Ensuring Fragile States Are Not Left Behind

2013 Factsheet on resource flows and trends

Key Messages

By 2015, half of the world's people living on less than USD 1.25 a day will be in fragile states,[1] including population giants such as Pakistan and Nigeria. 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.

On average, ODA remains the biggest financial flow in fragile states, followed by remittances and foreign direct investmetn (FDI). Fragile states do not benefit from much FDI, which is extremely concentrated; in 2010, three-quarters of FDI to fragile states went to only seven countries, most resource-rich. Fragile states suffer from chronic trade deficits and are increasingly locked out of international trade, again with the exception of resource-rich countries.

While a decade ago, most fragile states were low-income countries, today almost half – 21 out of 47 – are middle-income countries. If this shift continues, it will change the profile of the average fragile state: from low-income and highly aid-dependent, to middle-income and less aid-dependent. In fragile states of all income levels, aid must be used better to catalyse non-aid flows and behaviours for greater development impact.

This is especially important given the current fiscal crunch in OECD countries, which threatens the long-standing trend of growth in ODA to fragile states (USD 50 billion in 2010, or 38% of total ODA). About half of fragile states are expected to see a drop in programmable aid between 2012 and 2015. This is of particular concern in countries that are chronically "under-aided", aid dependent or facing slow economic growth.

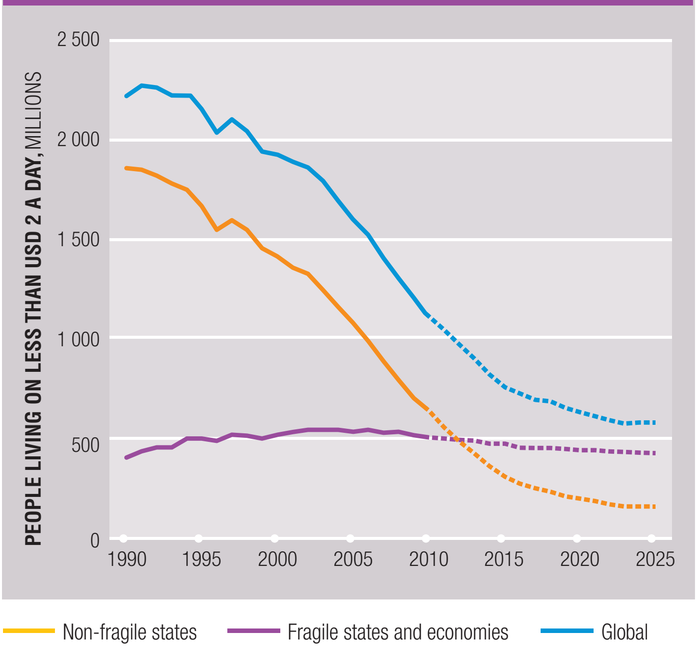
Fragile states as a group are making progress in lessening their dependence on aid by reforming their tax administration and policies: the average fragile state collects taxes equivalent to 13% of its GDP in 2009, against 9% in 2000. Nonetheless, fragile states are far from realising their full tax potential, especially the one-in-four fragile states endowed with abundant natural resources.

While ODA to fragile states is falling in quantity, the number of actors engaging in these states is multiplying. Multi-pronged engagement (development, trade and investment) has accelerated amongst countries beyond the DAC membership, notably China, India, Brazil, South Africa and the Gulf States. There has also been growth in global funds and philanthropic giving.

1 This report's analysis uses a list of 47 countries and economies considered to be fragile, 28 of which are located in Africa. The list is 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). It is not an official DAC list. All 47 countries used for the analysis can be found listed in Figure 5.

Rapid changes in fragile states related to demographics, technology and climate change can generate collective action and social change or lead to "perfect storms" (crises combining many dimensions). Global shocks exacerbate and compound the effects of these rapid shifts. The quality of state-society relations and fragile states' resilience in the face of these and other stressors, internal or external, will largely determine their trajectory over the coming years.

Figure 1. GLOBAL POVERTY IS DECLINING SHARPLY .... EXCEPT IN FRAGILE STATES



Source: Kharas, H. and Rogerson, A. (2012), Horizon 2025, Creative Destruction in the Aid Industry, Overseas Development Institute, London.

Why focus on situations of fragility?

Fragile regions or states lack the ability to develop mutually constructive relations with society and often have a weak capacity to carry out basic governance functions. They are more vulnerable to shocks (internal and external), and in turn they are particularly susceptible to instability, with potential consequences beyond their borders. Fragility exists along a continuum and can manifest itself in different ways. It remains one of the biggest obstacles to peace and development in the world today.

THE CHANGING FACE OF FRAGILITY

Fragile situations became a central concern of international development and security agendas in the 1990s. Since then, powerful forces have been influencing the causes and manifestations of fragility, including the combination of democratic aspirations, demographic shifts, new technologies and climate change. Over the last decade, fragile states have become increasingly middle-income, but poverty, human development and violence remain constant challenges. Recent 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.

Nearly half of fragile states are now middle-income...

