



ENSURING FRAGILE STATES ARE NOT LEFT BEHIND

SUMMARY REPORT - MARCH 2009

This Summary Report, produced by the OECD-DAC International Network on Conflict and Fragility, sets out data on aid and other resource flows to fragile and conflict-affected countries facing the challenges of state building and peace building. A range of issues which require whole-of-government attention are also highlighted.

THE CURRENT GLOBAL ECONOMIC SITUATION

Although the current economic crisis is an important backdrop to this report, its full effects are yet to be seen. A variety of factors require monitoring over coming months: pressure on official development assistance (ODA) budgets, falling migrants' remittances, a squeeze on foreign reserves, and further trade shocks. It is already clear, however, that net private capital flows to fragile states have dropped. For example, mining investment in the Democratic Republic of Congo (DRC) has plummeted since the drop in commodity prices and 200 000 mining workers have been laid off. We may be witnessing new situations of fragility, and countries that are emerging from conflict and fragility may relapse. Globally, the slowdown in economic growth could trap almost 100 million extra people in poverty.

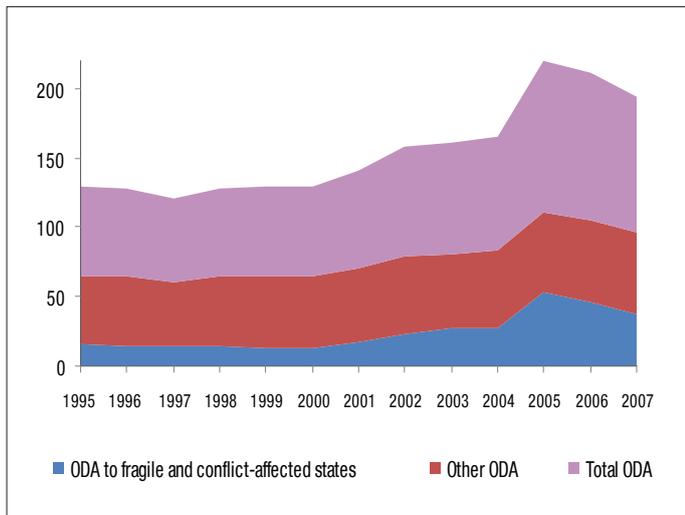
AID FLOWS TO FRAGILE STATES

While many countries are making progress towards achieving the Millennium Development Goals, a group of countries is falling behind. These countries account for a sixth of the world's population of 6.5 billion, but for half of all the world's infant deaths, and a third of all people surviving on under USD 1 a day. Thirty-five countries considered fragile in 1979 are still fragile in 2009,¹ and the gap with other developing countries has been widening since the 1970s: in 2007, per capita GDP grew only at 2.6% in fragile states, whereas it reached 4.6% in other low-income countries. The regional and international spillover effects from these countries – violent conflict, instability, organised crime, migration, human trafficking, deteriorating public health – resonate widely beyond the development community.

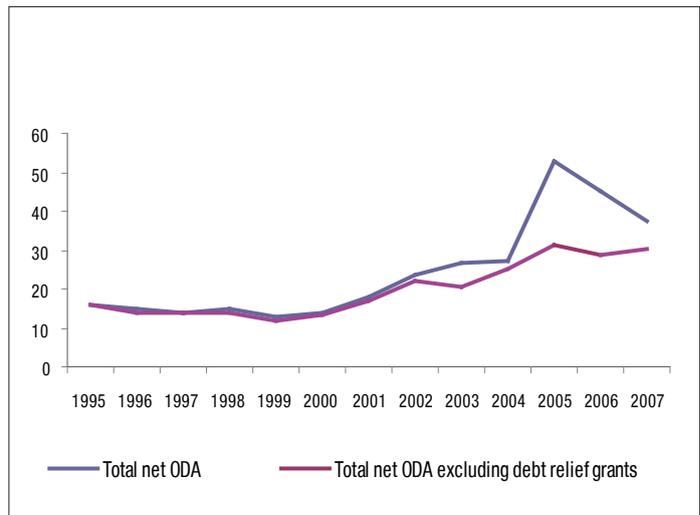
Donors have responded to the challenges of fragile and conflict-affected states by stepping up their aid: in 2007 USD 37.2 billion of ODA went to fragile and conflict-affected states, *i.e.* 38.4% of total ODA (*Chart 1*).

