



**DEVELOPMENT CO-OPERATION DIRECTORATE
DEVELOPMENT ASSISTANCE COMMITTEE**

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A PROPOSAL FOR MONITORING RESOURCE FLOWS TO FRAGILE STATES

Senior Level Meeting, 6-7 December 2005

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 concerns surrounding resource flows to fragile states, the January 2005 Senior Level Forum (SLF) on Development Effectiveness in Fragile States, suggested that the DAC Secretariat develop a proposal for the regular monitoring of resource flows to fragile states and submit it to the DAC Senior Level Meeting in December 2005.

A first draft proposal was presented to the Fragile States Group (FSG) on 24 October 2005. A revised version was then sent to the DAC on 15 November 2005 in advance of the Senior Level Meeting (SLM). This proposal and its accompanying data annex (DCD/DAC(2005)48/REV1/ANN) provide detailed background information. The SLM will discuss the summarised version of this proposal set out in DCD/DAC(2005)54.

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A PROPOSAL FOR MONITORING RESOURCE FLOWS TO FRAGILE STATES

Background

1. The donor community is increasingly concerned about the implications for international stability and development progress (in line with the MDGs) resulting from state failure or state fragility. There is evidence that poor development performance by the countries themselves, and also by their neighbours, both in economic terms and through providing potential threats to regional and international stability is associated with state fragility.

2. At the Senior Level Forum (SLF) on Development Effectiveness in Fragile States in January 2005, donors expressed concern that some fragile states receive less aid than may be merited by their governance and needs; they also identified the risks of disengagement by international partners from policy and other dialogue with fragile states. In these countries, low and volatile resource flows and international engagement may be the unintended consequence of individual bilateral and multilateral donor decisions. Aggregate allocation outcomes of the many (largely independently made) individual donor decisions may be suboptimal in terms of development effectiveness and inconsistent in terms of how countries are treated. The SLF therefore suggested developing a proposal for the regular monitoring of resource flows to fragile states for submission to the DAC Senior Level Meeting in December 2005.

3. Not only is there strong evidence that fragile states as a group receive considerably less aid than poverty and population considerations alone would suggest they require, but also that aid to fragile states appears to be more volatile than aid to other low-income countries. This has a negative impact on how effectively such aid can be used.

4. Within the fragile states group, moreover, there is a variety of situations. For instance, some are well-aided countries, which may be recovering from conflict and present a strategic interest to the international community. In other cases, deteriorating governance, where human rights are often under threat, can explain low aid levels to a large extent. However, from early research findings on resource allocations to fragile states we know that there are some fragile states,

- which receive low levels of aid in relation to need,
- whose governance indicators are only marginally worse (and are in some cases following an improving trend) than in other countries receiving more aid, and
- where volatility of resource flows is high and international engagement is low.

Purpose

5. The purpose of this initiative was to explore the feasibility of designing an information tool which would enable policy makers to monitor resource flows to fragile states. Although closely related to the debate about resources for all developing countries, the case of fragile states deserves separate scrutiny. This is because:

- The urgency of providing adequate resources is greater in fragile states given the consequences of destabilisation. The costs of continued marginalisation or high volatility are much greater than in more stable countries.

- It is not just aid volumes that need to be considered in fragile states. The nature and sequencing of inputs by donors, the diplomatic community, and the security and peacekeeping communities must be considered as an overall package for good international engagement in fragile states.

6. Considerations of the appropriate amount of resource flows to fragile states can therefore not be subsumed entirely into global aid allocation discussions. However, the exercise itself was seen as an important learning exercise for the broader discussions on aid allocation and scaling up. The lessons learned, for example on projected aid flows, are now being fed into the follow-up process of the 26 September 2005 DAC/World Bank meeting on scaling up for results. Future analytical work on resource flows will also feed into the ongoing discussions surrounding the proposal for a Global Forum on Development.¹

7. The objective of the exercise was to gather what information is available and to present options to policy makers on how to use this information. As a minimum, the data collected and presented can be used by donors to inform their internal decision-making processes on resource allocation. A more proactive use of the information could entail discussions among donors on the appropriate level and form of engagement at recipient country-level, as well as for cross-country coordination of resource allocations.