Whereas most fragile states were low-income a decade ago, nearly half are classified as middle-income today (21 out of 47). Five of the ten fastest-growing countries between 2001 and 2010 were fragile – Angola, Chad, Ethiopia, Nigeria and Rwanda. This strong growth allowed Angola and Nigeria to graduate from low- to middle-income status, along with the 9 other fragile states that graduated since 2001.[2]

Since the global food, fuel and financial crisis, fragile states, in particular low-income fragile states, have outperformed non-fragile states in average per capita GNI growth. Yet, fragile states as a group have lagged behind other developing countries in economic growth since the year 2000.

...but global poverty is increasingly concentrated in fragile states

Poverty has decreased globally, including in fragile states, but the rate of decline in fragile states has been much slower than in other developing countries. A number of populous middle income fragile states (Nigeria, Pakistan, Sudan and Yemen) have only just moved to middle-income status, and large pockets of poverty persist. As a result, global poverty is increasingly concentrated in fragile states. Home to one-third of the world's poor in 2010, fragile states are projected to be home to half of them by 2015,[3] particularly in sub-Saharan Africa (Figure 3).

The high prevalence of poverty in fragile states is both a symptom of fragility (reflecting the nature of their political process and economic systems) and a cause of fragility (by weakening social cohesion and threatening stability).

...and fragile states are still mired in cycles of 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.[4] A spike in 2011 saw 37 armed conflicts worldwide compared to 31 in 2010,[5] but this is still less than the 50 active conflicts in the early 1990s. Of these 37 conflicts, more than half occurred in fragile states, with Afghanistan, Pakistan, Libya, Somalia, Sudan and Yemen having the most civilian casualties.

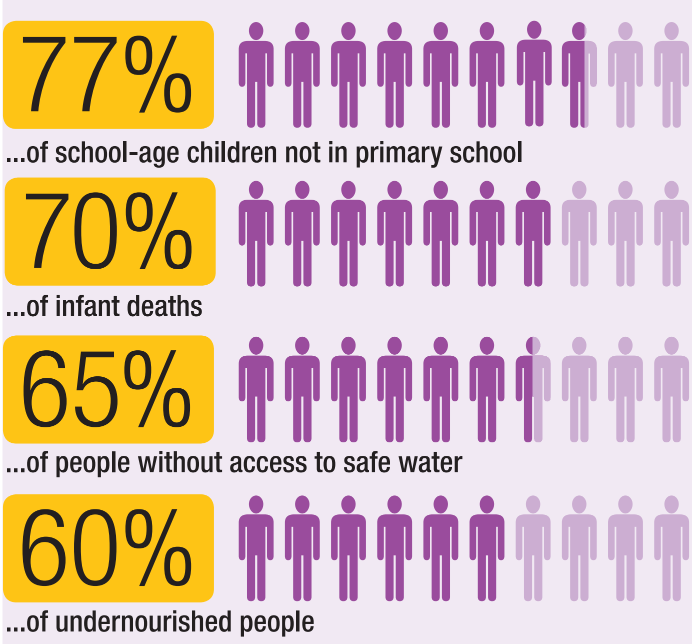
While men typically bear the brunt of the direct effects of armed conflict, women suffer disproportionately the indirect effects such as increased domestic violence and rape.[6] While statistics are hard to come by, examples of gender based violence in fragile states abound. In DRC, 48 women are raped every hour, and 52% of Afghan women have been victims of physical domestic violence.[7]

Most of the MDG deficit is found in fragile states

While the vast majority of non-fragile countries have enjoyed significant improvements in their Human Development Index (HDI) since 2000, the HDI in fragile states has varied considerably with very modest progress as a group. In the fight against global poverty (MDG1) and on other MDGs, fragile states continue to lag behind. Most of the MDG deficit is found in fragile states (Figure 2).

Gender disparities in MDG progress are decreasing in more stable developing countries; for example, one-third of developing countries have a higher school enrolment of girls than boys. But this trend does not extend to fragile states where women and girls suffer disproportionately from the MDG deficit. 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.[8] ■

Figure 2. THE MDG DEFICIT IS CONCENTRATED IN FRAGILE STATES



Source: Adapted from World Bank, The (2011), *World Development Report 2011*, The World Bank, Washington DC.

2 These 11 countries are Georgia (2003), Angola (2004), Cameroon (2005), Republic of Congo (2005), Sudan (2007), Timor-Leste (2007) Cote d'Ivoire (2008), Nigeria (2008), Pakistan (2008), the Solomon Islands (2008), and Yemen (2009).

3 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.

4 Themnér, L. and Wallensteen, P. (2012), "Armed Conflict, 1946-2011", Journal of Peace Research 49(4), Peace Research Institute, Oslo.; World Bank, The (2012), World Development Indicators, website accessed June 2012.

