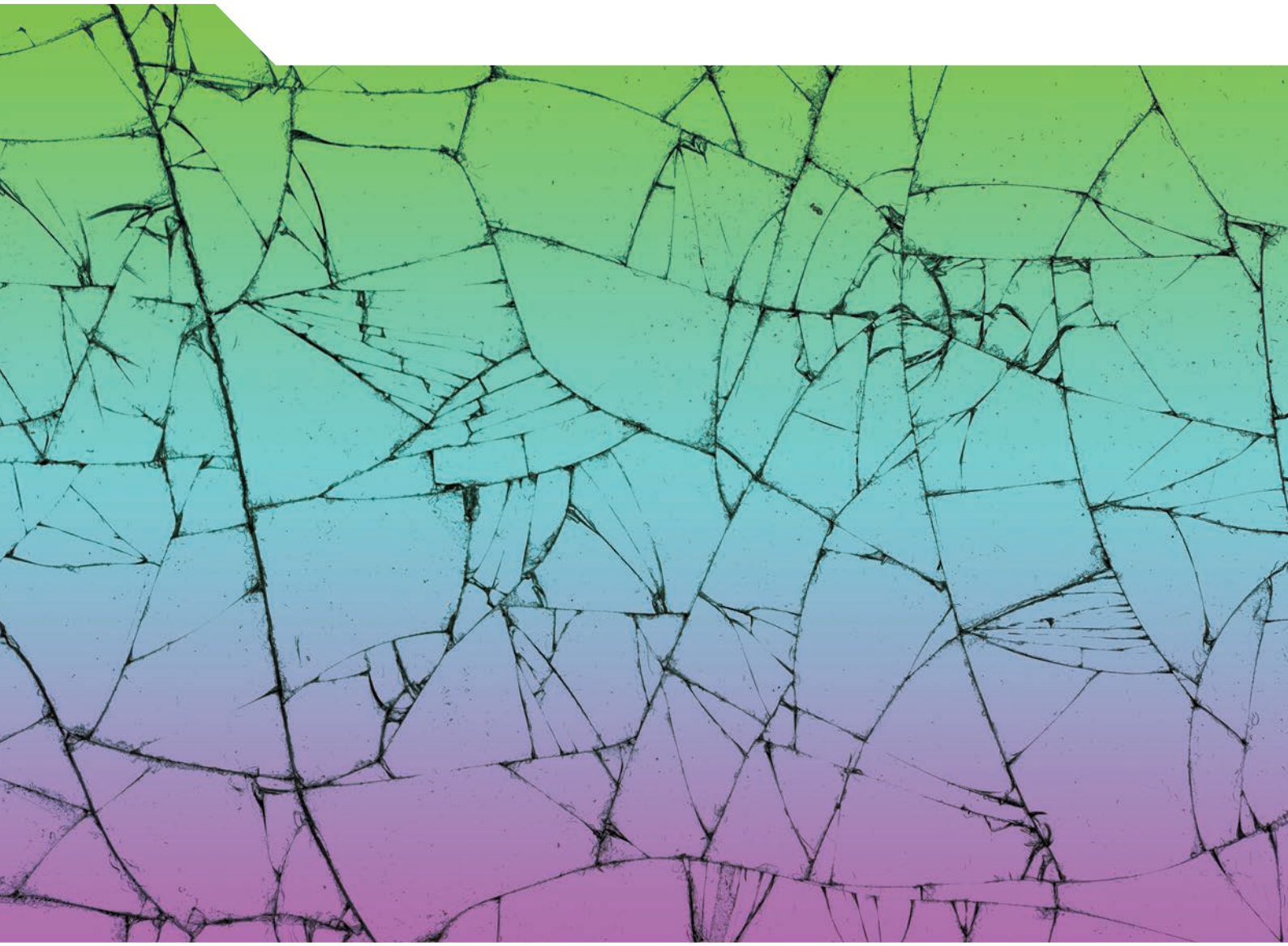
States of Fragility 2018



OECD

States of Fragility 2018



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Foreword

The OECD's Development Co-operation Directorate (DCD) has produced *Fragile States* reports since 2005. These reports explore trends and financial resource flows in fragile and conflict-affected countries and economies. They respond to increasing concerns about the implications of fragility for stability and development, especially in the context of Agenda 2030 and the international promise to "leave no one behind". The OECD remains one of only a handful of sources of aggregate data and analysis for fragile contexts as a group. In line with the new, multidimensional concept of fragility that began with the 2015 report, the OECD's annual publications are now referred to as *States of Fragility*.