¹ World Bank staff estimate.

Chart 1: Net ODA from all donors to fragile and conflict-affected states (USD billion, constant 2006)



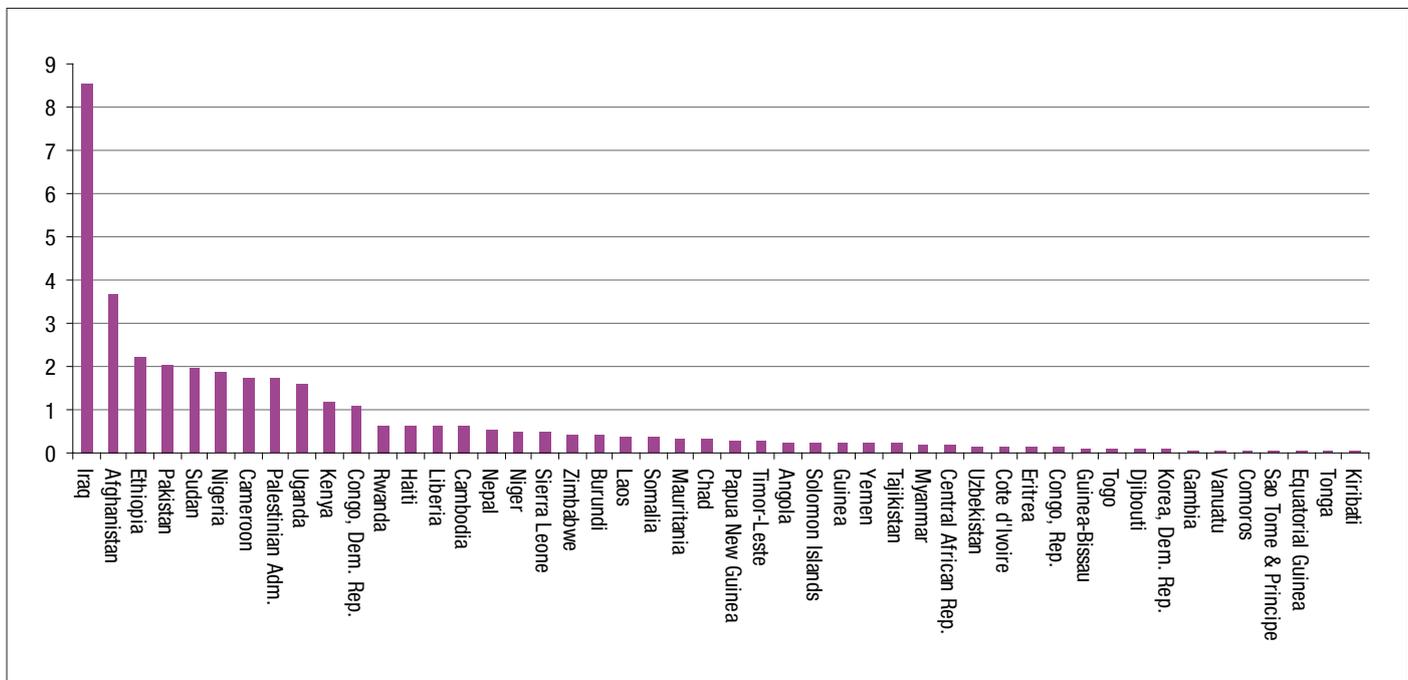
Source: OECD DAC online database (1995-2007).



Source: OECD DAC online database (2000-2007).

However, half the ODA destined for 48 fragile and conflict-affected states² benefited just 5 countries in 2007: Iraq (23%), Afghanistan (9.9%), Ethiopia, Pakistan and Sudan (*Chart 2*), and around a fifth was in the form of debt relief. Moreover, other financial flows often dwarf aid. For example, remittances to Liberia in 2007 were equal to the volume of its GDP; in Yemen and Nigeria they amounted to four times the ODA to each country.

