007) emphasise the need to foster policy coherence, and the *New Deal for Engagement in Fragile States* (IDPS, 2011) highlights the need to work with "one national vision, one plan" towards peacebuilding and statebuilding goals, including jobs and growth, domestic revenues and service delivery.

9. a. The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the "Cyprus issue".
   b. The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

10. These donors include:
    1. emerging donors, which have new or revived aid programmes, such as the Czech Republic, Hungary, Poland, the Slovak Republic, Estonia, Slovenia, Israel, Russia and Turkey.These countries are all non-DAC members of the OECD, except Russia which is in accession negotiations;
    2. Arab donors such as Kuwait, Saudi Arabia and the United Arab Emirates;
    3. Thailand.

11. According to Fu Ziying, Vice Minister of Commerce of China, in a statement during the general debate at the *Fourth UN General Conference on LDCs*, Istanbul, May 12, 2011, cited in Wainwright (2011).

12. These groupings were devised by fund managers based on indicators of economic potential, rather than like-minded behaviour as providers of development co-operation. The BRICS include Brazil, Russia, India, China and South Africa; the MIKT Mexico, Indonesia, the Republic of Korea and Turkey; the CIVET Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa. The "Next 11" include several countries in fragile situations: Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, Turkey, the Republic of Korea and Vietnam.

13. According to *The Guardian's* Datablog, at *www.guardian.co.uk/news/datablog/2010/nov/12/pakistan-haiti-aid-good#zoomed-picture*, accessed 12 September 2012.

14. Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, the Republic of Korea, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

15. *http://oe.cd/aidstatistics.*

16. According to the Paris Declaration, the partnership commitments for ownership, alignment and harmonisation are defined as follows: *i)* ownership: "partner countries exercise effective leadership over their development policies, and strategies and co-ordinate development actions"; *ii)* alignment: "donors base their overall support on partner countries' national development strategies, institutions and procedures"; *iii)* "Donors actions are more harmonised, transparent and collectively effective".

17. Signatories of the Accra Agenda for Action committed to "reduce the fragmentation of aid by improving the complementarity of donors' efforts and the division of labour among countries and donors, including through improved allocation of resources […] across countries" (text available at *www.oecd.org/dac/aideffectiveness/43911948.pdf*).

18. A donor is "non-significant" when the donor does not contribute a higher share of the recipient's country programmable aid than its global share of country programmable aid, and/or is not among the top 90% of aid in the recipient country. See OECD 2011b for a study of significant and non-significant donors.

19. For a comprehensive review, see de Haas (2007).

20. See for example Beine, *et al.* (2009).

21. Top recipients of remittances per 1 000 population in 2010: Lebanon (USD 811 740), Tonga (USD 600 000), West Bank and Gaza (USD 270 977), Tajikistan (USD 201 877), Kyrgyz Republic (USD 181 582).

22. Raising capital, online or otherwise, from small contributions from large groups of people (see World Bank, 2012e).

23. Typically, the head of state exercises active and exclusionary control over sector governance and the distribution of natural resource rents.

24. This will report on work being done by the OECD DAC Network on Governance. Once available, it will be found on their publication page: *www.oecd.org/dac/governanceanddevelopment/latestdocuments/.*

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Chapter 3

The outlook for fragile states

The prospects for aid, growth and poverty reduction in fragile states are gloomy on the whole, apart from some outliers. The long trend of growth in ODA to fragile states is at serious risk given the current fiscal crunch in OECD countries. About half of fragile states are expected to see a drop in programmable aid between 2012 and 2015.

This ODA fall is likely to occur at the same time as poverty is becoming increasingly concentrated in fragile states.

Countries of particular concern are those that: 1) *are already under-aided and are likely to see a further fall in aid, such as Niger;* 2) *combine projections of falling aid with slow growth, such as Sudan, Chad and Kosovo; or* 3) *are highly dependent on aid but are likely to see aid levels fall, such as Afghanistan. Middle-income fragile states will also face specific challenges that will require continued attention.*

Rapid changes related to demographics, technology and climate change can generate collective action and social change or lead to "perfect storms" (crises combining many dimensions). High fertility rates and large proportions of youth will continue to drive demand for social services, jobs and political participation. The spread of technological innovation – especially mobile phones – may be one of the most consequential changes affecting fragile states in the decade ahead, providing new means of information, communication and collective action. Climate change and environmental degradation will affect fragile states more directly and severely than other countries.

Question 9: What are the aid, growth and poverty prospects for fragile states?

The long trend ODA growth to fragile states is at serious risk. Many DAC donors are under severe fiscal stress, which is likely to have a negative impact on aid budgets. In 2011, ODA fell for the first time since 1997 (down 2.7% in real terms, excluding debt relief).

About half of fragile states are projected to experience a drop in country programmable aid (CPA) between 2012 and 2015. The sharpest drops in absolute terms are expected in Haiti, Afghanistan and Ethiopia; whereas the largest increases in absolute terms are expected in Bangladesh, the Democratic Republic of Congo and Kenya. Poverty is expected to be increasingly concentrated in fragile states, notably those found in Africa. By 2015, Africa's share of global poverty is expected to more than double, from below 30% in 2005 to about 60%.

While there is much uncertainty in predicting future trends in growth, poverty and official development assistance (ODA), projections can be useful to help identify potential challenges, trends, and particular countries of concern (the latter listed in Box 3.1). Overall, fragile states face rather gloomy prospects, though there will be significant differences between them.

Box 3.1. **Countries of concern**

Based on aid and growth prospects, countries that are of particular concern in the coming years include those that:

- are considered chronically under-aided: Madagascar, Togo, Niger, Bangladesh, Guinea, Burkina Faso and Nepal (OECD 2012e) notwithstanding the fact that all, except Niger, can expect slight increases in aid between 2012-15;
- combine projections of falling aid and slow growth, such as Sudan, Chad and Kosovo. Among these, Kosovo faces a particularly sharp fall in aid; and
- demonstrate high aid-dependency and projections of falling aid, such as Afghanistan.