The purpose of this series is to provide compelling evidence that can inform donor policies and underpin international debates. By doing so, the reports seek to ensure that issues driving fragility remain high on the international development agenda, while supporting better policy to drive better results where they count most: on the ground.

Concretely, the series aims to enable policymakers to: i) monitor levels and composition of resource flows to fragile contexts; ii) understand qualitative trends related to these flows; and iii) gain an outlook on key issues and countries of concern over the coming years. In line with the aims of the series, this report showcases 12 key trends affecting the fragility landscape, presents the 2018 multidimensional fragility framework and looks at financial flows in support of fragile contexts.

With regard to the data used in the current volume, this report draws on 2016 official development assistance data, the latest available at the time of writing. All amounts referring to 2016 are denoted in current 2016 USD, unless specified otherwise. For time series, constant 2015 USD prices are used. Figures reflect OECD statistics unless indicated otherwise.

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Editorial

Fragility poses a major global threat to the implementation of the 2030 Agenda for Sustainable Development. In 2016, more countries experienced some form of violent conflict than at any time in the past 30 years. Close to 26 000 people died from terrorist attacks and 560 000 people lost their lives because of violence. The number of displaced people in the world is the highest since the end of the Second World War. Last year, the world faced four concurrent famines.

At the heart of this catalogue of human suffering is fragility. Each crippling number demonstrates how critically important it is that the international community strive even harder to better understand, anticipate and respond to both the drivers and consequences of fragility.

This report shows that, without action, more than 80% of the world's poorest will be living in fragile contexts by 2030. This means that development actors across many sectors will need to better grasp the unique challenges of development in fragile contexts if the ambitions of the Sustainable Development Goals are to be met. Moreover, just 2% of total gross official development assistance (ODA) went to conflict prevention and associated activities in 2016. We know that conflict can reverse decades of development progress, at the same time reinforcing those very dynamics that led to conflict in the first place.

We also know that development co-operation can have a positive impact, not only by building resilience to fragility but also by improving the lives of the girls, boys, women and men who live in fragile environments. In order to change course, we have to do better. ODA is a powerful tool in addressing fragility and it is one of the few financial flows that fragile contexts can depend upon.

How development actors choose to allocate their funds can make a difference. ODA is still too concentrated in a handful of places and is not always well-aligned to the unique and multidimensional needs of fragile contexts. There is also room for improvement when it comes to co-ordinating different financial flows in fragile contexts and to combining humanitarian assistance with long-term development finance and private capital, to maximise their value and impact.

This report explores these and other issues related to the state of fragility in the world today, the state of the financing now available for fragile contexts and what these findings mean for how we can more effectively address fragility in all of its complexity. Following on the breakthrough *States of Fragility* report of 2016, *States of Fragility 2018* continues to evolve the innovative concept of multidimensional fragility, exemplified in the OECD fragility framework that captures risks and coping capacities across five dimensions.

People living in fragile contexts are already at risk of being left behind, in an era where we all promised that no-one would be. If the member countries of the

Development Assistance Committee are to keep their promise, fragility must remain a focus of development policies and practice until 2030 and beyond. The OECD will provide the policy-relevant data and analysis to support the entire development community in its efforts to sustain peace and support sustainable development.





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Chair, Development Assistance Committee (DAC)

Jorge Moreira da Silva,
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Abbreviations and acronyms

AAAA	Addis Ababa Action Agenda
ADB	Asian Development Bank
AfDB	African Development Bank
ATI	Addis Tax Initiative
AUC	African Union Commission
CPA	Country programmable aid
DAC	Development Assistance Committee (OECD)
DFI	Development Finance Institutions
DPP	Disaster prevention and preparedness
EUR	Euro
FAO	Food and Agricultural Organization (UN)
FDI	Foreign direct investment
GBD	Global burden of disease
GDP	Gross domestic product
GNI	Gross domestic income
HDI	Human Development Index
IDMC	Internal Displacement Monitoring Centre
IFC	International Finance Corporation
IFF	Illicit financial flow
ILO	International Labour Organization
IMF	International Monetary Fund
INCAF	International Network on Conflict and Fragility
IPCC	Intergovernmental Panel on Climate Change
MDG	Millennium Development Goal
NEET	Not in employment, education or training
ODA	Official development assistance
OOF	Other official flows
PARIS21	Partnership in Statistics for Development in the 21st Century