8. The exercise built on Principle 12 of the Principles for Good International Engagement in Fragile States, which highlights the need *to avoid pockets of exclusion*. It suggests that donors should support countries where there are no significant political barriers to engagement but where too few donors do engage and where aid volumes are low. The assumption is that while resource flows to some fragile states should not be increased and the current form of engagement is indeed appropriate in the circumstances, there are others whose marginalisation is the unintentional collective outcome of uncoordinated decisions by individual donors and the consequences are likely to be very costly. Principles 10 and 11 on *acting fast* and *staying engaged* are also relevant, particularly for post-conflict and turnaround countries.

9. The exercise was not intended to measure state fragility or serve as an early warning index of fragility or state failure. Instead, the starting point for the exercise was to consider and analyse a group of 35 fragile states.²

10. This note sets out what has been attempted by the Fragile States Group in recent months in collaboration with the Joint Venture on Managing for Development Results in terms of

- gathering information on resource flows to fragile states;
- developing options for using this information.

Main categories of information considered

11. Eight categories of information have been considered to see if there are apparent imbalances in the level and form of engagement with fragile states. At this stage, the first four categories have been covered in much more detail than the last four. Data on all these categories can be found in the data annex

¹ See COM/DCD/DEV (2005)2

² The 35 countries are the ones in the bottom two quintiles of the World Bank's Country Policy and Institutional Assessment (CPIA) in 2003 and those countries that did not get rated. They are: Afghanistan, Angola, Burundi, Cambodia, Central African Republic, Chad, Comoros, Congo Rep, Cote d'Ivoire, Djibouti, DRC, Eritrea, The Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lao PDR, Liberia, Myanmar, Niger, Nigeria, Papua New Guinea, Sao Tome and Principe, Sierra Leone, Solomon Islands, Somalia, Sudan, Tajikistan, Timor-Leste, Togo, Tonga, Uzbekistan, Vanuatu, Zimbabwe.

(DCD/DAC(2005)48/REV1/ANN). A principle used in the selection of data for comparison was that there was coverage across the whole group of countries and that data should be in the public domain.

1. Need and levels of aid
2. Governance
3. Volatility of aid flows
4. International presence and attention
5. Projected aid flows
6. Resource flows from non-DAC donors
7. Other aspects of international engagement
8. Other resource flows

Need and levels of aid

12. The first category for analysis covered the *need* for aid and *levels* of aid to all 35 countries based on backward-looking data. All data in this category for the 35 countries are presented in Tables A1 to A6 in the data annex.

- For need, average income (GNI) per capita was used as a proxy in the absence of reliable poverty data for many fragile states.
- For levels of aid, average ODA per capita was used.³

13. Table A6 in the data annex shows the average ranks under both criteria and hence provides information on which countries combine the highest levels of need with the lowest aid per capita. Table 1 below shows this list with all countries below the median for the combined aid per capita and GNI per capita scores for 2003.⁴ There are eighteen.

Table 1. Fragile States with unmet needs: the result of combining aid and income per capita

Myanmar	Chad
Somalia	Haiti
Burundi	DRC
Liberia	Niger
CAR	Afghanistan
Nigeria	Cambodia
Tajikistan	Guinea-Bissau
Togo	Sierra Leone
Uzbekistan	Sudan

³ ODA per capita figures accounting for debt relief and including emergency aid were used. If ODA excluding debt relief and emergency aid was used, Cambodia would come off the list and Eritrea would enter the list.

⁴ A comparison was made with the list of all countries that were below the median, when a 1999 to 2003 average of aid and GNI was used. Only two countries differed on the two lists. The only country which was on the 1999-2003 list which was not on the 2003 list (it was two places below the median) was Sudan, so it was added to the list. Haiti was the only country that did not appear on the list for 1999 to 2003.

14. Countries under one million population are not on this list given their high levels of aid per capita and relatively high GNI per capita for some of them. From the 2003 bottom two quintiles of the CPIA these are Djibouti, Comoros, Kiribati, Sao Tome and Principe, Solomon Islands, Timor-Leste, Tonga and Vanuatu. These small countries cannot be directly compared to countries with much larger populations. A separate process of monitoring that is tailored to their specific characteristics and needs would need to be designed. Given the time constraints, this has not yet been done. No conclusions can therefore be drawn so far from this exercise on the marginalisation of these small countries.