ODA and growth

The growth of ODA to fragile states is at serious risk. Many DAC donors are under severe fiscal stress, which has historically had a negative impact on aid budgets. For the first time since 1997, ODA fell in 2011 (-2.7% in real terms, excluding debt relief), breaking a long trend of annual increases (OECD, 2012b). The European debt and bank crisis is likely to diminish some European countries' aid efforts further in the years ahead. European development aid was already down 1.5% between 2010 and 2011 according to a June 2012 report (ONE, 2012). The pattern has been more pronounced for countries worst hit by the crisis: Spain cut its aid budget – the sixth largest in Europe – by a third in 2010/11, while Greece cut an even larger share (40%) of its smaller aid budget. France also cut its aid budget by over 3.5% at the same time. Poor African countries, some of them fragile – like Malawi – are some of the most likely to bear the brunt of these cuts. Other major donors are also facing challenges of their own, including a sluggish post-crisis economic recovery in the United States and the fallout of the Fukushima disaster in Japan. Overall, it is unclear when austerity measures will be relaxed in OECD countries.

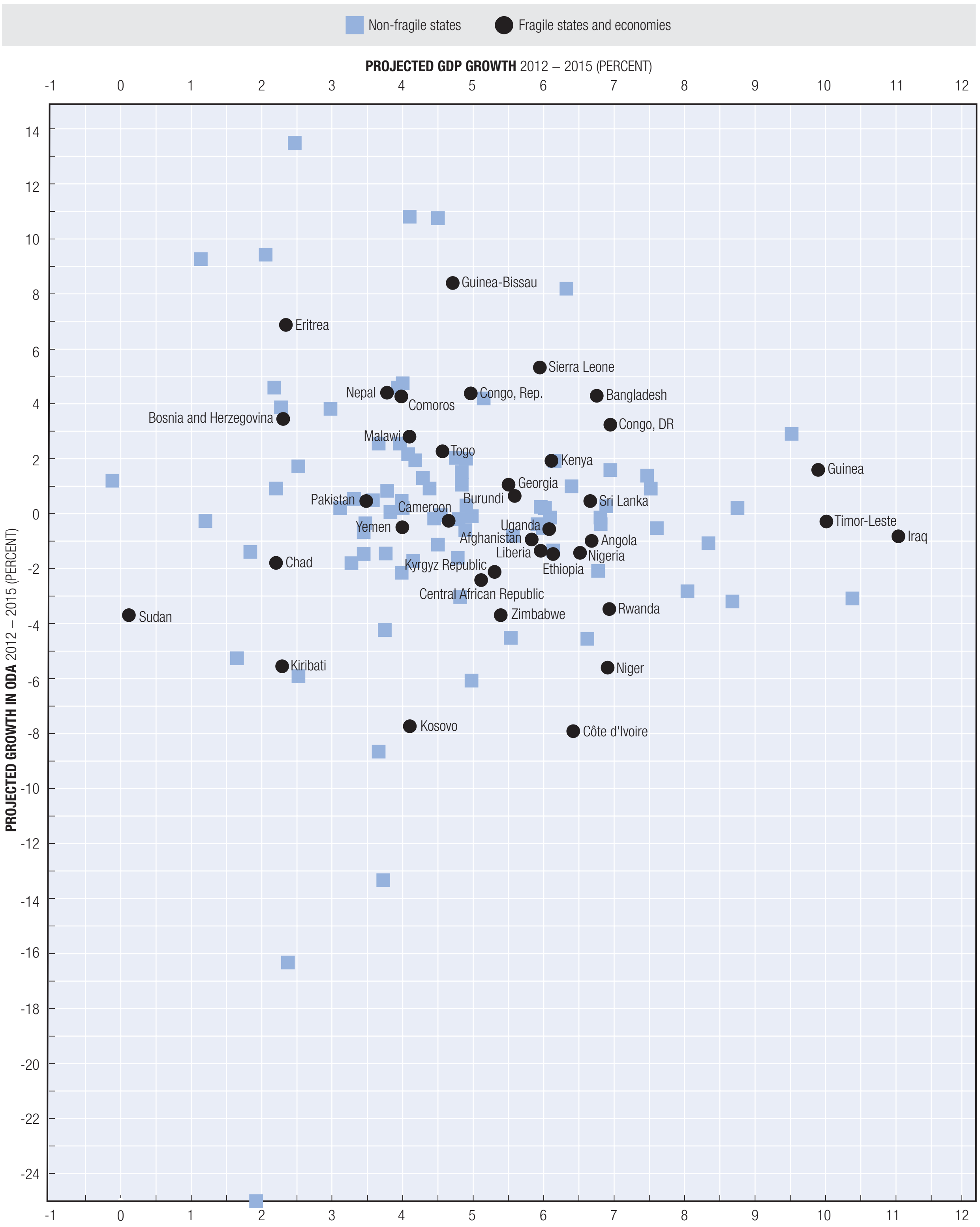
Table 3.1. **Country programmable aid (CPA) projections for fragile states or economies (2011-15)**