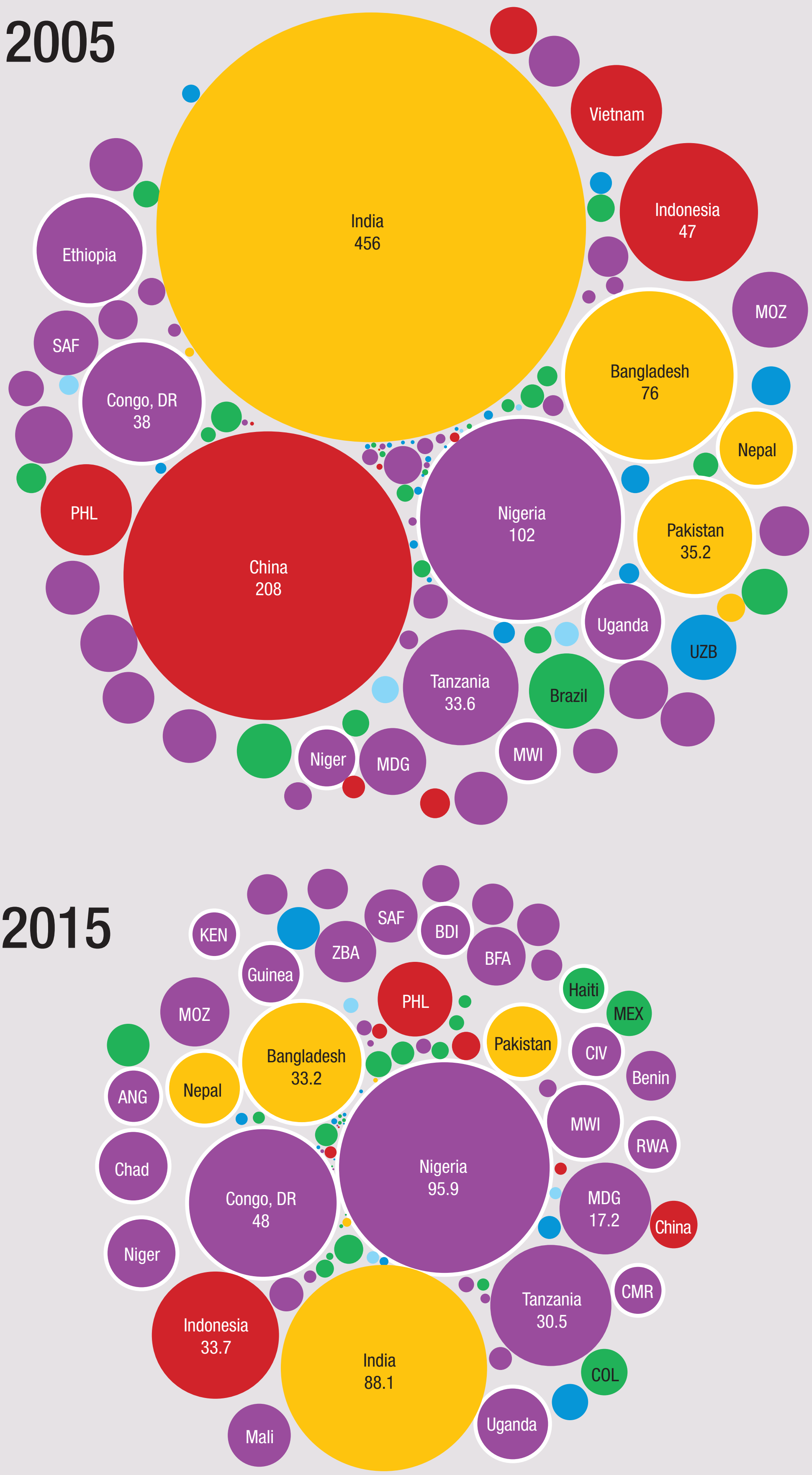
5 This spike is driven more by conflicts in Africa than by the Arab Spring (which in 2011 led mostly to violence rather than conventional armed conflict.

6 World Bank, The (2011), World Development Report 2011, The World Bank, Washington, DC.

7 Peterman, Amber *et al*, (2011), "Estimates and Determinants of Sexual Violence Against Women in the Democratic Republic of Congo," *American Journal of Public Health*, Vol. 101, No. 6, pp. 1060-1067. Global Rights (2008), "Living with Violence: A National Report on Domestic Abuse in Afghanistan,"Global Rights: Partners for Justice.

8 World Bank, The (2012), World Development Report 2012, The World Bank, Washington, DC.

Figure 3. WHERE WILL THE GLOBAL POOR BE IN 2015?



- Sub-Saharan Africa
- Latin America and Caribbean
- Middle East and North Africa
- Europe and Central Asia
- East Asia and Pacific
- South Asia

Fragile states are bordered in white

Abbreviations:

ANG	Angola
BEN	Benin
BDI	Burundi
BFA	Burkina Faso
COL	Columbia
CIV	Cote d'Ivoire
CMR	Comoros
KEN	Kenya
MDG	Madagascar
MEX	Mexico
MOZ	Mozambique
MWI	Malawi
PHL	Philippines
RWA	Rwanda
SAF	South Africa
UZB	Uzbekistan
ZBA	Zambia

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.