15. The countries in the table above could be seen as countries that *prima facie* appear to be marginalised by donors given their high fragility, high poverty and low levels of aid. For each country, the data annex (pages 18-37) includes three charts. The first chart per country shows aid flows per capita from 1992-2003. The second one shows total aid flows from core donors from 1992-2003, and the third chart per country shows ODA as a percentage of GNI from 2001-2003.⁵

Governance

16. The second category relates to *governance*. A country may have a large need for aid as defined above but very poor governance, including for example widespread human rights abuses. This might prevent bilateral donors from providing more aid. While all fragile states have poor governance indicators, the concern is that some of them receive even less than their poor governance indicators would warrant if aid was allocated consistently according to governance scores across all countries. The point of this second category, therefore, is to identify which of the countries from Table 1 above have relatively better governance records.

17. Since CPIA scores are not yet public⁶, the World Bank Institute's Aggregate Governance Indicators (AGI) dataset was used for this exercise.⁷ For the purpose of this exercise, the AGI has some advantages over the CPIA because it includes human rights indicators and also has greater country coverage. The six aggregate indicators used in the AGI are Voice and Accountability, Political Stability, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption.⁸

18. The following ten countries in Table 2 below had the best AGI scores out of the eighteen considered in Table 1 above.

⁵ Additional information on need was collected from IMF projections of aid requirements – these are not discussed here but do seem a promising basis for further investigation. See Burundi as an example in the data annex, table A15.

⁶ The World Bank's Board has decided to disclose CPIA results. Beginning with the results of the 2005 exercise (to be completed in early 2006), for all IDA eligible countries, the numerical scores for all the CPIA criteria, as well as the overall score, will be disclosed as the IDA Resource Allocation Index.

⁷ Both the CPIA and the AGI would be improved by greater transparency. However, the AGI can be useful to gain an overview of what a variety of sources perceive to be the quality of governance in a country. They appear appropriate as a starting point of an analysis to single out countries that differ considerably from their peer group to have a closer look.

⁸ See WBI, D.Kaufmann, A.Kraay, M.Mastruzzi,
<http://www.worldbank.org/wbi/governance/pubs/govmatters4.html>

Table 2. Fragile States with unmet needs and better governance performance

Burundi	Niger
Cambodia	Nigeria
Central African Republic	Sierra Leone
Chad	Tajikistan
Guinea Bissau	Togo

19. This list includes six countries that were also identified as ‘donor orphans’ by Levin and Dollar⁹: Burundi, CAR, Niger, Nigeria, and Togo with Tajikistan classified as a “marginal orphan.” The case of Guinea-Bissau was inconclusive; Sierra Leone and Cambodia were considered to be ‘donor darlings’.

Volatility of aid flows

20. The third category concerns the *volatility* of aid flows. Levin and Dollar have also found that aid to fragile states tends to be more volatile than aid to other low-income countries. The volatility of aid per capita (excluding humanitarian aid and debt relief) was therefore calculated for the period 1992-2003 and for the shorter period of 1999-2003.¹⁰ Seven of the top ten countries with the most volatile aid records between 1992 and 2003 show a sharp fall in aid over that period. They are Somalia, Congo Republic, Burundi, Sudan, Cote d’Ivoire, Zimbabwe and Togo. In some cases there was a partial recovery in the later period. The other three countries of the top ten, show significant increases, Timor-Leste, Afghanistan and DRC. Charts on trends in aid over the period 1992-2003 can be found in the data annex.

21. It was decided that for the purpose of this exercise, looking at volatility over the shorter period from 1999-2003 would be more useful. Again, the top ten most volatile countries fall into two groups. In the first group, aid has increased sharply over the period (Afghanistan, DRC, Sudan, Sierra Leone, Burundi, Solomon Islands). In the second, aid has fallen sharply (Cote d’Ivoire, Liberia, CAR, Zimbabwe). The detailed analysis on all 35 countries is included in the data annex, Table A9 and the trend charts. It suggests that high volatility may be associated with either sharply rising aid (in which case the country is unlikely to qualify under the aid per capita measure) or sharply falling aid (in which case the country is likely to qualify on the aid per capita measure). Therefore most countries with high volatility and falling levels of aid are already adequately captured by the aid per capita ranking as described above.

22. However, two countries that have experienced high volatility and sharp falls in aid are not on the list of eighteen countries identified above with highest need and lowest aid levels. These are Cote d’Ivoire and Zimbabwe. Monitoring the aid flows to these two in addition to the others could therefore be seen as important.

⁹ Levin and D. Dollar (2005), “The Forgotten States: Aid Volumes and Volatility in Difficult Partnership Countries (1992-2002)”, Summary Paper for DAC Learning and Advisory Process on Difficult Partnerships.