PSG	Peacebuilding and Statebuilding Goal
PTS	Political Terror Scale
SALW	Small arms and light weapons
SDG	Sustainable Development Goal
SIPRI	Stockholm International Peace Research Institute
SME	Small and medium-sized enterprise
SSR	Security sector reform
TI	Transparency International
TOSSD	Total official support for sustainable development
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UN DESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Programme
UNHCR	UN Refugee Agency
USAID	United States Agency for International Development
USD	United States dollar
V-DEM	Varieties of Democracy
WDI	Worldwide Governance Indicators
WFP	World Food Programme
WBG	World Bank Group

Executive summary

States of Fragility 2018 demonstrates the need to invest in more ambitious results. The report is published at a time when the collective ambitions of Agenda 2030 – a call to action for people, planet, prosperity and peace – are three years into delivery. Yet delivery of results is already in jeopardy. The 58 contexts classified as fragile in the OECD's 2018 fragility framework are stark reminders that fragility, in all its multiple manifestations, has the potential to spoil the realisation of this collective ambition, and leave people living in these places far behind.

The report is organised in ten chapters that are intended to shed light on data and analysis that will be useful to policy makers as well as practitioners as they consider their engagements in fragile contexts. The first part of the report focuses on the state of fragility in the world today, starting with appraisals of 12 key trends that demonstrate fragility's complexity and breadth. It then looks at how fragile contexts are faring in their progress towards sustainable development. The second part of the report examines the various sources of financing that exist to address fragility. The third and final part of the report brings this information together to assess whether current financing and programming approaches are well aligned to the unique needs of fragile contexts.

Overall, the intention of this report, then, is to provide the evidence needed to inspire a correspondingly ambitious and proactive response that will deliver better results in fragile contexts. The key messages therefore aim to ensure that our collective ambition – that of governments in fragile contexts, regional organisations, bilateral and multilateral actors, civil society, and the private sector – is broad enough to overcome fragility. This is in recognition that fragility is one of the most profound challenges of the 21st century.

Key messages

Ambition: We must recognise fragility if we want a better world

The increasingly interlinked nature of today's world means that suffering is no longer confined by national borders. Most of the distressing developments dominating headlines everywhere – conflict, terrorism, homicides, the threat of pandemics, forced displacement, disasters, famine and more – have fragility at their core. Poverty, too, is increasingly concentrated in fragile contexts. By 2030, more than 80% of the world's poorest could be living in these places unless more concerted action is taken now. These perils exact unacceptable levels of human suffering. They are incompatible with the vision for a better world embodied in Agenda 2030.

Ambition: We will accept complexity and address all dimensions of fragility

Fragility is not simple. The OECD's multidimensional framework attempts to capture fragility's intrinsic complexity while still providing useful guidance. Nevertheless, addressing fragility will require greater acceptance of this complexity through tailoring

differentiated approaches to fragile contexts and working across the full spectrum of issues, some of which are inherently difficult and sensitive.

Ambition: We will invest in more and smarter aid in fragile contexts

Official development assistance (ODA) matters immensely in fragile contexts. Aid is the only financial flow that directly invests in the foundations for peaceful and stable societies, an investment that invites more inclusive growth and sustainable development. Aid will remain critical, as it will take many years for most fragile contexts to have a diversity of financing options at their disposal, including from private sector. When part of a larger financing strategy, aid can also incentivise and constructively reward progress and results that promote stability.

Ambition: We will step up our efforts on prevention, peace and security

After a high point in 2010, financial commitments to conflict prevention and peacebuilding have levelled off and have yet to regain popularity. In fact, in 2016, only 2% of total ODA to fragile contexts went to conflict prevention. Only 10% went to peacebuilding. The international community must now demonstrate that its financial commitments to the prevention and sustaining peace agendas match its rhetoric. If the legitimacy and sincerity of these agendas is to be protected, they must be given the chance to succeed.

Ambition: We will invest in the data to better understand, anticipate and respond to multiple states of fragility

Knowledge and understanding of fragility have grown impressively in the past decade, but the data have not kept up. Gaps persist in our ability to capture subnational and regional dynamics and the pace of change within societies. Moreover, it is difficult to gather information about informal systems such as networks, institutions, processes and economies. There is growing recognition that people's perceptions matter to overall fragility and yet this type of data is hard to collect and to integrate into programming. Additionally, without greater investment in data, accurate measurement of progress − or lack of progress − towards achieving the SDGs in fragile contexts will be elusive.