DEVELOPMENT CO-OPERATION WITH FRAGILE STATES

Development co-operation has been growing since 2000, benefitting from growing ODA from DAC donors and an acceleration in the multi-pronged engagement (development, trade and investment) of rising powers. Global funds and philanthropic giving from both developed and developing countries have also increased.

A long trend of growth in ODA to fragile states. ODA to fragile states represented USD 50 billion, or 38% of total ODA in 2010 (Figure 4). In the average fragile state, ODA is the biggest financial flow, followed by remittances and FDI, although aid dependency (measured ODA/GDP) is generally less in middle-income fragile states than low-income fragile states.[9]

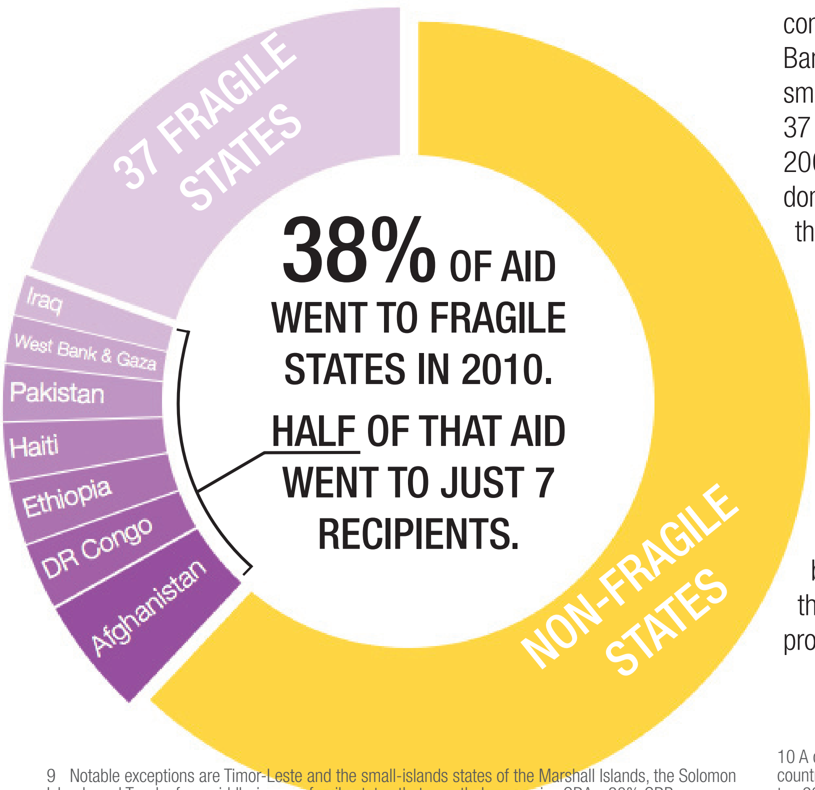
Between 2000 and 2010, per capita ODA to fragile states grew by 46%, while it only grew by 27% in non-fragile states. However, more recently (2008-10), there has been no difference in per capita ODA growth between the two groups.

The favoured channel of delivery for ODA to fragile states is the public sector (34% of ODA, against 50% of ODA to non-fragile states), followed by multilateral channels (21%, against 12% of ODA to non-fragile states).

The sector composition of aid to fragile states has changed over the years: four sectors have grown significantly between 2000 and 2010: government and civil society; health; economic infrastructure and services; and 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 4.
ODA RECIPIENTS, 2010



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).

Every fragile state has suffered an aid shock. 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 decline in fragile states. Nevertheless, over the decade, aid has often been more volatile in fragile states than in non-fragile states; and every fragile state has had at least one aid shock in the last decade. In some countries this has been extreme: for example, Iraq, Nigeria and the Republic of Congo saw variations of between 900% and 1 500% in ODA between 2003 and 2006 (this in part reflects exceptional debt relief).

$50bn
in ODA went to fragile states in 2010

Concentration and fragmentation of aid remain major challenges in most fragile states. Across countries, ODA to fragile states is highly concentrated: half of total ODA to fragile states and economies went to only 7 recipients (out of 47): Afghanistan, Ethiopia, the DRC, Haiti, Pakistan, the West Bank and Gaza and Iraq (Figure 4). Per capita, top recipients are Micronesia, the Solomon Islands and the West Bank and Gaza.