¹⁰ The coefficient of variation over the period 1992-2003 was used for this. An investigation was also made of the effect of de-trending the data to try and focus just on variability around the trend. However, this was found to make little difference to the ranking of variability since where aid was highly variable it was also not characterised by a linear trend.

23. For the future, other non aid aspects of volatile or uneven international engagement could be examined. This issue is included in the categories for further investigation including diplomatic, donor and other presence and attention.

International presence and attention

24. Aid flows are only one component of donor engagement in fragile states. A further aspect of marginalisation can occur through a lack of adequate *international presence and attention*. Using the OECD/DAC data, it appears that some countries have fewer foreign embassies and agency presence than others. Somalia has almost no presence while Liberia, Myanmar, Tajikistan and Guinea-Bissau are ranked next in terms of lack of presence. The data on international missions per country are in the data annex, table A14.

25. Another indicator under this category could be the concentration of donors in-country. Table A14 in the data annex gives information on how many and which donors are the core donors in each country. Countries dependent on a small number of donors might be particularly at risk if those donors change their policies abruptly—as has happened in the second half of the 1990s in a number of African countries.

26. It should also be noted that fragile states are likely to face particular challenges in managing a large and uncoordinated donor presence, so a larger number of donors is not necessarily desirable either. However, there are reasonably strong grounds for saying that an application of the donor presence and attention criteria would remove Cambodia from the list. Given the donor attention it already receives, it can be argued that Cambodia is not comparable to the other countries on the list. In 2003 alone it hosted more than 300 donor missions.

27. Similarly, the contextual situation in Nigeria suggests that it should be removed from the list. Despite the case for more aid to Nigeria, the recent comprehensive international debt relief deal allowed it to write off an estimated \$US 18 billion (some 60% of total debt) to creditors. The exceptional debt treatment signals increased confidence and engagement by donors, including the IMF, and suggests potential sustained future support. Nigeria is to collect and publish information for its public and its creditors on the use of resources liberated by debt relief.

28. To reach any further conclusions under this category, however, a more in-depth study of the significance of donor presence and attention will be needed in the future.

Findings to Date

29. It has not been possible to develop a more comprehensive set of directly comparable data that covers all of the factors that were potentially relevant to the monitoring of resource flows to fragile states in time for the SLM in December 2005. The information collected above (on need and levels of aid, governance, volatility, and international presence and attention) has yielded the finding that the eight countries in Table 3 could be seen as showing the greatest imbalances between aid flows, needs and governance performance. These countries have not figured prominently to date in the FSG work and only one is an FSG pilot country (Guinea Bissau). This finding might indicate that these countries need particular attention in terms of the coherence of overall donor resource allocation and that the FSG could investigate this “marginalisation” phenomenon as part of its on-going work programme.

30. As alluded to in the section on volatility, Cote d’Ivoire and Zimbabwe could be added under a special heading on the grounds of high volatility and sharp falls in aid over the last five years, bearing in mind that their governance indicators have been visibly deteriorating. Liberia could also be added on grounds of high volatility and sharp falls in aid.

Table 3. The countries with the most apparent imbalances

Burundi	Niger
Central African Republic	Sierra Leone
Chad	Tajikistan
Guinea Bissau	Togo

High volatility and falling aid flows	
Cote d'Ivoire	Zimbabwe
Liberia	

Categories for further investigation

Projected aid flows

31. The fact that a country may have been receiving relatively high levels of aid in the past does not necessarily mean that it will continue to receive them in the future. The identification of countries facing significant changes in their expected level of aid is an important consideration. For this proposal the main donors with significant involvement in fragile states were contacted to find out about the possibility of collecting this information. The conclusions from the data collection efforts are:

- While donors have committed in the Paris Declaration to providing recipient countries with indicative aid budget estimates, there are difficulties in providing this information at headquarters level in comparable format.
- Multilateral agencies in general have no major constraints in providing forward information of this kind, reflecting their use of transparent multi-year country planning budgets and their need to account to stakeholders for their allocation decisions.¹¹
- Some bilateral donors cite the constraint that they are legally restricted from making multiyear commitments because of the sovereign nature of their annual budget processes, although this may not be a barrier to providing information on indicative plans and intentions. For some donors, there is a problem that allocation decisions are made across a number of different implementation agencies.
- At the national level, Consultative Groups and similar processes of donor coordination do involve the collection of forward planning data on aid (though often only for one to two years ahead). Aid coordination bodies at the national level may also have access to such information (e.g. CDC in Cambodia, RIMCO in Liberia, DACO in Sierra Leone, SACB for Somalia), though it is not generally available in a consistent form.