Ambition: We will support the capacity of governments to deliver inclusive solutions to their own states of fragility

Governments in fragile contexts must chart their own exit strategies from fragility. To enable them to do so, donors should invest in targeted technical assistance as well as strengthen capacity for domestic resource mobilisation, budget execution, decentralisation, and small and medium-enterprise development. Partner governments should also invest in developing peaceful, prosperous and inclusive societies. Mutual accountability frameworks can ensure that all actors are working towards coherent results on nationally defined priorities and that everyone is living up to their commitments.

Ambition: We will never lose sight of the end goal of delivering hope and better lives for all people in fragile contexts

There has been a deficit of development to deliver hope to people living in fragile contexts. Successful results must be about more than just keeping people alive during crises or ticking boxes on an evaluation form to say a certain activity was delivered. Success must be about demonstrably supporting people in building a better future for themselves and

their families and about honouring people's hope for a future that can accommodate their dreams and aspirations. Delivering better lives is central to the values of aid, sustainable development and sustaining peace. This ambition must guide all engagements in fragile contexts in order for transformational change to occur.

Chapter 1. What main trends currently affect the fragility landscape?

This opening chapter provides an overview of 12 key trends shaping the fragility landscape in 2018. The first trend sets the stage by summarising the current conceptual understanding of fragility and its evolution over time. The chapter's discussion of this and the additional 11 trends further demonstrates the breadth of issues that affect, and are affected by, fragility. Taken together, these 12 trends show the importance of addressing fragility across its many facets. They also show the importance of striking a balance between two needs, recognising fragility's complexity and translating this complex concept into practical policies and action.

The OECD Development Co-operation Directorate (DCD) has been producing reports that look at fragility since 2005. The introductions to the previously entitled *Fragile States Reports* often began with some explanation of why "fragile states" matter. Several years ago, the OECD moved on from using the fragile states moniker in acknowledgement that a broader conceptualisation and label of fragility – one that recognised fragility's many shades or states – was more in line with the universality of the post-2015 world. Now, in 2018, it is no longer necessary to explain why fragility matters.

This is because, in 2018, headlines of newspapers everywhere are filled with the worst manifestations of fragility: conflict, terrorism, homicides, poverty, forced displacement, disasters and famine. But it is not just these extreme expressions of fragility that should concern us, because behind the shocking headlines are many, more subtle manifestations of fragility. These are countries and contexts that are not in crisis but lag behind on delivering equitable and sustainable development, and where there are unacceptable levels of human suffering. As discussed in the trends in this chapter and indeed throughout this report, all levels of fragility, not just the most severe, matter.

Since 2014, these reports have centred on a special topic or theme each year. This year, rather than a special topic, the theme has returned to fragility itself. This is framed as a series of questions that inform each chapter and feed into a single overarching question. How has the understanding of fragility's complexity evolved, especially since the multidimensional framework was introduced in 2016? Chapter 1 begins this exploration with a review of the main trends currently affecting the fragility landscape.

The 12 trends addressed here are not meant to be an exhaustive list in any way. It would be impossible to capture the many different facets or angles of fragility in a single report. These trends might also, at first glance, seem self-evident, yet each one highlights a discrete nuance of fragility. As such, they demonstrate the importance of retaining an awareness of fragility's ability to counter basic assumptions and defy simplistic categorisation.

States of Fragility 2018 is organised in ten chapters that are intended to shed light on data and analysis that will be useful to policy makers as well as practitioners as they consider their engagements in fragile contexts. Chapters 1, 2 and 3 look at the state of fragility in the world today. Chapters 4, 5, 6, 7 and 8 examine the various forms of financing to address fragility. Chapters 9 and 10 draw on the findings of preceding chapters to consider whether current finance and programme approaches meet the needs of fragile contexts.

This report aims, first, to ensure that fragility remains a priority on the international development agenda. Second, it aims to ensure there is continuing study of the multidimensionality of fragility and its implications for more effective resourcing to address fragility. A third objective is to provide evidence that can further support the achievement of the Sustainable Development Goals (SDGs) in these most challenging environments.