Chart 2: Fifty percent of net ODA has benefited just 5 out of 48 fragile and conflict-affected states in 2007 (USD billion, constant 2006)



Source: OECD DAC online database (2007).

² The list of fragile and conflict-affected states used for this analysis (not an official DAC list or definition) is a compilation of three lists: the bottom two quintiles of the World Bank's Country Policy and Institutional Assessment (CPIA) 2007; the Brookings Index of State Weakness in the Developing World 2008; and the Carleton University Country Indicators for Foreign Policy (CFIP) 2007 index.

From an examination of ODA flows to fragile and conflict-affected states, three sets of countries warrant particular attention:

1. Countries with projected decreasing aid levels

- While a survey conducted in 2008³ suggested that 16 fragile and conflict-affected countries could expect an increase of USD 100 million or more in annual country programmable aid⁴ between 2005 and 2010,⁵ 15 could expect a decrease, of which 7 could expect a decrease by more than USD 20 million: **Chad, Eritrea, Guinea, Iraq, Solomon Islands, Tajikistan** and **Timor Leste**.

2. Countries with volatile aid

- Fluctuations in aid are larger in fragile and conflict-affected states than in other developing countries. Seven countries experienced fluctuations of aid in excess of 5% of GDP over 1990-2005:⁶ **Burundi, the DRC, Eritrea, Guinea Bissau, Liberia, Sierra Leone** and the **Palestinian Administered Areas**.

Countries emerging from conflict require sustained international support. Evidence suggests that in post-crisis situations, aid often tails off just as countries reach the point where they could use it more effectively.

3. Countries with access to a limited number of donors

- Twenty fragile and conflict-affected countries receive two-thirds of their aid from three donors or less. **Iraq** currently depends on one donor – the United States – for 95% of its aid. **Papua New Guinea** and the **Solomon Islands** are dependent on Australia for 77% and 71% of aid, respectively.
- **Afghanistan, Comoros, Djibouti, Equatorial Guinea** and **Yemen** are each dependent on one donor for at least 50% of their aid.

Although donor concentration should be encouraged, changes in donor priorities and policies could impact significantly on the predictability of aid flows to countries dependent on exceptionally few donors.

AID FOR STATE BUILDING, PEACE BUILDING AND SECURITY

While a consideration of total aid flows for fragile states is important, more precision is needed to examine what types of aid impact on state fragility, peace building and security. In this regard, it is noteworthy that ODA directed to governance and conflict prevention activities has grown almost four-fold between 2000 and 2007 (*Chart 3*). ODA for security system reform has also greatly increased from 2004 to 2007 (*Chart 4*).

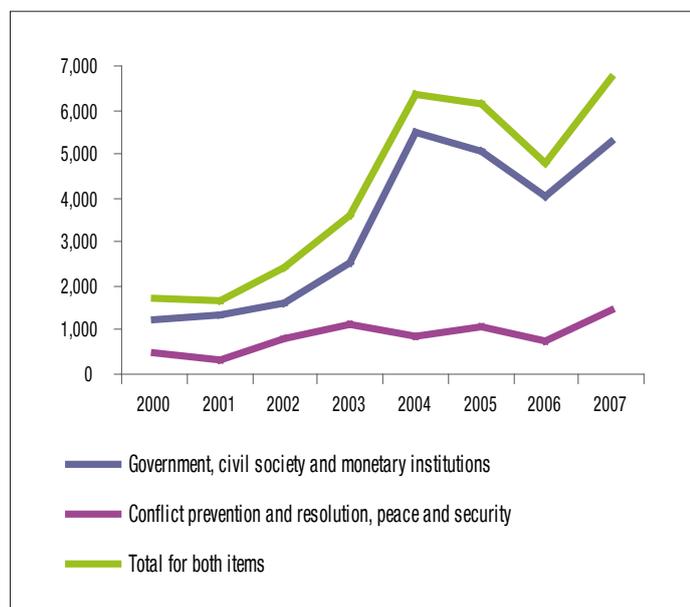
³ *Survey of Aid Allocations Policies and Indicative Forward Spending Plans*, OECD, 2008.

⁴ Country programmable aid is defined as ODA minus 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).