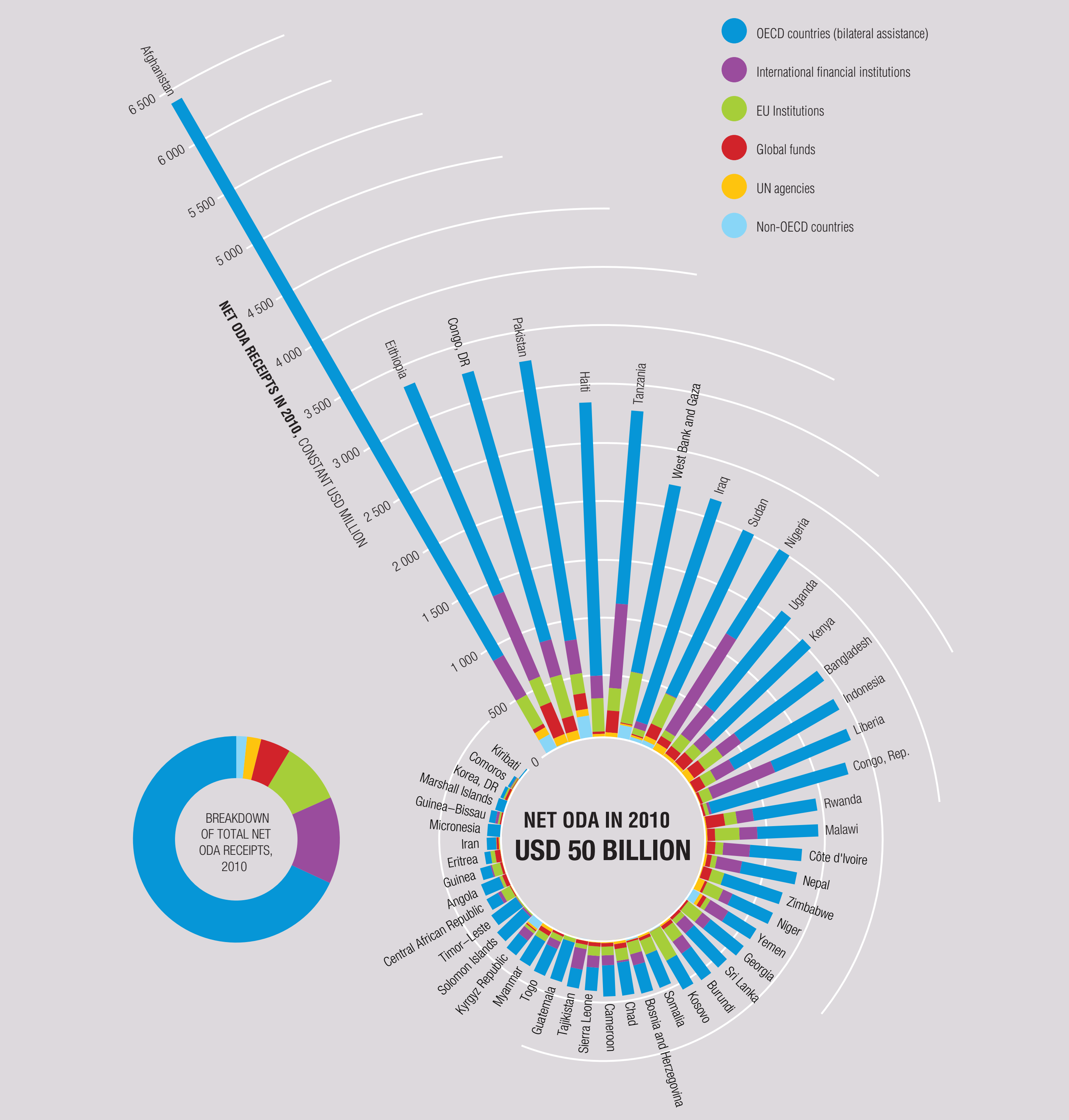
Concentration is also an issue at the country level (Figure 5). Countries such as the Republic of Congo and Iraq depend on one donor for over half their aid – a level of concentration that is considered excessive. At the other extreme, places such as the West Bank and Gaza and Afghanistan suffer from an overabundance of small donors, making co-ordination difficult. Among Afghanistan's 37 donors, as many as 27 are rated non-significant.[10] 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.

Development co-operation with fragile states from beyond the DAC membership has increased in the past decade. Countries with the biggest role in fragile states include China, India, Brazil, South Africa and the Gulf states, and to a lesser extent Colombia, Indonesia, Venezuela, and Turkey. China's aid budget for example grew by 30% each year between 2004 and 2009, and China pledged USD 10 billion in concessional loans to Africa for 2010 to 2012. Yet, beyond aid, it will be economic co-operation that will most define the engagement of China and India in the near future, be it the provision of loans, export credits, trade or FDI.

9 Notable exceptions are Timor-Leste and the small-islands states of the Marshall Islands, the Solomon Islands and Tuvalu, four middle-income fragile states that nonetheless receive ODA >30% GDP.

10 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.

Figure 5. DONOR DARLINGS AND DONOR ORPHANS AMONG FRAGILE STATES



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

Multilateral engagement remains an important means through which rising powers are directly engaging in fragile states. India, Brazil, China, South Africa, China and Indonesia are among the world's top 20 troop contributors to UN peacekeeping missions around the world. With the exception of China, most of these countries have a regional focus to their engagement.

Global funds are also important actors in fragile states. Three-quarters of the countries in which the GAVI Alliance is engaged are fragile states, with USD 2.8 billion disbursed in 42 of fragile states since 2001. Forty percent of active grants from the Global Fund to fight AIDS, Tuberculosis and Malaria are in fragile states, reflecting the disproportionate burden of disease these countries shoulder.

