International Network on Conflict and Fragility (INCAF)

Ensuring Fragile States Are Not Left Behind

2011 Factsheet on Resource Flows in Fragile States

This factsheet presents salient facts on resource flows in fragile states: what has been the impact of the financial crisis; what other flows beyond aid have a developmental impact; how much and what kind of aid goes to fragile states.

This factsheet is distributed as a background document at the Fourth High-Level Forum on Aid Effectiveness and is part of a longer report, the forthcoming “Fragile Situations Outlook”.

Please note this document is available in pdf only.

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Why focus on fragile situations?

Over the past 25 years, the share of poor people living in developing countries has been cut by half. But a group of 45 countries is falling behind, representing 1.2 billion people (see Figure 1). In these countries, people are more than twice as likely to be undernourished as those in other developing countries. They are more than three times less likely to be able to send their children to school. Children in these countries are more than twice as likely to die before their fifth birthday. Unless we make better progress at accelerating development results in fragile states, we cannot claim much success in the global fight against poverty.

Looking ahead, there is a real risk that more countries will experience periods of conflict and fragility. The societal pressures for change that brought about the Arab Spring, the possibility of prolonged financial turmoil and the combination of demographic pressures and environmental degradation are all factors that will challenge state stability and resilience. For example, the population of Nigeria is expected to grow by as much as 2.5 million per year to become the world’s third largest population by 2100; this is compounded by the fact that nearly half of the population is under the age of 15 (UNFPA 2011). In the Horn of Africa, the 2011 drought has led to a famine across Somalia, Ethiopia and Kenya, threatening the livelihoods of more than 13 million people.

What has been the impact of the financial crisis?

Fragile states have suffered a sharp fall in growth since the onset of the global financial crisis in 2008, with fuel exporters particularly hard-hit (see Figure 2). Food riots in Afghanistan, Burkina Faso, Cameroon, Côte d’Ivoire, Haiti, Pakistan and most recently in Egypt and Tunisia show the potential for social unrest. While foreign direct investment (FDI) and remittances have continued to grow throughout the crisis, in both fuel-exporting and other fragile states, there has been a dramatic contraction of domestic revenues, threatening cuts in education, health and social protection programmes. Trade has also dropped, with 40 fragile states facing a trade gap (see Figure 5).

In this context, aid continues to play a vital, countercyclical role, particularly in times of turmoil. For this role to be realised, however, aid needs to be targeted towards peace-building and statebuilding goals, its allocation optimised across countries, and its quality improved.

Key Messages

- Whilst the global fight against poverty is progressing, a group of 45 countries in situations of acute fragility continue to fall behind. In addition, the global financial crisis, social unrest, growing population pressures and environmental degradation may lead to new or renewed situations of fragility.

- For the development and stabilisation of these countries, aid is only one part of an equation that also includes domestic revenues, foreign direct investment and remittances. The coherence of global policies on trade, investment, agriculture, security, energy, migration and illicit flows matters just as much as aid volumes.

- At the same time, aid can have a vital, countercyclical role, particularly in times of turmoil. For this role to be realised, however, aid needs to be targeted towards peace-building and statebuilding goals, its allocation optimised across countries, and its quality improved.

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In this context, aid continues to play a vital, countercyclical role (see Kenya example in Box 1). For millions of people around the world and particularly in situations of fragility, aid remains a matter of life and death. In 2009, humanitarian aid represented 17% of total official development assistance (ODA) (see Figure 4), and in Somalia this figure was as high as 69%. As a result of famine in the Horn of Africa, hundreds of people continue to die every day, and the United Nations (UN) has called for USD 2.4 billion in humanitarian assistance.

Since the onset of the financial crisis in 2008, ODA to fragile states has helped keep children in school and health clinics open, whilst building the state’s ability to raise revenues, deliver basic...
services and improve state-society relations. In 2009, 44% of ODA to fragile states went to social infrastructure and services.²

In times of turmoil, aid to fragile states is more vital than ever, but it can be made much more effective. And there is a clear need to look beyond aid at other sources of development finance.

² This includes government and civil society (37%), education (17%), health (16%), population policies and programmes (13%), and water and sanitation (7%).

Box 1. The countercyclical role of aid in Kenya

Early 2008 was marked by post-election violence across Kenya. Over 1 200 people were killed and 300 000 displaced. This unrest, coupled with the effects of the financial crisis, reduced gross domestic product (GDP) growth to 1.7% in 2008. Domestic revenues contracted by half between 2008-09, threatening funding for vital social services. However, ODA rose by over 23% in 2009, with 32% spent on health. The economy recovered in 2010, but in 2011, Kenya’s economy experienced further shocks, including drought, higher food and fuel prices and electricity shortages.