⁵ Projected increases in aid are significant for a number of countries that start with a very low 2005 baseline in terms of aid levels (below USD 100 million), notably Cote d'Ivoire, Somalia and Liberia (percentage increase in aid is above 150%).

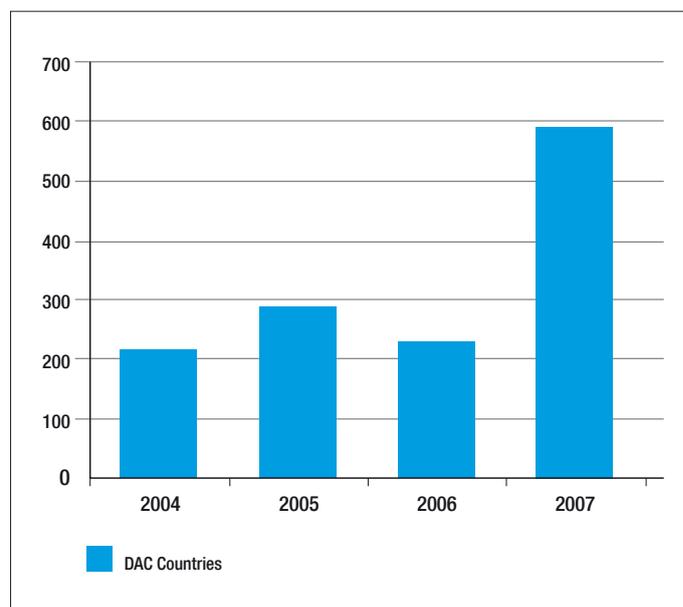
⁶ Celasun, O. and Walliser, J. (2008), "Predictability of Aid: Do Fickle Donors Undermine Aid Effectiveness?", *Economic Policy*, Vol. 23 (July).

Chart 3: ODA to fragile and conflict-affected states for governance and security (USD million, constant 2006)



Source: OECD DAC online database (2000-2007).

Chart 4: ODA to fragile and conflict-affected states for security system reform (USD million, constant 2006)



Source: OECD DAC online database (2004-2007).

OECD DAC DONORS ARE ONLY PART OF THE PICTURE

Although DAC members provide much of the ODA to fragile and conflict-affected countries, flows from non-DAC donors, global funds and private foundations are increasingly important. Development assistance from non-DAC donors and new EU member states is estimated to be equivalent to 10% of ODA⁷ from DAC donors. Brazil, China, India, the Gulf States and South Africa are particularly active in fragile and conflict-affected states. China's priority recipients of assistance include Angola, Sudan and Ethiopia. India and China are large troop contributors in UN peacekeeping missions.

Since its creation in 2001, the Global Fund to Fight AIDS, Tuberculosis and Malaria has disbursed an estimated USD 2.9 billion in fragile and conflict-affected states. The Global Fund is the second largest donor in Equatorial Guinea, providing 11% of ODA (2007). The Bill and Melinda Gates Foundation has disbursed an estimated USD 175 million in fragile states over 2000-2007.

AID AND OTHER RESOURCE FLOWS: A WHOLE OF GOVERNMENT CONCERN

Aid is increasingly viewed as just one essential component in the international effort to support fragile and conflict-affected states and one part of the total resource envelope. Development, trade, finance, diplomatic and security policy communities must also work together if the challenges of peace building and state building – often the preconditions for growth and poverty reduction – are to be addressed. In the remainder of this report, five whole-of-government issues are highlighted:

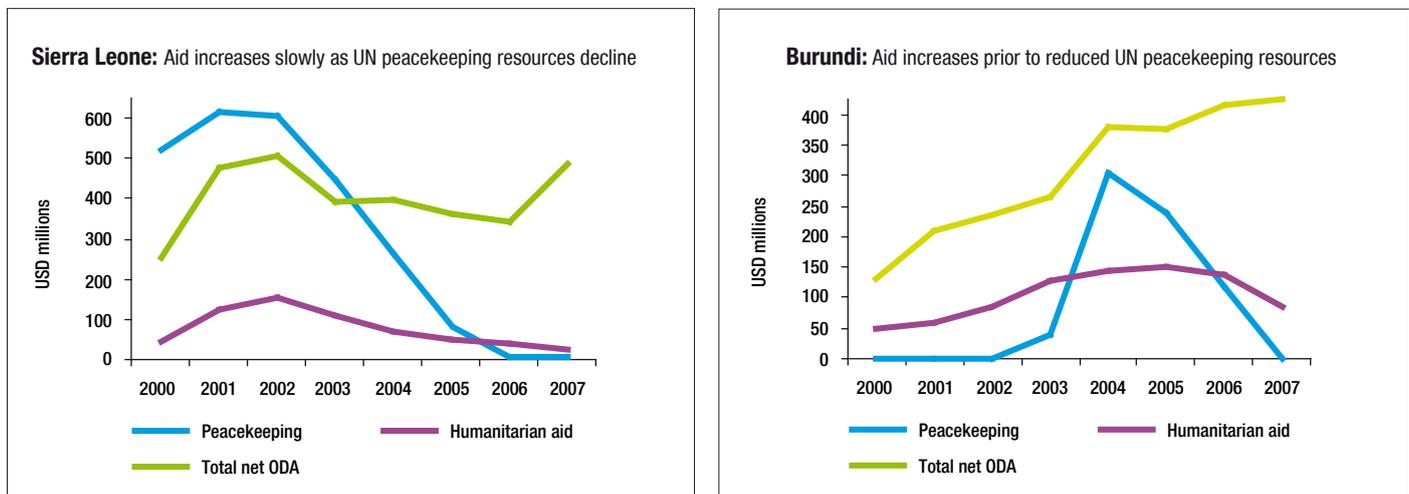
1. Security and development

UN peacekeeping operations are providing wide-ranging support to peace and stabilisation. Expenditures are at an historic peak with 20 ongoing missions and about 110 000 peacekeeping personnel (a seven-fold increase since 1999). These operations are supported by an annual budget of USD 7 billion (one-fifth of ODA to fragile and conflict-affected states).

⁷ OECD estimate.

In post-conflict countries, development efforts should commence, whenever possible, before the peace agreement, and be sustained over a period of years (*Chart 5*). In all cases these decisions will require a whole-of-government approach. Non-OECD countries such as South Africa play a critical security role in their regions.

Chart 5: Peacekeeping, net ODA and humanitarian aid (2000-2007)



Source: OECD DAC online database (2000-2007).

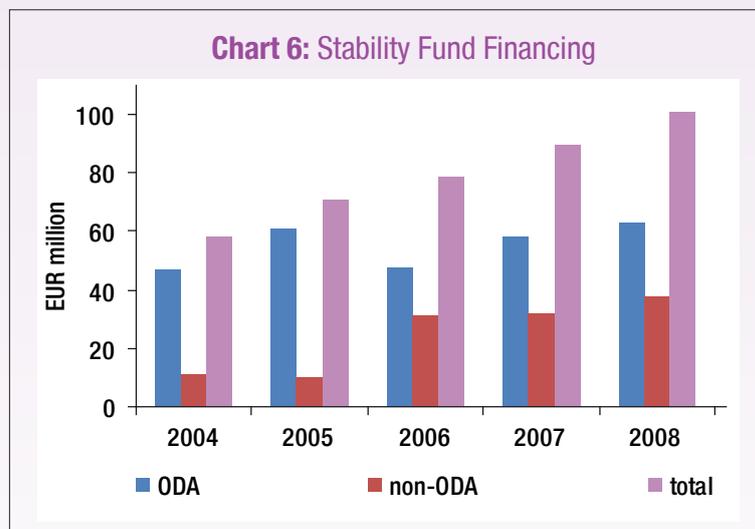
Source: OECD DAC online database (2000-2007).

In an effort to deliver more coherent whole-of-government support to address state fragility, several OECD governments have set up pooled funding mechanisms and joint budgets. The Netherlands Stability Fund (*Box 1*) is one example of an innovative instrument to promote a coordinated response across government.