Although hard to quantify, philanthropic giving, especially from private and voluntary organisations and South-South philanthropy, has increased over the past decade. Technological innovation has demonstrated new possibilities for philanthropic giving: the wireless transfer of aid through cell phones is especially useful in contexts with weak infrastructure. During the 2011 famine, the Kenyans for Kenya campaign raised USD 5.2 million from within the country in two weeks using new technology such as M-PESA.

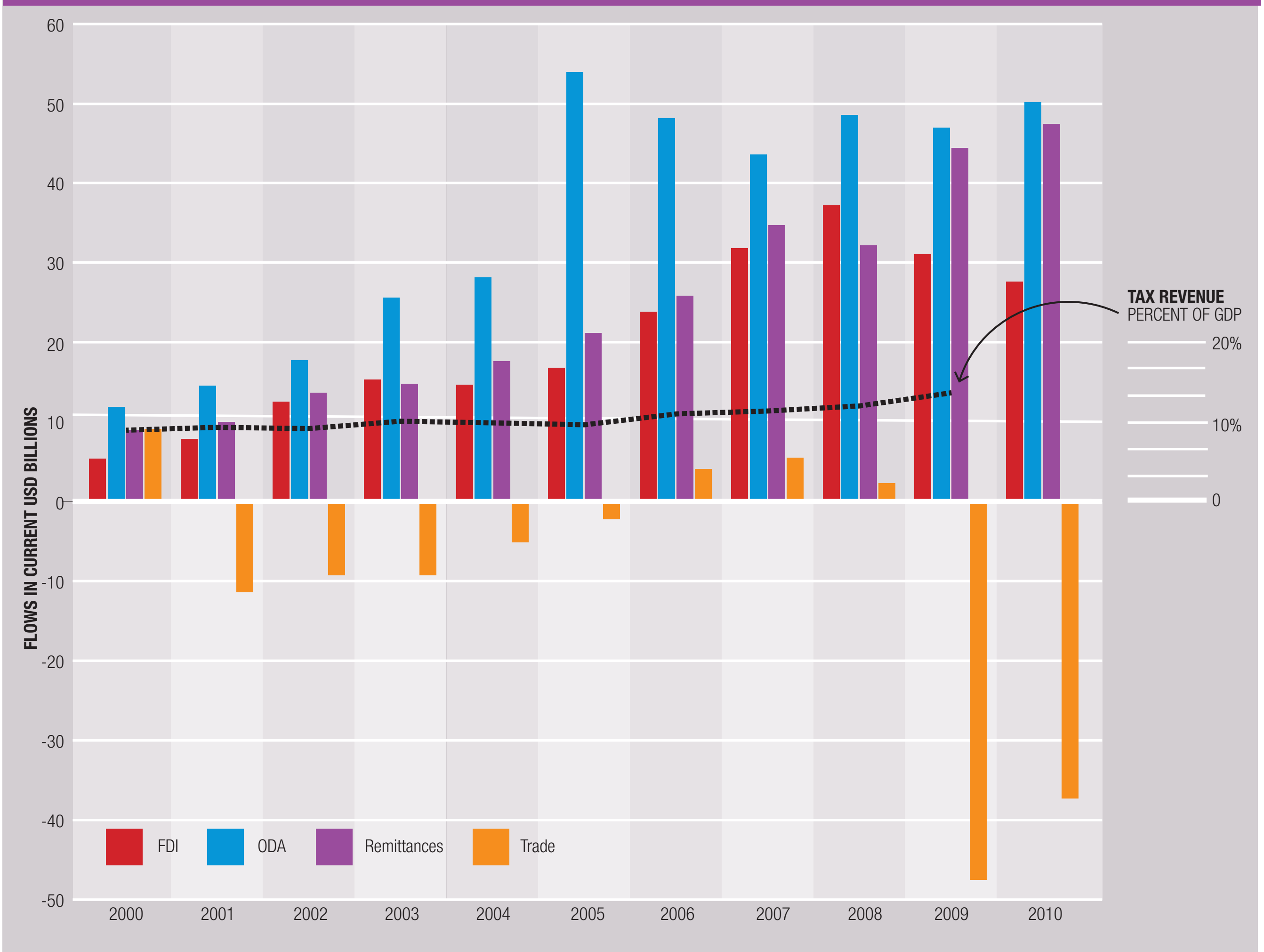
However, philanthropic giving continues to be volatile, unpredictable and heavily dependent on media coverage, timing and geopolitical considerations. ■

BEYOND AID: HARNESSING OTHER FINANCIAL FLOWS

In the average fragile state, ODA is the biggest financial inflow (Figure 6), followed by remittances and FDI. 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, fragile states are increasingly locked out from international trade.