Country	2011	2012	2013	2014	2015	Annual CPA change 2012-15	Total variation in CPA 2012-15
Bosnia-Herzegovina	303	326	337	357	363	3.6%	36
Kosovo	558	511	507	410	405	-7.4%	-106
Cambodia	777	700	725	734	734	1.6%	34
Korea, Dem. Rep.	33	29	31	30	31	2.5%	2
Timor-Leste	262	293	294	292	291	-0.2%	-2
Iran	41	41	43	40	41	-0.1%	0
Iraq	1 688	1 759	1 720	1 716	1 720	-0.7%	-39
West Bank & Gaza	1 799	1 730	1 782	1 860	1 849	2.2%	119
Yemen	390	495	476	490	487	-0.5%	-8
Haiti	970	1 306	1 153	1 138	1 134	-4.6%	-172
Kiribati	52	54	52	46	46	-5.3%	-8
Marshall Islands	84	92	89	88	88	-1.4%	-4
Micronesia, Fed. States	140	139	139	138	138	-0.1%	0
Solomon Islands	325	315	289	244	243	-8.3%	-72
Afghanistan	4 979	5 175	5 055	5 040	5 044	-0.9%	-131
Bangladesh	1 949	2 442	2 743	2 778	2 783	4.4%	340
Georgia	416	453	472	469	468	1.1%	15
Kyrgyz Republic	388	352	329	331	331	-2.0%	-21
Myanmar	271	252	303	309	297	5.6%	45
Nepal	873	826	927	932	944	4.6%	118
Pakistan	3 172	3 246	3 298	3 320	3 298	0.5%	52
Sri Lanka	986	985	958	978	1 001	0.5%	16
Angola	245	384	410	399	374	-0.9%	-10
Burundi	443	384	445	413	392	0.7%	8
Cameroon	510	581	589	580	578	-0.2%	-3
Central African Rep.	187	186	179	174	174	-2.3%	-13
Chad	255	247	243	235	234	-1.8%	-13
Comoros	35	35	43	40	40	4.4%	5
Congo, Dem. Rep.	1 618	1 655	1 874	1 861	1 827	3.4%	172
Congo, Rep.	158	94	112	109	107	4.5%	13
Côte d'Ivoire	977	545	435	432	429	-7.6%	-115
Eritrea	114	68	87	83	83	7.0%	15
Ethiopia	2 747	2 864	2 789	2 798	2 738	-1.5%	-126
Guinea	296	182	198	193	191	1.7%	9
Guinea-Bissau	90	81	113	109	105	8.8%	23
Kenya	1 927	2 257	2 428	2 413	2 397	2.0%	140
Liberia	410	391	382	378	376	-1.3%	-15
Malawi	684	780	885	866	851	2.9%	71
Niger	466	613	561	528	519	-5.4%	-93
Nigeria	1 846	2 527	2 492	2 437	2 427	-1.3%	-99
Rwanda	1 131	1 046	960	969	945	-3.3%	-101
Sierra Leone	365	308	374	364	362	5.5%	54
Somalia	307	288	319	319	318	3.4%	30
South Sudan	97	155	179	185	184	5.9%	29
Sudan	932	1 050	1 001	992	932	-3.9%	-117
Togo	211	164	180	178	176	2.4%	12
Uganda	1 452	1 621	1 694	1 640	1 591	-0.6%	-30
Zimbabwe	492	469	422	422	421	-3.5%	-48
	38 452	40 495	41 118	40 855	40 509	0.0%	14

CPA growth (fragile states) 2011-12 5.3% Average annual CPA growth (fragile states) 2012-15 0.01%

Source: OECD (2012b), "Outlook on Aid: Survey on Donors' Forward Spending Plans 2012-2015", *OECD Aid Quality and Architecture website*, accessed September 2012, available at *www.oecd.org/dac/aidarchitecture/50056866.pdf.*

Figure 3.1. **Projected country programmable aid (CPA) and GDP growth (2012-15)**



Source: OECD (2012b), "Outlook on Aid: Survey on Donors' Forward Spending Plans 2012-2015", *OECD Aid Quality and Architecture website*, accessed September 2012, available at *www.oecd.org/dac/aidarchitecture/50056866.pdf;* and WDI, available at *http://hdr.undp.org/en/statistics/data/.*

While it is hard to say whether fragile states are likely to suffer more or less from generally shrinking aid budgets than other developing countries, the impact of fiscal stress is visible in projections of country programmable aid (CPA) to fragile states. An OECD survey (OECD, 2010) projects that about half of fragile states are likely to experience a drop in CPA[1] between 2012 and 2015, including many with very low income and Human Development Index (HDI) levels (Figure 3.1). The sharpest expected drops in absolute values are in Haiti, Afghanistan and Ethiopia; in annual percentage change, they are the Solomon Islands, Côte d'Ivoire, and Kosovo (Table 3.1:

- More than half of countries with a 2011 HDI below 0.5 (the overwhelming majority of which are fragile states) will experience no or negative growth in CPA.
- Some of the fragile states expected to experience declining CPA levels will also face relatively sluggish economic growth – *i.e.* those located on the bottom left portion of Figure 3.1 (Sudan, Chad and Kosovo for example). By contrast, countries which are expected to experience a drop in CPA while enjoying high rates of economic growth include Rwanda, Ethiopia and Nigeria.

However, some fragile states can expect an increase in CPA in absolute terms, most notably in Bangladesh, the Democratic Republic of Congo and Kenya. In terms of annual percentage change, the biggest increases are expected in Guinea-Bissau, Eritrea and South Sudan. Some countries, such as Guinea-Bissau, Sierra Leone, and Pakistan, are expected to enjoy solid growth in both CPA and GDP (in absolute value, not per capita).

It is clear that ODA commitments do not measure up to the challenges posed by the trends in poverty discussed above. The Overseas Development Institute (ODI) study *Horizon 2025* (Kharas and Rogerson, 2012) makes a strong case for focusing more resources on fragile states. The study considers the current shares of each agency's operations going to non-fragile, low poverty gap countries, as symptomatic of a mismatch with likely future priorities: "the lower the share of fragile and high poverty gap countries, the less relevant the agency risks being."

Poverty

As Chapter 1 has outlined, the poverty picture is changing from one of poor people in poor countries (73% of the world's poor lived in low-income countries in 2005) to one of poor people in middle-income countries (65% of the world's poor in 2010), a quarter of which are fragile.

Looking forward, and despite differences between sources, the consensus is that the global poor will be increasingly concentrated in fragile states continuing an already visible trend: over half of the world's poor will probably be found in fragile states by 2015 – up from about 20% in 2005[2] (Chandy and Gertz, 2011).

Large MIFS, such as Pakistan, Nigeria and Sudan, will warrant special attention in the decade ahead because their large populations will include a high proportion of the global poor, and because of the risk of regional and global spillovers of conflict and fragility (Box 3.2). For example, by 2015 most of the global poor will be in Nigeria, India, the Democratic Republic of Congo, Indonesia and Bangladesh (Figure 3.2).

