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MONITORING RESOURCE FLOWS TO FRAGILE STATES: 2006 REPORT

Fragile States Group (FSG)

DAC Meeting, 15 November 2006

This is the second annual report that monitors and analyses resource flows to fragile states. The background to this initiative is increasing concern about the implications for international stability and development progress (in line with the MDGs) resulting from state failure or state fragility. In response to concern surrounding resource allocation to fragile states, the December 2005 Senior Level Meeting (SLM) agreed that resource flows should be monitored on an annual basis. This report analyses the data contained in a separate background annex (DCD/DAC(2006)52/ANN).

The 2006 report was presented and approved at the Fragile States Group (FSG) on 18 October 2006 and is presented to the DAC for INFORMATION in advance of the SLM, where it will also be presented for INFORMATION.

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1. In December 2005, the DAC Senior Level Meeting (SLM) approved a proposal for an annual report on 'Monitoring Resource Flows to Fragile States'.¹ The purpose of establishing a regular reporting and monitoring mechanism on resource flows to fragile states is to improve transparency and coordination among donors. Specifically, the monitoring exercise serves as an information tool for policy makers in discussions on resource volumes, volatility and forms of engagement.

2. This exercise is related to concerns specifically identified in the *Principles for Good International Engagement in Fragile States*, in particular the need to:

- Avoid unintentional exclusionary effects of uncoordinated donor behaviour and address the problem of 'aid orphans'.
- Act fast when windows of opportunity arise.
- Stay engaged long enough, especially in post-conflict situations.
- Reduce the destabilising effects of volatile patterns of international engagement.
- Consider the impact of non-aid interventions in fragile states.

3. In 2005, the 'Monitoring Resource Flows to Fragile States Report'² analysed a group of 35 fragile states³, looking in particular at need and levels of aid, governance indicators, and volatility of aid flows. It revealed that a small group of countries received low aid flows in relation to need and governance indicators (Burundi, Central African Republic, Chad, Guinea-Bissau, Niger, Sierra Leone, Tajikistan, Togo).⁴ Other countries experienced high volatility and sharp falls in aid over the previous five years (Côte d'Ivoire, Liberia and Zimbabwe). Based on the 2005 findings, those countries were considered to be marginalised from international attention. However, the report did not suggest that more aid should necessarily be allocated to these countries. Rather, the intention was to focus international attention and to trigger discussion about removing the bottlenecks, if any, towards more effective resource allocation in these countries.

Changes to Monitoring Approach and Methodology

4. In terms of scope, the 2006 report takes a broader view of the issue of resource allocation to fragile states and now includes three monitoring categories.⁵ The first is a group of marginalised countries which receive less aid than would be predicted in relation to their relatively higher levels of need and policy and institutional quality. A second category looks at countries which have low levels of aid and

¹ DCD/DAC(2005)48/REV1.

² DCD(2006)1.

³ The 35 countries analysed were those in the bottom two quintiles of the World Bank's Country Policy and Institutions Assessment (CPIA) in 2003 and those not rated including Afghanistan, Liberia, Myanmar, Somalia, and East Timor.

⁴ When compared to other countries with similar governance indicators.

⁵ For full data and background information, please refer to DCD/DAC(2006)52/ANN.

relatively weaker policy and institutional quality, but high levels of need (e.g. Myanmar). A third and final category in the 2006 report looks at fragile states that have relatively higher and/or improving levels of aid (e.g. Sierra Leone).

5. In terms of methodology, the 2006 monitoring exercise has extended the approach used in 2005 in the following ways:

- The analysis has been conducted for all IDA eligible countries (not just those defined as fragile states as measured by the CPIA) in order to allow comparisons between fragile and non fragile countries, particularly those which might be slightly above the cut-off point for classification as fragile.
- In 2005, the report was based on the WBI Aggregate Governance Indicators dataset. For 2006, the report uses the 2005 CPIA results, which are for the first time in the public domain, and which are more relevant as a measure of institutional performance.⁶

6. The fact that pre-2005 CPIA scores are still not in the public domain remains a constraint on effective analysis, not least because there is a body of evidence to support the view that change over time in the CPIA, i.e. the trajectory of governance performance, is what should be triggering an aid response to assist turnaround countries to emerge from fragility.⁷ In the future, however, using the CPIA in the monitoring exercise will allow trends in policy and institutional quality to be detected. This may help donors to identify opportunities to support turnarounds.

7. The 2005 report identified three main data gaps as critical to a better understanding of resource allocation and possible marginalisation: forward looking estimates of aid to individual countries, data from non-DAC donors, and data on non-official flows through NGOs. Insufficient progress has been made since last year in the availability of complete and comparable data in these areas.

Results for 2006

8. The indicators used for identifying countries which merit particular attention for this exercise cover need (GNI) and levels of aid (ODA levels), as well as policy and institutional performance (CPIA). As mentioned above, within this group of countries, the 2006 report has identified three monitoring categories:

9. (i) *Marginalised Countries*: Our analysis indicates that there are a number of countries that can be described as marginalised in that they receive low levels of aid in relation to their relatively higher levels of need and policy and institutional quality (see Box 1 below). Burundi and the DRC have the highest levels of need compared to the other countries of the group and could therefore be considered as priorities. It should be noted, however, that further, detailed country level analysis is required to determine what levels of aid could most effectively be allocated to these countries.