¹¹ However especially for UN agencies the capacity to fulfil plans may be dependent on the provision of resources by bilateral donors.

Resource flows from non-DAC donors

32. Not enough information is currently available on *resource flows from non-DAC donors*. However, the group of Arab countries reporting to the DAC are core donors in Somalia and Sudan for example. In addition, field reports confirm that other non-DAC donors (e.g. Russia, China and India) are significant in several fragile states. The DAC Secretariat is currently working on collecting more information on this.

Significance of other aspects of international engagement

a) Diplomatic, donor and other presence and attention

33. As mentioned above, other forms of international presence and attention (and their volatility) need more reliable data collection and analysis. This should include current and anticipated diplomatic engagement by donor governments. A way of capturing this partly sensitive information needs to be considered.

b) Peacekeeping

34. Information on the costs of UN peacekeeping operations was obtained in this exercise (see Tables A11 and A12 in the data annex). Expenditures over the period up to 2004 (for ongoing peacekeeping activities) were extremely substantial in relation to levels of official development assistance. They amounted to:

- Sierra Leone: USD 472m
- DRC: USD 665m
- Liberia: USD 548m
- Burundi: USD 40m.

35. Some evidence suggests that countries that sink back into conflict after having had peacekeeping operations are likely to be abandoned by donors (e.g. Somalia). Countries with current peacekeeping operations also often do not have a coordinated future aid planning process set up. This evidence makes a case for watching carefully what happens in countries with ongoing international peacekeeping operations to ensure there is effective aid follow up. More analysis on the significance of peace keeping operations on development effectiveness also needs to be done. Paul Collier is currently carrying out research on the interaction of peacekeeping operations with external aid and institutional conditions such as political regimes and voting systems.

Other resource flows

a) Windfall of export revenues

36. One criterion for consideration relates to the availability of windfall export earnings, especially from exceptionally high oil and gas prices. The data annex Tables A9 and A10 provide information on the level of export revenues per capita up to 2004 and on the variability of export earnings. Comprehensive forward looking data is however not available. Evidence shows that aid may be particularly effective in countries with highly variable export revenues. Amongst countries included in the proposed monitoring list, this may be seen as particularly significant for Chad.

b) Remittances

37. Table A8 in the data annex shows net current transfers to the eighteen countries from abroad, of which remittance flows are the main component. In per capita terms, only the USD\$101 per head in Haiti stands out. The second highest amount per capita is received in Cambodia with USD\$38. These figures suggest that, in general, variability in remittances is not a major factor in the overall picture of resource flows to fragile states. However, in countries with a large diaspora, there may be substantial external holdings of assets that could be repatriated when investment opportunities arise. Country-level analysis is needed to determine case by case impact.

Questions to the SLM

38. Guidance is sought from the SLM on the following questions:

1: With regard to the Proposal for Monitoring Resource Flows to Fragile States:

- Is there value in the DAC Secretariat continuing to refine the methodology and produce information as presented in the data annex?
- Is the information provided useful for thinking through the risks of volatile engagement and marginalisation?
- Can this information help individual donor agencies with their internal resource allocation and country engagement discussions; including as part of the broader scaling-up discussions?

2: How might the findings regarding fragile states where there are risks of marginalisation be followed up? In particular:

- Is there value in including a specific agenda item on issues of level and volatility of resource flows as well international presence at Consultative Group meetings or Roundtables in countries where the risks of marginalisation are the greatest?
- Would regular discussion on fragile states and resource allocations among senior officials be helpful to better engage in these countries? This would need to be informed by options listed above such as in-country or regionally based discussions. These events would not be pledging forums.
- Given the number of fragile states in Africa and in an effort to improve transparency, would a DAC hosted event for DGs in donor agencies in charge of Africa operations be beneficial? In a new era of scaled-up aid, such an event would be an opportunity to share plans on future engagement and could be a forum for discussion of potential delegated aid arrangements.
- As we begin thinking of implementing the *Principles of Good International Engagement* beyond the nine pilot countries after 2006, would a specific focus on implementing *the Principles* in marginalised fragile states (currently only Guinea Bissau is part of the pilot exercise) be beneficial?