Asia and Africa will follow starkly different paths: by 2015, Asia's share of global poverty is expected to drop by half from 2005 levels, from two-thirds to one-third. Africa's share is expected to more than double, from below 30% to about 60% (Chandy and Gertz, 2011). By 2025, it is expected that

> "the locus of global poverty will overwhelmingly be in fragile states […]. This trend towards a greater concentration of the global poor in fragile states is likely to continue, given economic and demographic trends […]. Prospects for significant and rapid poverty reduction in a few large countries, including Afghanistan, the Democratic Republic of Congo, and Nigeria, which account for a sizable fraction of the poor population in fragile states, are not bright".

Conversely, non-fragile states may see a drop in the number of poor on their territory: down to 100 million out of a world total of 560 million, by 2025 (Kharas and Rogerson, 2012; and Figure 3.3).

Beyond 2025, it is hard to predict future patterns of poverty. An analysis of poverty trends over the 2005-15 period projected that poverty reduction would occur at a faster rate in middle-income countries (MICs) than in lower income countries (LICs) – respectively 11% and 3.4% a year (Chandy and Gertz, 2011).[3] However, whether the pattern will apply in the specific case of fragile states is uncertain. Factors underlying poverty reduction are different in the LICs and MICs, being generally more a matter of sheer deprivation in the former, and more of distribution in the latter. Inequality dynamics in MICs, especially in MIFS, will also affect the share of the world's poor living in these countries in one or two decades (Sumner, 2012), but in ways that are currently all but impossible to predict.

Box 3.2. **Keeping an eye on large middle-income fragile states (MIFS)**

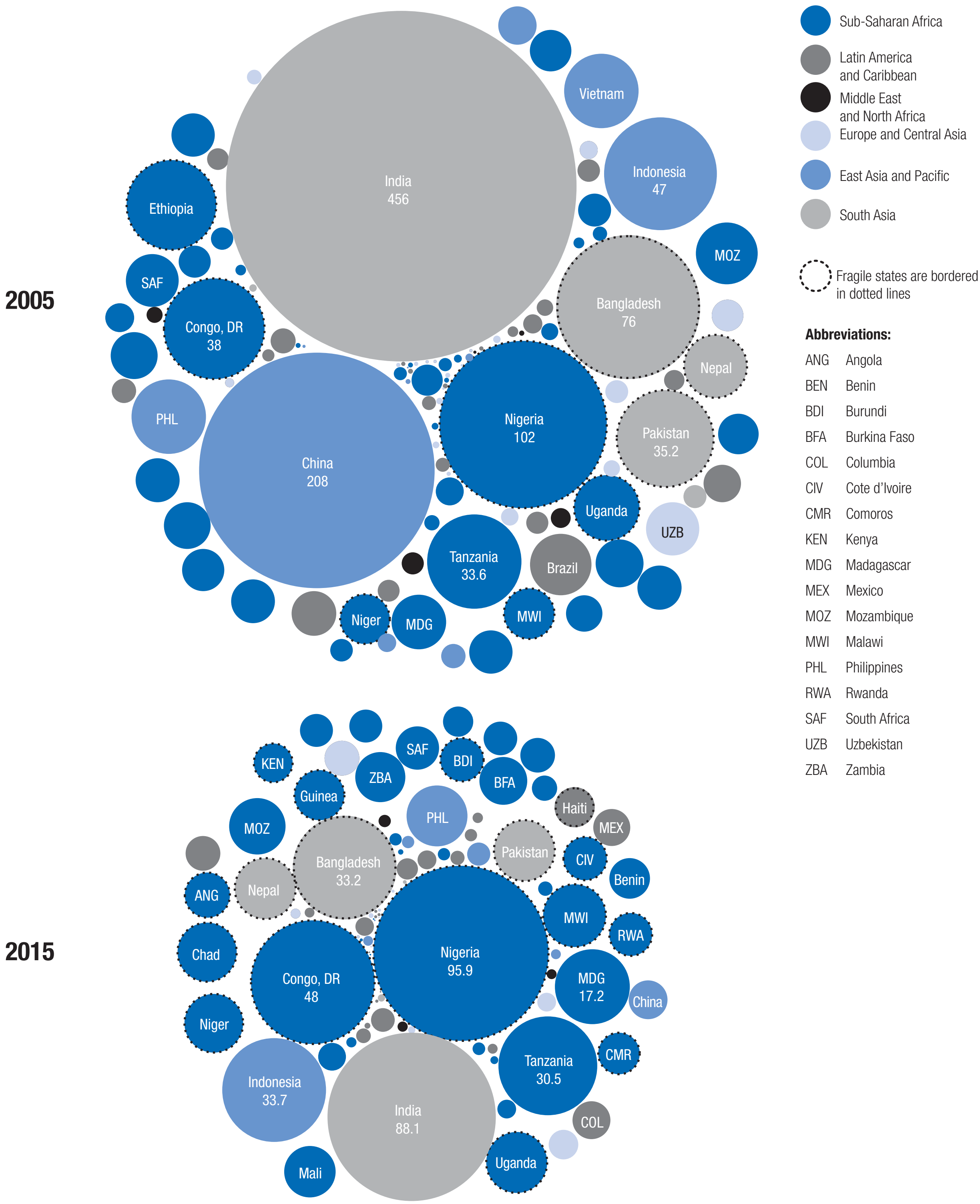
Even while most concern centres on LIFS (notably resulting from the global fiscal crisis), this does not mean that MIFS can be considered to be "out of the woods" anytime soon. Large MIFS, such as Pakistan, Nigeria and Sudan, will warrant special attention in the decade ahead because of their large populations, including a high proportion of the global poor, and the risk of regional and global spillovers.

While their future is largely in their own hands, it will also be influenced by decisions made by donors and investors. MIFS also have to compete for aid with other middle-income countries that are not at present considered fragile but that may also warrant specific attention in the future. For example, despite its many impressive achievements in recent years, Ghana displays some indicators of fragility: rapid population growth, sharp regional inequalities, and land disputes overlain by occasional ethnic friction (Ghana Web, 2012; Vernon and Baksh, 2010; CADA, 2012). There are also persistent concerns about the political impact of the country's oil boom (Gary, 2011; BBC, 2011).