⁶ In 2005, the scoring exercise was only based on need and aid levels, and the countries were ranked according to the governance indicators only after an initial scoring was done on needs (GNI) and ODA levels.

⁷ Chauvet, Lisa and Paul Collier (2004), *Development Effectiveness in Fragile States: Spillovers and Turnarounds*, available at <http://www.oecd.org/dataoecd/32/59/34255628.pdf>

Box 1. Marginalised countries

Burundi, DRC, Guinea, Nigeria, Uzbekistan, Yemen

10. (ii) *Countries with low levels of aid, but relatively weaker policy and institutional quality*: The monitoring exercise also identified a second category of countries needing special attention (see Box 2) where state fragility is acute. Resource allocations to these countries are also low or declining, although their levels of need are relatively high. In most cases there are clear indications to suggest that increased aid would not be warranted. Nevertheless, coherent approaches to international engagement in these countries remain a challenge.

11. Within this group Myanmar and Somalia are the countries with the highest levels of need and could therefore be considered as priorities for increased international attention and more coherent engagement. Liberia may be a special case since it may move out of this group in the near future, due to recent elections and donor pledges. Côte d'Ivoire also stands out of this group. Although the level of need is relatively low compared with the other countries in the group, Côte d'Ivoire deserves attention since it has experienced a sharp fall in aid over the last few years combined with a steep decline in policy and institutional quality moving from the first quintile of the CPIA in 1999 to the very bottom in 2005.

Box 2. Countries with low levels of aid, but relatively weaker policy and institutional quality

Central African Republic, Côte d'Ivoire, Liberia, Myanmar, Somalia, Sudan, Togo, Zimbabwe

12. (iii) *Countries with relatively higher and/or improving aid levels*: A third group of countries identified have featured low levels of aid in the past, but are now experiencing increased aid flows during the period 1999 to 2004 (see Box 3). This may not mean necessarily that the increasing trend in aid flows will continue and there is a case for monitoring this group of countries in the future.

Box 3. Countries with relatively higher and/or improving aid levels

Cambodia, Chad, Eritrea, Gambia, Guinea Bissau, Niger, Sierra Leone, Tajikistan

Other considerations and gaps

13. The aid absorptive capacities of a country should inform donor decisions on how to counter the marginalisation of a fragile state. Although research is developing in this area, there is not yet a robust consensus on how to measure capacity to use aid. The FSG will continue to follow research on this issue.

14. Although research indicates that fragile states as a group are under-aided⁸, DAC estimates suggest aid dependency is set to worsen over the next few years. The share of ODA in government expenditure is likely to increase in some recipient countries, raising concerns about the effect of aid on state institutions. This is not an argument against long term predictable aid, rather it is a signal to donors to think carefully about the long term consequences that aid dependency may have on domestic

⁸ David Dollar, Victoria Levin, [The Forgotten States: Aid Volumes and Volatility in Difficult Partnership Countries \(2005\)](#).

accountability. More research on the sequencing of different forms of engagement and on accountability mechanisms would be helpful.

15. Countries dependent on a small number of donors might be particularly at risk if those donors change their policies abruptly.⁹ This is a significant consideration, because, as Levin and Dollar (2005) point out, aid to fragile states tends to be more volatile than aid to other low-income countries. Several of the countries identified above as being in need of particular attention have experienced relatively high levels of aid volatility and some are dependent on a very few number of donors. To reach any further conclusions on this topic, more in-depth study is needed.

16. Further investigation is also required regarding the impact of foreign investment, export earnings and remittances. These external resource flows are significant for certain countries and can potentially influence fragility both in positive and negative ways. There may be a case for monitoring particular countries in this respect and further country-level analysis is needed to determine case-by-case impact in fragile states.

Next steps

17. Existing country-level frameworks for sharing information among donors are insufficient to co-ordinate the allocation of aid in fragile states, and cross-country comparisons need to inform such processes. In order to improve the international aid allocation system, donors need to engage together at headquarters level, communicating and consolidating information on their aid allocation intentions. The results from this report are intended to encourage such processes and further follow up analysis and research.

18. In 2007, the DAC's Fragile States Group (FSG) will continue to improve the methodology for its monitoring exercise and seek opportunities to validate the findings of the report at the country level by using existing coordination mechanisms such as Consultative Group Meetings (CGs) and Round Tables (RTs) in interested partner countries covered in the report. These events are opportunities to discuss why the country is, or seems to be, marginalised in terms of international attention and trigger a discussion about removing the bottlenecks, if any, towards more effective resource allocation. At the global level, a DAC hosted meeting of senior operations officials proposed for 2007/8 could usefully progress action and co-ordination on these allocation issues across countries.¹⁰

⁹ Central African Republic, Togo, Liberia, Uzbekistan, Nigeria, Sudan, Yemen and Zimbabwe all rely mainly on three donors, which account for more than 50% of their total net ODA respectively.

¹⁰ See *Policy Statement on Development Effectiveness in Fragile States* DCD-DAC(2006)54 (p. 3).