Box 1: The Netherlands Stability Fund

The Netherlands Stability Fund was created in 2004 to improve the provision of rapid and flexible financing for activities that are required to promote peace, security and development in situations of conflict and fragility, regardless of whether these activities are ODA eligible or not. To date, the fund has committed almost EUR 400 million in support of key policy areas such as conflict prevention, mediation, peacekeeping and peace building. Annual financing has almost doubled, from around EUR 58 million in 2004 to more than EUR 100 million in 2008, with the non-ODA element quadrupling over this period. The fund has benefited from strong political support, including from parliament, and from the clear delinking of allocation decisions from questions about ODA eligibility.

Chart 6: Stability Fund Financing



Source: Netherlands Ministry of Foreign Affairs

2. Domestic resources and state building

Experience indicates that generating domestic revenues is critical to state building and developing long-term state-society relations. Research into the dampening effect of aid on domestic resource mobilisation has produced mixed results, but donors must be alert to the risks in fragile states.

- Twelve fragile and conflict-affected states collect less than 15% of their GDP in tax.⁸ **Afghanistan and Zimbabwe** collect less than 7%.
- Six countries collect more than 35% and are all resource-rich: **Iraq, Angola, Republic of Congo, São Tomé e Príncipe, Equatorial Guinea** and **Uzbekistan**.
- While only USD 88 million of a total USD 103 billion ODA in 2006 was dedicated to tax-related activities, aid targeted at strengthening revenue administrations is money well spent. For instance, aid to the **Rwanda** Revenue Authority supported a dramatic increase in tax revenue, which shot up from 9% of GDP in 1998 to 14.7% in 2005. In this case, and in many others, a whole-of-government approach – involving development personnel and tax professionals from donor countries – was a critical success factor.

3. Illicit outflows

It is estimated that illicit flows⁹ from developing countries represent USD 650 billion per annum, or ten times the average yearly inflows of ODA since 1990.¹⁰ Global illegal trade alone is estimated at USD 400 billion. For example, at its peak in 2006, the drug economy represented 50% of Afghanistan's GDP.¹¹ Theft by individuals can also be of a stunning magnitude: Nigeria's Sani Abacha stole an estimated USD 2.5 billion over 1993-98,¹² of which USD 500 million was recovered from Switzerland in 2005 and USD 149 million from Jersey. In successful cases of asset tracing and recovery, a complex whole-of-government approach was necessary, involving personnel from ministries and departments of finance and revenue, justice, interior, foreign affairs, development and law enforcement agencies.

4. Transitional financing

A fourth whole-of-government issue concerns the transition from humanitarian assistance to the use of longer-term development aid. The challenge is to ensure that life-saving activities are continued while the foundations for sustainable recovery, peace building and state capacity are built. The transition period requires a mix of humanitarian and development instruments (without compromising humanitarian principles), a flexible and pragmatic approach and a higher acceptance of risk when financing projects and programmes. Integrated whole-of-government approaches across the international system are needed where different actors – humanitarian, development, security – need to work simultaneously to address complementary objectives. This is particularly the case in complex situations, such as in Afghanistan, where security personnel have a role in ensuring the delivery of aid.

The UN estimates that on average less than 50% of funds required for the early recovery financing period are pledged by donors, compared to a lesser shortfall for humanitarian requests (*Table 1*).

8 OECD countries collect on average 36.2% of their GDP in tax (2005).

9 Illicit outflows comprise flows of money associated with (i) tax evasion, (ii) criminal activity, and (iii) bribery and theft by government officials.

10 Baker, R. *Capitalism's Achilles Heel: Dirty Money and How to Renew the Free-Market System*, John Wiley & Sons Ltd, 2005.