There is also a risk, at least theoretically, that some MIFS may fall through the cracks – *i.e.* they may lose the right to ODA but are still not creditworthy or attractive enough for investors (Glennie, 2011). In practice, there are many countries that receive both concessional and non-concessional financing* and there is evidence that aid is more likely to drop once a country graduates to *upper*-middle income status than when it graduates to lower-middle income status (OECD, 2010; Herbert, 2012). But this is an issue worth watching.

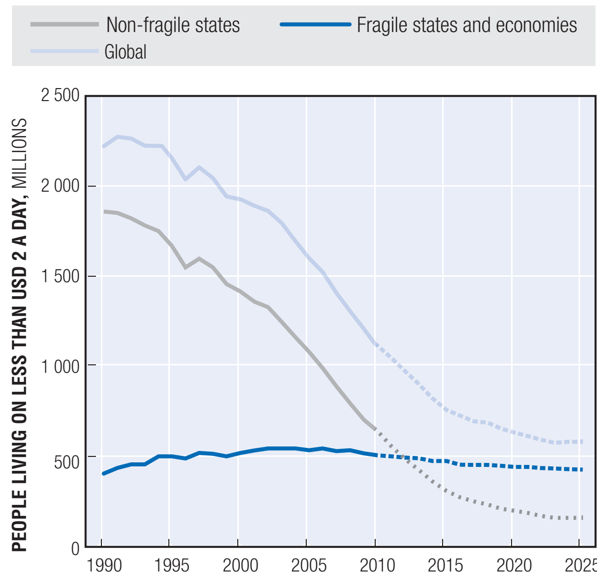
* Called "blend countries", these countries are eligible for International Development Association (IDA) grants and loans while also being credit-worthy enough to borrow from the International Bank for Reconstruction and Development (IBRD). An example is Pakistan.

Figure 3.2. **Where will the global poor be in 2015?**



Source: Chandy, L. and Gertz, G. (2011), "Poverty in Numbers: The Changing State of Global Poverty from 2005 to 2015", Global Views Policy Brief 2011-01, The Brookings Institution, Washington, DC, USA, available at *www.brookings.edu/~/media/research/files/papers/2011/1/global%20poverty%20chandy/01_global_poverty_chandy.*

Figure 3.3. **Global poverty is expected to decline sharply in non-fragile states by 2025**



Source: Kharas, H. and Rogerson, A. (2012), *Horizon 2025, Creative Destruction in the Aid Industry*, Overseas Development Institute, London, available at *www.odi.org.uk/resources/docs/7723.pdf.*

Question 10: What issues are likely to shape fragility in the years ahead?

High fertility and population growth rates, a large proportion of young people, stretched health and other social services, as well as a lack of socioeconomic and political opportunities will all be among the challenges facing fragile states in the coming years.

Climate change and environmental degradation will also affect fragile states more directly and severely than other countries. These two challenges are expected to act as "threat multipliers", combining with other factors to catalyse crisis. Initiatives to mitigate the impact of climate change may themselves fuel instability, if not adequately designed and implemented.

The diffusion of technological innovation may prove to be one of the most consequential changes affecting fragile states in the decade ahead. Mobile phone use in fragile states is increasing at impressive rates, growing almost six-fold in five years. Mobile phones are being used to share agricultural market information, transfer money, reduce corruption and provide early warnings for crises. They also facilitate Internet access, which can change the balance of power between state and civil society by facilitating communication and collective action.

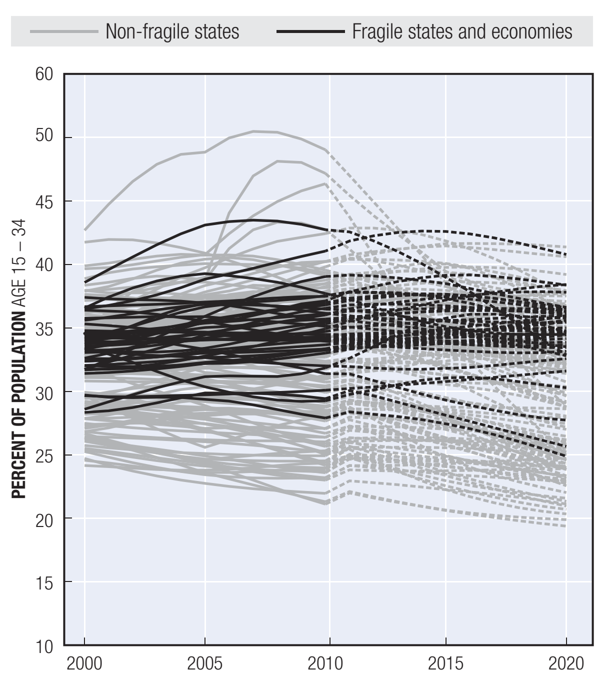
Any answer to such a broad and ambitious question can only be partial and tentative. This analysis is voluntarily restricted to three powerful structural processes deemed to have far-reaching implications for fragile states: demographic trends, climate change, and technological innovation. These need to be integrated into thinking about the prospects for fragile states.

Demography

The demographic features and prospects of fragile states differ from those of non-fragile states. Three particular aspects of fragile states are especially striking: high fertility and population growth rates, and the large proportion of young people.

- Between 2005 and 2010, the average total fertility rate[4] for the top 20 countries on the 2011 Fragile States Index was a high 5.13, almost twice as high as the average for all developing countries (PSN, 2012, based on UN Population Division data). Seven of these countries (Afghanistan, Chad, the Democratic Republic of Congo, Niger, Nigeria, Somalia and Yemen), are among the 20 countries with the highest total fertility rates in the world.
- The average annual rate of population growth of the top 20 countries on the 2011 Fragile States Index over the same period was 2.68% – the rate at which a population will double every 26 years (PSN, 2012). Of these countries, Iraq, Niger and Yemen have the highest population growth rates.
- In most fragile states the 15-34 age group makes up more than one-third of the population; this proportion is expected to remain steady in the vast majority of fragile states, while decreasing markedly in most non-fragile states (Figures 3.4 and 3.5). The debate over the impact and relevance of these "youth bulges" in driving conflict is longstanding (Urdal, 2006). The point here is certainly not to consider them as "a threat to global security" (Walker, 2009) but rather to stress the need to better understand the full implications of such trends for poverty reduction, job creation, and fragility, and to do so in the context of other processes, including technological innovation, for instance.