What is the importance of aid compared to other resource flows?

In fragile states, we need to go beyond aid and harness the full range of resource flows to take advantage of their potential contributions to development results. For example, over the last decade, the telecommunications industry has invested USD 77 billion in sub-Saharan Africa, boosting the number of mobile subscribers from 10 million to 400 million, creating thousands of jobs, injecting cash into cities and remote communities, and improving the ease of doing business across the board.

Domestic revenues, FDI and remittances dominate the resource equation, even in fragile states that are highly aid-dependent (see Figure 5 and the example from the Democratic Republic of Congo in Box 2):

- **Raising domestic revenues** is essential to build capable states, encourage engaged societies and strengthen domestic accountability. Over 2005-09, domestic revenues alone represented half of the total resource flows in fragile states mobilise less than 15% of GDP through tax revenue.

![Figure 1. Life expectancy and GDP: fragile states are falling behind](image-url)
fragile states. However, domestic revenues have contracted since the onset of the financial crisis. Whilst 15% of GDP is generally considered to be a reasonable target for tax collection in developing countries, as many as seven fragile states were falling short of this target in 2010. Compared to 2008, when 11 fragile states mobilised 35% or more of their GDP in tax revenue, only seven fragile states continued to manage this level of mobilisation in 2009 (IMF 2011). In addition, the tax base matters just as much as the volume of taxes assessed. When governments depend on a large number of taxpayers for revenue, and not just on a few (e.g. multinational oil and gas companies), they have incentives to promote broad prosperity and to be responsive to their citizens.

- **Foreign direct investment** is a source of economic development and modernisation, growth and employment, but the benefits of FDI do not accrue automatically and evenly across countries, sectors and local communities. Despite the fact that fragile states rank at the bottom of business climate indexes, FDI to fragile states grew almost fourfold from 2000 to 2009. However, the pattern differs between fuel exporters and other countries. In 2009, South-South FDI accounted for 14% of total FDI going to developing countries (UNCTAD 2011).

- **Remittances** as a proportion of GDP are greater for fragile states (6.5%) than for developing countries in general (4.5%). Remittances represent up to 33% of GDP in countries like Haiti, Lebanon, Nepal and Tajikistan. In Nigeria, they represent an amount 14 times greater than that of ODA. However, the extent to which remittances go to productive use, rather than “status-oriented consumption needs”, is still a matter of debate.

- **USD 46.7 billion in net ODA goes to fragile states**, or 37%. Fourteen DAC donors allocate 30% or more of their bilateral aid to fragile states, the top being the United States (49%) and the United Kingdom (39%). Emerging donors contribute an estimated USD 12-15 billion in development aid (to both fragile and non-fragile countries), equivalent to 10-15% of the amount provided by OECD donors (World Bank 2011).


4 According to the 2011 World Bank Doing Business report, 15 of the 20 most difficult countries in which to do business are fragile states. Chad, Central African Republic (CAR), Congo, Eritrea, Guinea and DRC figure at the very bottom of the 183-country ranking.

5 For more, see Chami et al. (2003).
For most fragile states, since 2005, growth in imports has outstripped growth in exports. In 2009, only five fragile states registered a trade surplus; three of these are fuel exporters.

Global funds and philanthropy play a growing role. For example, the Global Fund to Fight AIDS, Tuberculosis and Malaria has granted over USD 3.9 billion to fragile states since its creation in 2002.

Fragile states also suffer from outflows such as illicit transnational flows, which are estimated at USD 1.3 trillion globally, and other forms of capital flight. For example, an estimated 90% of gold exports from DRC go undeclared (Global Witness 2009). An estimated USD 2 billion in illegal narcotics trade transits through West Africa every year (UNODC 2009). These huge outflows fuel instability, exacerbate poverty and limit the domestic resources available to finance development.

All of these flows have an impact on development—although the exact nature of that impact is still a matter of debate. What is certain, though, is that aid can be a catalyst for better domestic

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**Box 2. Aid, tax and conflict minerals in the Democratic Republic of Congo**

The Democratic Republic of Congo (DRC) is highly aid-dependent, with a ratio of ODA to gross national income (GNI) of 12.2% in 2009 (compared to an average of 5.2% across all fragile states). DRC also depends on the international community for security, with the largest UN peacekeeping operation after that in Darfur, representing over 16 000 troops and a 2011-12 budget of USD 1.4 billion.

However, there is potential for DRC’s aid dependency to subside over the coming years. In 2010, the economy began to recover from the global financial crisis, with GDP growth estimated at 6.1%, up from 2.8% in 2009; largely driven by mining. Minerals accounted for 73% of exports in 2000-06, and represent the largest source of FDI in the country. If current efforts to sever the link between conflict and minerals (OECD 2011d), and to help the business climate succeed, the mining sector is expected to remain an engine for growth. With improved domestic revenue mobilisation, the mining sector could become a significant source of domestic revenues, translating into improved welfare for ordinary citizens.