11 United Nations Office on Drugs and Crime (2008).

12 United Nations Office on Drugs and Crime and World Bank, *Stolen Asset Recovery (StAR) Initiative* (2007).

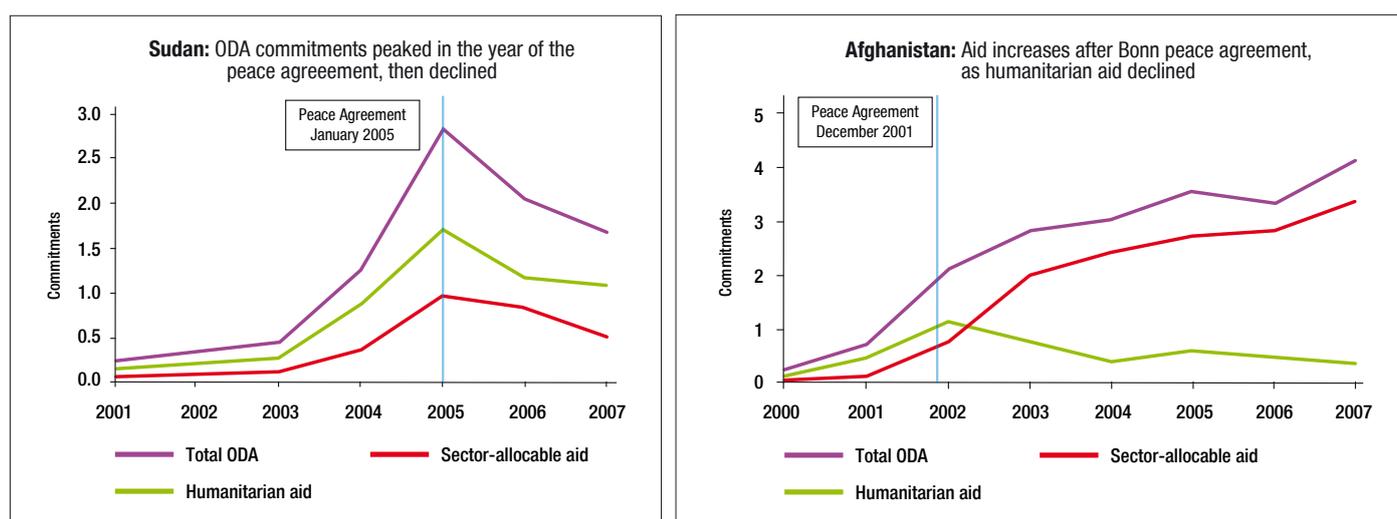
Table 1: The Early Recovery Financing Gap

Appeal	Gap in Early Recovery Funding	Gap in Humanitarian Funding
Flash Appeals	83%	47%
Consolidated Appeals	56%	22%
Central Emergency Response Fund	3% (approved for early recovery)	N/A
Common Humanitarian Pooled Funds Sudan	57%	16%
Common Humanitarian Pooled Funds DR Congo	64%	43%

Source: United Nations Cluster Working Group on Early Recovery: Financing for Early Recovery: Highlighting the Gaps 2006-08.

Findings highlight the need to improve donor policies and organisational responses to accelerate the availability of rapid and flexible development financing, to identify appropriate delivery mechanisms without necessarily establishing new vertical modalities and to improve co-ordination between multilateral and bilateral response mechanisms. *Chart 7* below contrasts donor responses to Afghanistan and Sudan, before and after the peace agreements in each case.

Chart 7: Trends in ODA flows before and after peace agreements (USD million, constant 2006)



Source: OECD DAC online database (2001-2007).