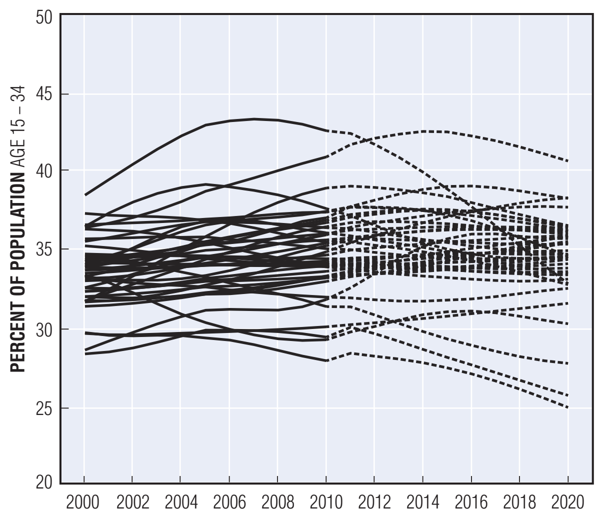
Figure 3.4. **The high proportion of youth in fragile states and economies (2000-20)**



Source: UN DESA (United Nations Department of Economic and Social Affairs), Population Division (2011), *World Population Prospects: The 2010 Revision*, CD-ROM Edition, accessed June 2012, at *http://esa.un.org/unpd/wpp/unpp/panel_population.htm*.

At a minimum, these trends suggest that most fragile states will continue to face significant demand for – and most likely shortages of – health and other social services, as well as a dearth of other socioeconomic and political opportunities such as jobs and political participation, etc. The implication, which should feature prominently on the radar of local and international actors, is that "rapid population growth combined with the lack of employment opportunities for youths (…) represents a considerable risk of civil violence in failed states, […] particularly […] in states where migration opportunities are constrained." (Ware, 2005).

Figure 3.5. **A youth time bomb in fragile states? (selected countries, 2000-20)**



Source: UN DESA (United Nations Department of Economic and Social Affairs), Population Division (2011), *World Population Prospects: The 2010 Revision*, CD-ROM Edition, accessed June 2012, at *http://esa.un.org/unpd/wpp/unpp/panel_population.htm*.

Technology

A powerful process influencing development is technological innovation and diffusion. This section looks at the use and impact of technology in fragile states in particular, where the increasing use of mobile phones and the Internet (including social media), may prove to be one of the most consequential changes affecting them in the decade ahead.

Mobile phone use in fragile states is increasing at impressive rates, growing almost six-fold in five years, from 7% of the population in 2005 to 40% in 2010. This average masks significant differences; while in 27 fragile states over one-third of the population has a mobile phone, less than 10% of the population has one phone in seven others: Myanmar (1.24%), the Democratic People's Republic Korea (1.77%), Eritrea (3.53%), Solomon Islands (5.57%), Somalia (6.95%), the Marshall Islands (7.03%), and Ethiopia (8.26%) (ITU, 2012). This is probably only the beginning: "Globally, in 2010, only 10% of the poor (at 2 USD a day) had a bank account, but there were 5.3 billion mobile subscribers. By 2025, there could be near-universal mobile phone coverage, implying scope for near-universal banking for the poor" (Kharas and Rogerson, 2012).

Mobile phones have a host of applications that are directly relevant to fragile states. They are used for example to seek or share information on agricultural markets, store or transfer money, monitor supply chains to reduce stock loss and corruption, and provide telemedicine (clinical health care at a distance). There are also ample examples of how mobile technology can help with early warning and emergency relief in crises: for example, the World Food Program began piloting the distribution of food vouchers over mobiles to Iraqi refugees as early as 2009. Some even see mobile-phone based services as a way to bypass inefficient governments by directly channelling resources to citizens.

Mobile money services in particular are well developed in some fragile states: as early as 2005, a system to wire money over mobile phones (Celpay) was launched in the Democratic Republic of Congo by the pan-African telecommunications company Celtel. Celpay was an important technological leap for a country the size of Western Europe with no nation-wide banking or wire transfer networks. It has notably helped integrate cash-based rural communities into the wider economy, including special groups such as demobilised ex-combatants (de Catheu, 2008). In Kenya, the mobile money platform M-Pesa, introduced in 2007, had over 9 million users by 2010; financial transactions transiting over M-Pesa represented 10% of Kenya's GDP. The same platform was used by Roshan, the leading mobile phone company in Afghanistan, to roll out M-Paisa, which facilitates micro-finance programmes and remittance payments.[5]

The increase in mobile use is likely to accelerate Internet access in fragile states; the GSM Association projects that as much as 80% of Internet delivery will occur via mobile phones in the coming years (Denton, 2008). Internet access in fragile states currently stands at an average of less than 10% (in 2010), ranging from 46% in Iran, 29% in Nigeria, and 24% in Kenya, to less than 1% in Liberia, Ethiopia and Sierra Leone (Internet World Stats, 2012).

The Internet provides individuals, organisations, and communities with a new and powerful means of information, communication and collective action. What its impact will be in situations of fragility (positive or negative and in what ways) is still a new research area but initial findings show that it will be crucially important.[6] Internet access and social media are already changing the balance of power between the state and civil society in fragile situations. Their role in the Arab Spring has been much discussed and documented (Hussain and Howard, 2012), although the use of social media varies widely: Facebook use is 26% in Tunisia and 11% in Egypt, and only 5% in Libya and 1% in Yemen (Internet World Stats, 2012). Twenty-eight of the 50 countries with the lowest Facebook use are fragile states.