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**Figure 5. Resource flows in fragile states (2005-09)**

![Chart showing resource flows in fragile states from 2005 to 2009](chart.png)

- **ODA**
  - 2005: 53.9
  - 2006: 48.6
  - 2007: 44.4
  - 2008: 49.4
  - 2009: 46.8

- **FDI**
  - 2005: 110.4
  - 2006: 134.4
  - 2007: 169.4
  - 2008: 188.8
  - 2009: 214.6

- **DOMESTIC REVENUE**
  - 2005: 164.8
  - 2006: 208.2
  - 2007: 230.6
  - 2008: 311.6
  - 2009: 230.3

- **REMITTANCES**
  - 2005: 27.0
  - 2006: 33.0
  - 2007: 42.2
  - 2008: 52.2
  - 2009: 54.7

- **TRADE**
  - 2005: -0.6
  - 2006: -3.0
  - 2007: -10.2
  - 2008: -4.3
  - 2009: -66.4

Note: Resource flows include outflows by trade. ODA is based on gross disbursements. Data: OECD CRS, UN Statistics, UNCTAD, IMF, World Bank (2011).
revenue mobilisation, investment and trade. The coherence with the aid agenda of global policies for trade, investment, agriculture, energy, migration and illicit transnational flows matters just as much as the aid volumes themselves.

How much and what kind of aid?

Whilst well over a third of total ODA goes to fragile states, the monitoring survey of the Paris Declaration on Aid Effectiveness shows that the quality of this aid is markedly poorer than in other developing countries (OECD 2011b). Although contexts in fragile states are indeed characterised by high need and limited capacity, these are reasons for aid to be more, not less, effective.7 Only a handful of countries—including Mozambique, Sierra Leone and Timor-Leste—seem to be exiting the cycle of extreme poverty and poor governance that characterise fragile situations.

There are three main issues of concern in fragile states:

1. Aid volumes are very concentrated. Half of ODA to fragile states goes to only eight countries (see Figure 8). This concentration has been increasing over the past decade and aid projections (2009–12) confirm this trend. Conversely, about 20 countries can be considered under-aided (see Box 3). In particular, there is a growing risk that countries of lesser geopolitical importance and/or that are mired in chronic crisis, will fall further behind. In 2009, nine of these countries have received lower ODA levels as compared to 2000 (in constant terms). A more optimal allocation of resources across countries, taking into account both the needs and quality of a country’s policies and institutions, is possible.

2. There are too many donors in a handful of fragile states, and there are too few in others. Despite limited capacity, 14 fragile states have partnerships with 30 donors or more, half of which are considered non-significant (see Figure 7). By contrast, four fragile states are each dependent on only one donor for at least 50% of their aid. These are Iraq (89%), Solomon Islands (81%), Papua New Guinea (68%) and Afghanistan (53%). Whilst donor concentration should generally be encouraged, changes in donor priorities could have a significant impact on countries dependent on exceptionally few donors.

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8 A donor is “non-significant” when the donor (a) does not contribute a higher share of the recipient’s Country Programmable Aid (CPA) than its global share of CPA; and/or (b) is not among the top 90% of aid in the recipient country. For more, see OECD (2011c).

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**Figure 6. Aid volatility in selected fragile states (2000–09)**

The five countries below provide an illustration of aid volatility in fragile states. From 2000 to 2009, it was not uncommon for total aid to the Central African Republic, Guinea-Bissau, Haiti, Liberia and Sierra Leone to drop by at least 30 percent in one year and increase by up to 100 percent the following year.
Box 3. **Under-aided countries**

Based on analysis from the OECD, five countries can be considered under-aided on the basis of both need and performance: Bangladesh, Guinea, Madagascar, Nepal, and Niger. When looking at either need or performance, 15 additional countries appear as potentially under-aided and most of these are fragile states: Burkina Faso, Central African Republic, Chad, Comoros, DRC, Eritrea, Ethiopia, Gambia, Guinea-Bissau, Lesotho, Myanmar, Tanzania, Togo, Uganda and Zimbabwe. For more information, see OECD (forthcoming), *Improved Identification and Monitoring of Under-Aided Countries*.