After aid, remittances are the second largest flow to fragile states. Remittances to fragile states have grown steadily over the past ten years, totalling USD 47.4 billion in 2010. But they remain highly concentrated, with 80% of all recorded remittances to fragile states going to five countries – Bangladesh, Nigeria, Pakistan, Sri Lanka and Nepal. Per capita, top recipients among fragile states are the West Bank and Gaza, the Kyrgyz Republic and Sri Lanka. Diaspora bonds[11] are another way nationals living abroad can finance development back home. Kenya, Ethiopia, Nigeria and Bangladesh are planning to issue such bonds.

Figure 6. MAIN FLOWS TO FRAGILE STATES, 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%	

11 Bonds issued by the country of origin and purchased by expatriated nationals.

The use of remittances impacts a wide range of development issues such as health and education, productive investment, women's empowerment and even climate change mitigation. Diasporas can also affect conditions back home through the transfer of norms and values ("social remittances"). 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. One challenge is to use remittances as a means of enhancing resilience within receiving communities, while limiting their sometimes harmful effect on stability.

FDI is extremely concentrated in a few countries, and remains a marginal inflow to most fragile states. Yet, 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, low- and middle-income. The 2008 crisis has hit FDI to fragile states, which has declined overall, but there have been exceptions: low-income fragile states such as Nepal, Timor-Leste, Chad and Niger have recorded noteworthy increases.

FDI is concentrated by country and by sector. In 2010, three-quarters of FDI went to only seven countries, most resource-rich: in decreasing order Nigeria, Iran, DRC, Republic of Congo, Sudan, Pakistan and Iraq. In fragile states, FDI is concentrated in a small number of sectors, typically in extractive industries, construction and telecoms.

Trade deficits are typical for fragile states as a group, at all levels of income. This reflects infrastructure and institutional gaps that are detrimental to exports, as well as quality and positioning factors. Among the 30 countries at the bottom of the 2012 World Bank Ease of Doing Business list, 20 are fragile states.

Between 2000 and 2008, trade deficits were gradually reversed but worsened dramatically after the 2008 crisis. The combined trade deficit of all fragile states is three times worse in 2010 than in 2001. Commodity prices volatility has had an impact, as one in 6 fragile states depend on minerals or fuel for over 75% of their exports (Angola, Iraq, Chad, Nigeria, Yemen, Sudan and the DRC).

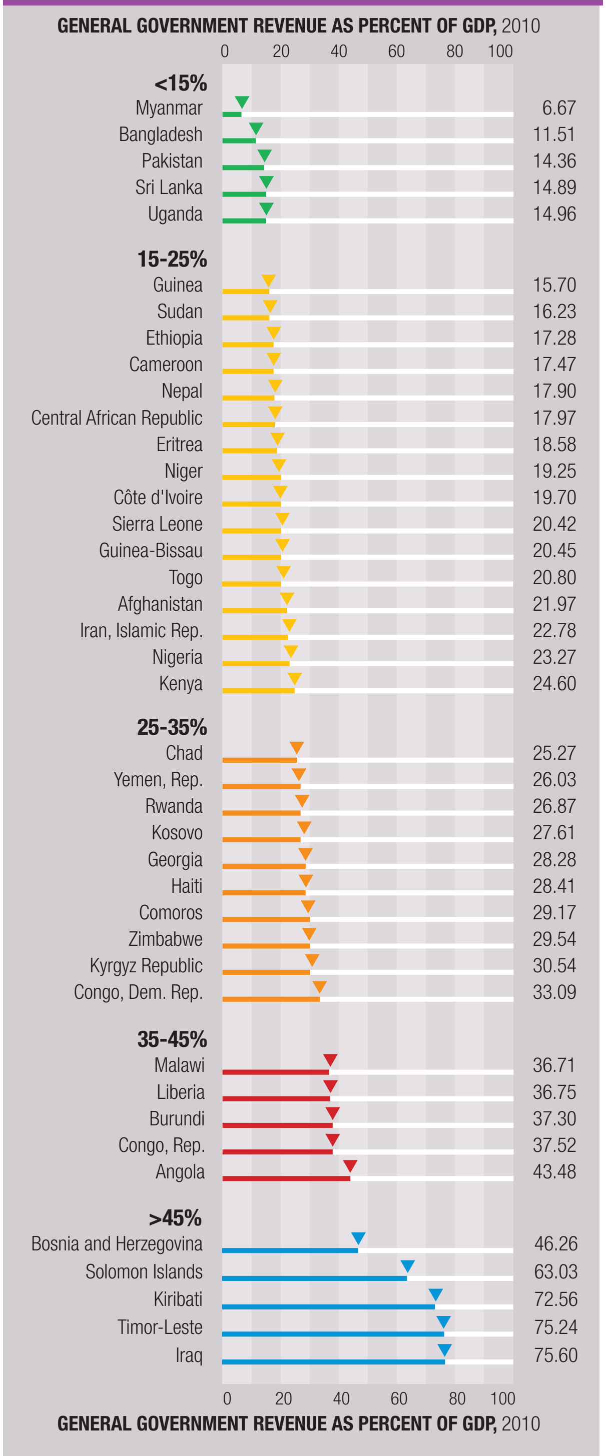
Another important structural feature has been the growing role of India and China as trading partners: China is now Africa's largest trading partner, overtaking its traditional OECD partners in 2011.