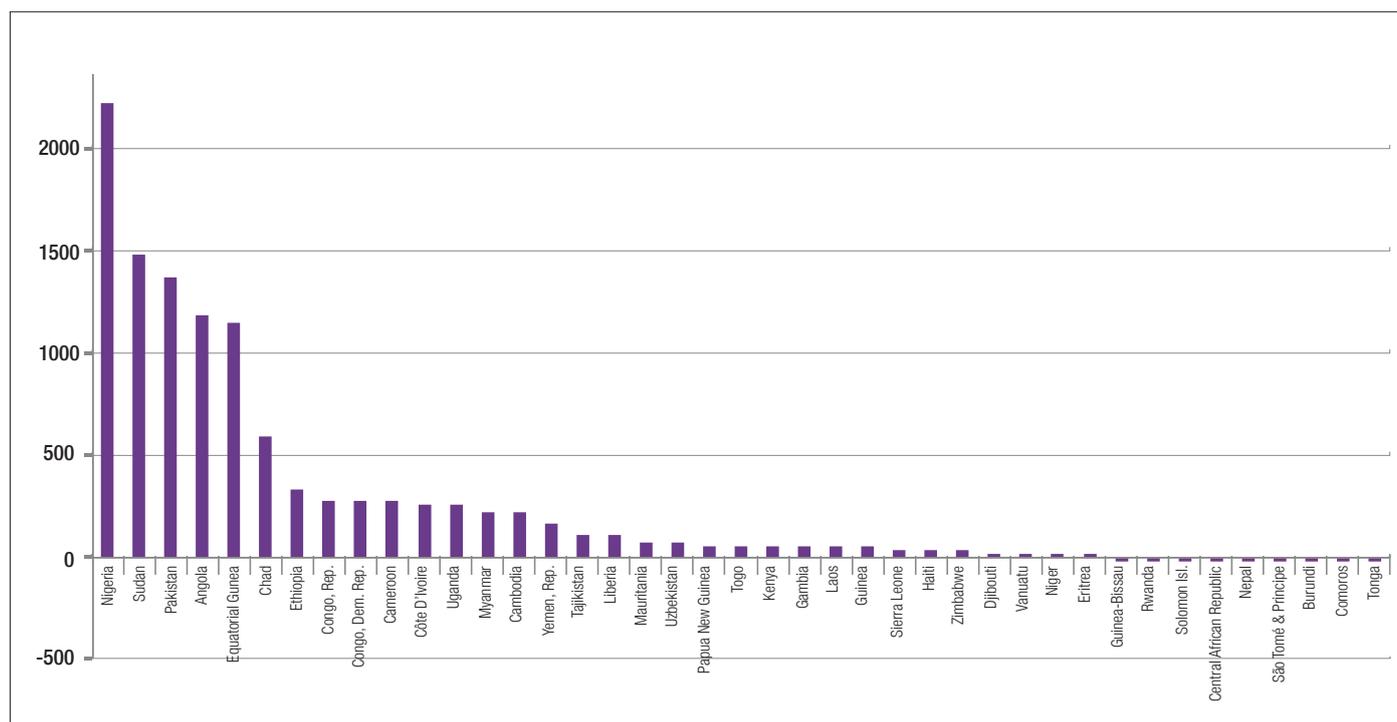
Source: OECD DAC online database (2000-2007).

5. Investment and natural resources

Investment is a critical driver of growth and employment – which in turn are key issues underpinning stability and peace. Foreign direct investment (FDI) for 42 fragile and conflict-affected states more than quadrupled from USD 5 billion in 2000 to USD 21 billion in 2006. However, in 2006, 80% of FDI to 42 fragile and conflict-affected states went to **Angola, Chad, Equatorial Guinea, Nigeria, Pakistan** and **Sudan**,¹³ where FDI mostly reflects expansion of the oil industry (*Chart 8*). Countries which currently have high export levels, of which a large share is natural resources, include **Angola, Cameroon, Chad, Republic of Congo** and **Nigeria** (2007).

13 With the exception of Pakistan, all significant natural resource producers.

Chart 8: Foreign direct investment to fragile and conflict-affected states is concentrated in oil-rich countries and Pakistan (USD million, 2006)



Source: World Bank Development Indicators database (2006).

OECD countries have significant economic interests in fragile and conflict-affected countries, but they have also committed to promote responsible business conduct through implementing the OECD Guidelines for Multinational Enterprises, for example. Effective whole-of-government approaches, involving different policy communities (foreign affairs, justice, interior, development, trade and investment), are required to balance these economic interests and responsibilities. A similar approach is required in cases where companies and individuals from OECD countries bribe officials in fragile and conflict-affected states in order to obtain concessions, for example. OECD countries must act to prosecute the wrongdoers and punish them with effective criminal penalties, as required by the OECD Anti-Bribery Convention.¹⁴

The data used in this Summary Report is derived from a fuller report which will be made available in April 2009 (www.oecd.org/dac/incaf).

Information on the work of the OECD DAC on fragile and conflict-affected countries can be found on this site.

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¹⁴ Pursuant to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD Anti-Bribery Convention) to which all 30 OECD members and 8 non-members are Party, the bribery of a foreign public official in the conduct of international business is a criminal offence.