Climate and the environment

Climate change and environmental degradation have been affecting fragile states more directly and severely than other countries. Limited human, technical and physical resources also mean fragile states are the most vulnerable to climate impacts and the least able to adapt. This trend is unlikely to be reversed in the near future (United Nations University, 2011). A 2007 study estimated that the effects of climate change would combine with economic, social and political problems to create a high risk of violent conflict in 46 countries (affecting 2.7 billion people); and in the longer term a high risk of political instability in an additional 56 countries (affecting a further 1.2 billion people) (Smith and Vivekananda, 2007). More recent studies indicate Bangladesh (Box 3.3), India, Jordan, Libya, Nepal, Pakistan, the Sahel, the West Bank and Gaza, as likely flashpoints for water-related crises (Langton and Prasai, 2012; Verner, 2012).

Although there is only limited evidence that climate change and environmental degradation by themselves lead to conflict in fragile situations, they almost always act as "threat multipliers", combining with other features and processes to catalyse crisis. For example, they can place new strains on already limited services and funding, and threaten state legitimacy (Homer-Dixon, 1999; Baechler 1998). There is evidence that natural resource scarcity, land degradation and droughts have all played a role in the build-up to instability and ethnic violence at various points in time in Rwanda,[7] Darfur (Manger, 2006; Suliman, 2008), the Sahel (Nyong, 2012; Kandji *et al.*, 2006) and the Middle East. Improving our understanding of the nature and implications of the interactions at play should be a research priority for developing countries in general and fragile situations in particular (Benjaminsen *et al.*, 2012; Buhang *et al.*, 2008). Moreover, in an interconnected world environmental shocks can affect communities thousands of miles away, as shown by the impact on commodity prices of the 2012 summer drought in the United States: experts fear it may spark another global food crisis (IFPRI, 2012).

Initiatives to prevent or at least mitigate climate change may themselves fuel instability if not adequately designed or implemented. For example, suggestions that climate negotiators have not paid attention to the political economy and the risk of conflict in fragile situations have led to calls for "environmental peacebuilding" (Péclard, 2009), "conflict-sensitive adaption and climate-proofed peacebuilding" (Smith and Vivekananda, 2009) and to "tackling the major structural problems that underlie much of deforestation" (Karsenty, 2012). One target of scrutiny in this respect, because of the sheer scale of its potential impact on fragile situations, is the United Nations' collaborative initiative Reducing Emissions from Deforestation and forest Degradation (REDD), whose funding could reach up to USD 30 billion a year. Six of the 16 partner countries receiving REDD support are in situations of fragility: the Democratic Republic of Congo, Nigeria, Papua New Guinea, the Republic of Congo, Solomon Islands and Sri Lanka (Karsenty, 2012).

Box 3.3. **Climate change in Bangladesh**

Bangladesh is one of the most climate-vulnerable countries in the world. In 2004 34% of its land flooded and in 2007 two floods and a cyclone together killed 4 000 people and caused economic losses of about USD 3 billion. These changes are threatening the significant achievements Bangladesh has made over the last 20 years in increasing incomes, reducing poverty and in achieving self sufficiency in the country's staple food crop, rice.

Dramatic floods, tropical cyclones, storm surges and droughts are becoming more frequent and will be more severe in the coming years and decades. It is estimated that a 45 cm rise in sea-level will potentially result in a loss of 10% of Bangladesh's territory, forcing some 5.5 million people to relocate, threatening livelihoods, stressing state capacity and legitimacy, and creating tensions with neighbouring India and Pakistan. The Government of Bangladesh, with the support of donors, is responding to these challenges by setting up three national climate change funds and developing the Bangladesh Climate Change Strategy and Action Plan.

Source: Swain, A. (1996), *The Environmental Trap: The Ganges River Diversion, Bangladeshi Migration and Conflicts in India*, Report No. 41, Department of Peace and Conflict Research, Uppsala University, Uppsala.

Conclusion: What is next for international engagement in situations of fragility?

Beyond their diversity, fragile situations offer a specific environment with challenges that are different from those found in more stable contexts. The fact that international assistance in fragile situations cannot be "business as usual" is largely consensual. A large body of academic and policy literature discusses the need and options for using innovative aid instruments (DfID, 2005), managing risks collectively (OECD, 2011b) and improving aid behaviour (Leader and Calenso, 2005). This literature offers insights into structural features of fragility that impede progress, such as the "poverty trap" (Collier, 2007) and the "capability trap" (Pritchett and de Wejier, 2010), all with a view to "getting better results from assistance in fragile states" (ODI, 2011).

International engagement should differ in these countries in two ways. First, there is a need to "do things differently." While development co-operation should strive to achieve similar goals as in other countries, notably the MDGs, fragile states require a different approach with (even) greater care. Aid effectiveness is all the more important in fragile settings given their limited capacity and volatile social and political dynamics. Secondly, there is a need to "do different things" altogether (Box 3.4).[8] In particular, the primary objective of international engagement in fragile situations should be to "strengthen the underlying determinants of fragility by addressing fragile states' distinct and country-specific weaknesses in authority, legitimacy and capacity" (Carment *et al.*, 2008). This call to both do things differently and focus on different things is echoed in the DAC *Principles for Good International Engagement in Fragile States and Situations* and more recently in the *New Deal for Engagement in Fragile States*, which establishes five peacebuilding and statebuilding goals (PSGs).

Box 3.4. **What's different about the New Deal?**

Doing different things: The five PSGs in the *New Deal* put legitimate politics, security, justice, economic foundations and revenue and services at the forefront of actions for transiting out of conflict and fragility and achieving sustainable development. The goals will guide global and country-level funding decisions to help ensure that all fragile countries, and their key peacebuilding and statebuilding priorities, are properly supported.

Doing things differently: The *New Deal* also commits national actors in fragile states, and their international partners, to use resources more effectively, including by enhancing transparency. It calls for approaches to risks that are better tailored to fragile contexts, and for greater investment in country systems and to build critical local capacities. Success will require the delivery of timely and predictable aid, the last *New Deal* commitment.