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3. **Aid volatility continues to be a problem in fragile states.**

Fragile states experience much higher rates of volatility and much lower rates of predictability than other developing countries. Two-thirds of aid shocks (a difference of more than 15% of aid per capita from one year to another) between 1970 and 2006 occurred in fragile states, just where country systems are the weakest and the risks of instability highest. Such volatility is estimated to shave 15% off the value of ODA. Recent examples include CAR, Guinea-Bissau, Haiti, Liberia and Sierra Leone (see Figure 6). Forward projections for 2012 show that Côte d’Ivoire, Eritrea, Haiti, Liberia, Democratic People’s Republic (DPR) of Korea, Sao Tome and Principe, Tajikistan and Zimbabwe are all at risk of seeing a fall of over 15% of their country programmable aid (CPA) from 2010 levels.

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9 See, for example, Levin and Dollar (2005), Fielding and Mavrotas (2005), McGillivray and Feeny (2006), Celasun and Walliser (2008) and Kharas (2008).

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For more information

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 *2011 Fragile States Outlook*. For more information, please contact Ms. Juana de Catheu, juana.decatheu@oecd.org; +33 (0)1 45 24 15 23.

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**References**


International Monetary Fund (IMF) (2011), *World Economic Outlook Database*.


Figure 8. Half of aid to fragile states goes to only eight countries

Afghanistan 6.24
Ethiopia 3.84
Pakistan 3.48
Palestinian Admin. Areas 3.03
Iraq 2.79
Congo, Dem Rep 2.56
Côte d’Ivoire 2.53
Sudan 2.35
Kenya 2.01
Haiti 1.96
Bangladesh 1.89
Uganda 1.81
Nigeria 1.71
Burundi 1.56
Sri Lanka 1.23
Burkina Faso 1.12
Nepal 0.98
Georgia 0.96
Cameroon 0.80
Central African Rep 0.79
Malawi 0.78
Zimbabwe 0.74
Lebanon 0.69
Somalia 0.66
Chad 0.61
Yemen 0.60
Togo 0.54
Liberia 0.54
Niger 0.49
Sierra Leone 0.46
Papua New Guinea 0.45
Tajikistan 0.44
Myanmar 0.36
Congo, Rep 0.33
Angola 0.30
Guinea 0.28
Uzbekistan 0.22
Timor-Leste 0.22
Solomon Islands 0.21
Guinea-Bissau 0.17
Eritrea 0.15
Korea, Dem Rep 0.07
Comoros 0.06
Sao Tome and Principe 0.03
Kiribati 0.03

ODA Total

Data: OECD CRS (2011)
The DAC International Network on Conflict and Fragility works on specific development challenges in conflict-affected and fragile states, supporting peacebuilding and statebuilding processes that concentrate on promoting lessons and experiences from the field, setting international norms and standards, tracking global results and providing practical guidance to help improve responses. To this end, the Conflict and Fragility Series brings together both in-depth analysis and practical recommendations. Free electronic may be downloaded from the OECD Bookshop (http://www.oecd-ilibrary.org). For more information, contact the INCAF Secretariat at james.eberlein@oecd.org.

Effective Engagement in Fragile States

International Engagement in Fragile States: Can’t we do better?
http://dx.doi.org/10.1787/9789264086128-en

Four years after DAC ministers endorsed the Principles for Good International Engagement in Fragile States and Situations, 13 countries have decided to take stock of the quality and impact of international engagement across the areas of diplomacy, development and security. The 2011 Monitoring Report synthesises main findings and recommendations from across these 13 countries, providing evidence from the ground of what works and what doesn’t. The report is one of the key inputs for the Fourth High-Level Forum on Aid Effectiveness (Busan).

Financing and Aid Architecture

Managing Risks in Fragile and Transitional Contexts: The price of success?
http://dx.doi.org/10.1787/9789264092198-en

From the anarchy of Somalia to the relative stability of Nepal, fragile and transitional situations represent a broad spectrum of contexts. However, they share some common features: these are risky environments – for the people who live there, for their governments, for neighbouring countries, and for those who seek to provide assistance. International engagement in these situations presents significant risks for donors and implementing partners, but also holds the potential for substantial rewards. This publication provides the evidence to help donors understand how to balance risks and opportunities in order to protect the integrity of their institutions while delivering better results to those who need it most.

Transition Financing: Building a better response
http://dx.doi.org/10.1787/9789264084981-en

This publication enables development partners to map out more effective, rapid and flexible transition financing. This includes improving current policies and practices in financial flows, implementing procedural and cultural changes in donor administrations, and maximising use of the instruments available for in-country transition financing.

Peacebuilding, Statebuilding and Security

Supporting Statebuilding in Situations of Conflict and Fragility: Policy guidance
http://dx.doi.org/10.1787/9789264074989-en

This publication presents new thinking on statebuilding and clear recommendations for better practice. Drawing from best practices from the field, it offers guidance on how donors can better facilitate positive endogenous statebuilding processes and strengthen the foundations upon which capable, accountable and responsive states are built.

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