Several fragile states are lessening their dependence on aid by reforming their tax administration and policies. Fragile states are still far from realising their tax potential, especially the one-in-four fragile states endowed with abundant natural resources (Figure 7). Resource-rich countries are often able to levy significant taxes, but their tax effort – the ratio of the actual to potential tax revenue – is often relatively low.[12] However, a growing number of fragile states are initiating policy reforms to get a better deal from their extractive industries. And some small low-income countries are managing strong levels of tax effort, such as Liberia, Comoros and Cape Verde.

Every year, billions of dollars are transferred illegally out of developing countries. Fragile states tend to have large informal economies, which elude tax, and to send and receive large illicit flows at the cost of development and security. These illicit financial flows (IFFs) strip developing countries of resources that could be used to finance much-needed public services.

The top 10 exporters of illicit capital include Bangladesh and Angola, with US$34 billion each (cumulative outflows 1990-2008), Chad, Yemen, Nepal, Myanmar and Ethiopia.[13] IFFs from Angola between 2000-08 represent five times the country's total public expenditure on health, and almost nine times the amount of ODA it received (USD 3.8 billion) over the same period.

Figure 7. GOVERNMENT REVENUES TO GDP RATIO, 2010



12 The tax effort is particularly low in oil-producing economies such as Chad, Angola, Nigeria, Sudan and the Republic of Congo.

13 Kar, F. and Freitas, S. (2011), Illicit Financial Flows from Developing Countries Over the Decade Ending 2009, Global Financial Integrity (GFI) Program, Center for International Policy, Washington, DC

WHAT IS THE OUTLOOK FOR FRAGILE STATES?

The outlook for fragile states is based on analysis of both projected financial flows and qualitative trends.

The prospects for aid, growth and poverty reduction

The prospects for aid, growth and poverty in fragile states are gloomy on the whole, apart from some outliers. The long trend ODA growth to fragile states is at risk. Many DAC donors are under severe fiscal stress, which could 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.[14] 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 DRC and Kenya. This CPA fall would occur at the same time as poverty is becoming increasingly concentrated in fragile states, notably those found in Africa. 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.

COUNTRIES OF CONCERN

Based on aid and growth prospects, countries that would warrant particular attention in the coming years include those that combine projections of falling aid and:

- are considered chronically under-aided: Niger
- slow growth: Sudan, Chad and Kosovo
- high aid-dependency: Afghanistan.[15]

Issues that will shape fragility in the years ahead

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).

The 15-34 age group already makes up more than one-third of the population in most fragile states. Between 2005 and 2010, the average total fertility rate for the top 20 countries on the 2011 Fragile States Index was almost twice as high as the average for all developing countries. Of these countries, Iraq, Niger and Yemen have the highest population growth rates.

The spread of technological innovation – especially mobile phones, use of which has grown six-fold between 2005 and 2010 – 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—just as fragile states are least able to adapt due to limited human, technical and physical resources.

The megatrends above call for 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.

There is already a shift underway, as demonstrated by the *2011 New Deal for Engagement in Fragile States*, which 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. ■

About the report:

This factsheet presents key findings from the forthcoming publication by the International Network on Conflict and Fragility (INCAF) of the OECD Development Assistance Committee (DAC), entitled *Fragile States 2013: Resources flows and trends in a shifting world.* This report is part of an annual series monitoring financial flows in fragile states. It examines the changing face of fragility, analyses resource flows to and within fragile states between 2000-2010 and points to trends and issues that are likely to shape fragility in the years to come. This factsheet provides a brief look into some of the key findings of this report.

Monitoring resource flows to fragile states provides important insight into how donors are engaging in fragile states, and how aid interacts with different flows. Both donors and fragile states can use this knowledge to better leverage aid in the transition out of fragility.

For more information, visit:

www.oecd.org/dac/incaf

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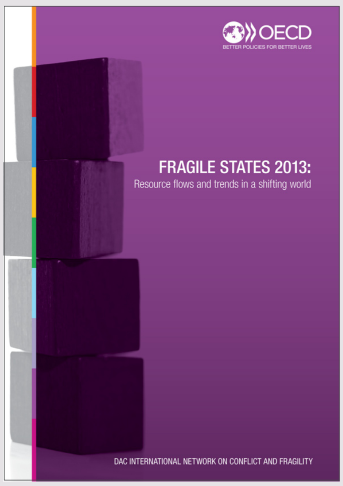

14 CPA, or "core aid", is the portion of aid donors programme for individual countries, and over which partner countries could have a significant say. It excludes aid that is unpredictable by nature (such as debt forgiveness and emergency aid); entails no cross-border flows (such as research and student exchanges); does not form part of co-operation agreements between governments (such as food aid); or is not country programmable by the donors (such as core funding through international and national NGOs).

15 See full report for how these countries are identified.