Annual reporting on the implementation of the *New Deal* commitments will serve as a key mechanism for accountability and to see if this different, country-led model of planning and supporting transitions from fragility can bring about the desired changes.

Implementation of the *New Deal* should be tailored to the specific needs and gaps of individual countries; fragile situations differ in the nature and intensity of the features that cause them to be fragile. This is consistent with a "thick" conceptualisation of fragility (Chapter 1). One approach has been to cluster countries according to their levels of authority, capacity and legitimacy (Grävingholt *et al.*, 2012). While this approach allows broad attributes and priorities to be flagged, it must be complemented by a sound assessment of the features and trends that affect fragility at the level of a country or province.

The future research agenda can help accelerate results in fragile situations by contributing a "thicker" approach to fragility, notably:

1. For lack of better alternatives, indices remain a way to identify countries of particular concern and requiring a specific approach. However, analysis must look beyond the quality of government policies and institutions and be both more multidimensional

and forward-looking. As the lack of anticipation of the Arab Spring illustrates, this is necessary to understand and anticipate how long-term transnational megatrends and local phenomena can combine with each other to set off rapid shifts in resilience and stability. What are the transmission channels between global and local phenomena? Are fragile states shielded in any way from global trends because of their lesser integration to the world economy? Or are they more exposed because of their fragility?

2. Further analysis is needed on the increasing share of fragile states that are middle-income, and the implications of this shift for aid strategies. First, graduation to middle-income status is based on income per capita and does not fully represent the level of development in a country. It would be important to analyse whether this shift reflects actual progress in the fight against poverty, and whether inequality trends are (income, access to services, etc.). Second, when countries graduate to middle-income status, certain channels of finance become available while others start to close off. Are the 18 MIFS at risk of losing concessional resources while not yet being creditworthy for non-concessional borrowing? Third, when countries graduate, over time it is expected that larger loans and private investments take over aid as the main sources of finance. It would be important to document whether this is actually happening in MIFS, given that fragile states are almost always well below their trade and investment potential. This is most obvious in the case of fragile states endowed with abundant natural resources. It seems that in MIFS in particular, there is a need to document instances of aid catalysing non-aid flows and behaviours. Fourth and finally, because MIFS are usually less aid-dependent than LIFS, further research could document how aid is used in such contexts: is it put to strategic use? Can it lead to structural change as much as in low-income contexts? How can it best support transitions out of fragility?

3. Context-specific analysis is needed for those countries of concern identified in this report. Beyond their being chronically under-aided, expectations of falling aid and slow growth, or their high aid-dependency combined with expectations of falling aid, how resilient are these states and societies, what is the quality of state-society relations and to what kind of external stressors are they vulnerable to? What is the theory of change in these special-needs countries?

This research agenda would help monitor fast-evolving resource flows and trends in fragile states, taking into the account how rapid shifts – global and local, positive and negative – can affect them. In turn this would help adapt the international response both qualitatively and in terms of geographic focus, anticipating new fault lines and recognising opportunities.

Notes

1. Also known as "core" aid, CPA is the portion of aid donors programme for individual countries, and over which partner countries can have a significant say. For more definitions and data: *www.oecd.org/development/aideffectiveness/countryprogrammableaidcpa.htm*.

2. This is calculated by considering all countries rated "Alert" (above 90) or "Critical" (between 80 and 90) on the 2011 Failed State Index (FSI) – see Question 1.

3. This difference may reflect the higher GDP growth in new MICs that accounted for their graduation from LIC status – as well as greater opportunities offered by MIC status, such as better access to external finance.

4. According to UN Population Division definitions, "[t]otal fertility rate is the average number of live births a woman would have by age 50 if she were subject, throughout her life, to the age-specific fertility rates observed in a given year. Its calculation assumes that there is no mortality. The total fertility rate is expressed as number of children per woman." (Source: UNDESA Population Division *www.un.org/esa/population/publications/worldfertility/Definitions_Sources.pdf*.)

5. "Pesa" means "money" in Swahili. "Paisa" means money in Dari and Pashto.

6. See for example Logan (2010); Karanasios (2010); Gitau *et al.* (2009); Hill and Sen (2000); Chigona *et al.* (2009).

7. In 1994, for example, environmental degradation combined with falling coffee prices, structural adjustment, pressures for democratisation, elite insecurity and a history of manipulation of ethnic divisions (Percival and Homer-Dixon, 1995).

8. "Despite efforts to become more conflict-sensitive, many approaches to conflict-affected and post-conflict states continues to focus more on 'doing things differently' than 'doing different things' – in part due to a reluctance to work on political issues" (McDevitt, 2010).

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Conflict and Fragility

Fragile States

RESOURCE FLOWS AND TRENDS

By 2015, half of the world's people living on less than USD 1.25 a day will be in fragile states. While poverty has decreased globally, progress on Millennium Development Goal (MDG) 1 is slower in fragile states than in other developing countries. Fragile states are also off-track to meet the rest of the MDGs by 2015.

Fragile situations became a central concern of the international development and security agenda in the 1990s. Since then, powerful forces have been influencing the causes and manifestations of fragility, including the combination of democratic aspirations, new technologies, demographic shifts and climate change. The last five years have been especially tumultuous, encompassing the 2008 food, fuel and financial crisis and the Arab Spring, which began in 2011.

These events have influenced the international debate on the nature, relevance and implications of fragility. While situations of fragility clearly have common elements – including poverty, inequality and vulnerability – how can we make sense of the great diversity in their national income, endowment in natural resources or historical trajectories? How do we move towards a more substantive concept of fragility that goes beyond a primary focus on the quality of government policies and institutions to include a broader picture of the economy and society?

This publication *i)* takes stock of the evolution of fragility as a concept, *ii)* analyses financial flows to and within fragile states between 2000 and 2010, and *iii)* identifies trends and issues that are likely to shape fragility in the years to come.

Contents

Chapter 1. The changing face of fragility

Chapter 2. Financial flows in fragile states

Chapter 3. The outlook for fragile states

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