1.1. Trend One: Fragility continues to challenge assumptions

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The concept of fragility has long been an ever-moving target within the development agenda. Debate has shifted slightly every year – around what fragility is and is not, how it should be measured, and the significance of these questions for addressing it. That fragility, as both a cause and a consequence, challenges so many assumptions and is so difficult to capture effectively in its entirety, contributed to this mutability. Over time, knowledge and

awareness of the complexity of fragility and its associated behaviours have evolved considerably. The result is more sophisticated policy conversations around fragility as well as international responses to it. However, there is a risk that this growing appreciation of the many shades, or states, of fragility will render it more of a vague catch-all term rather than a useful organising principle. This report explores the most useful ways of delineating and differentiating fragility in order to inform effective policies and planning to address it.

The multidimensional fragility framework, which was introduced in *States of Fragility 2016: Understanding Violence* (OECD, 2016[1]), seeks to provide a balance between fragility's inherent complexity and the degree of simplicity that is required for efficient policy and decision making. It is not an easy balance to strike, but it is a critical one. For the categorisation of fragility to be more than just an academic exercise, it must always consider the implications for the crafting of programmatic responses.

This balance was absent from initial policy discussions of fragility. These tended to frame it as primarily a development challenge and the development response was framed narrowly in terms of economic growth. These assumptions resulted in one of the most prominent categories of "fragile states" in the early 2000s, the World Bank's Low-Income Countries Under Stress (LICUS),[1] and in the straightforward definition of these states by the OECD as "those failing to provide basic services to poor people because they are unwilling or unable to do so" (OECD, 2006, p. 147[2]). This approach did not help to distinguish unique characteristics of fragility from general conditions of underdevelopment; nor did it provide any insight as to why some poor countries experience instability while others exhibit resilience and experience peace in spite of poverty (Putzel, 2010[3]).

1.1.1. Fragility is about more than economic growth

As more nuanced forms of fragility have become better understood, it is now recognised that a lack of economic growth is but one of many dynamics that can contribute to fragility and, by extension, that economic growth alone is not a panacea for fragility. This is reflected in the emergence of an additional category of middle-income fragile states or (MIFFs) (The Economist, 2011[4]). The data generated for this report reinforce the relevance of this category: 30 out of 58 contexts in the 2018 fragility framework are classified as middle income. A recent comparison also demonstrates that a context may be fragile but still able to produce economic growth and qualify as a fast reformer (Whaites, 2017, p. 7[5]). Nonetheless, belief in growth as the cure-all for fragility is difficult to dispel completely. The universality of fragility is increasingly accepted, but it is still tacitly assumed that a country or context eventually will develop its way out of fragility.

This assumption continues to sustain an overarching fixation on poverty reduction and may not take into account dynamics that perpetuate pockets of poverty in middle-income countries and yet often have little to do with actual resources. Middle-income status also changes how donors approach their engagement and where they can reasonably expect to have positive impact (Sumner, 2013[6]). Moreover, recent discussions have highlighted the limitations of assuming that a virtuous cycle of economic growth, social change and institutional development will automatically take place (Whaites, 2017[5]). Indeed, serious new risks manifest when impressive economic growth and its attendant expectations fail to bring commensurate progress on income distribution, job creation, and increased voice and accountability.

1.1.2. Fragility is about more than institutions

The inverse relationship between strong institutions and fragility is another example of initial assumptions that, in hindsight, were overstated. It grew out of the popularity of statebuilding and the crucial importance attached to strengthening institutions, which also correlated with the broadening of the OECD definition of a "fragile state" as one that "has weak capacity to carry out basic governance functions, and lacks the ability to develop mutually constructive relations with society" (OECD, 2011, p. 11[7]). This state-centric lens of fragility focused on authority, legitimacy and capacity, but from a formalised notion of governance. While support to strengthen weak state institutions is critical, any approach to fragility must look at governance more comprehensively – beyond governments – to account for the many ways people experience authority, legitimacy and capacity. Focus on vertical state-society relations, with the state usually embodied in the national/central government, tended to underplay the importance of horizontal society-society relations and local/municipal dynamics, which have an impact on state-level dynamics. Moreover, the earlier emphasis on institution building also skewed perspective too narrowly onto the central, formal state and obscured the impact of people and societies in shaping the foundations on which institutions are built. Ignoring this wider picture often masked why pockets of fragility persist.

Just as prosperity is no guarantee against fragility, a state cannot provide enough services to deliver its way out of fragility either – a realisation that has led to a more nuanced idea of the state's role. This shift in mind-set recognises that state legitimacy does not derive solely from the existence or demonstration of authority and capacity, for instance through service provision, but from a complex process informed by a multiplicity of issues (Secure Livelihoods Research Consortium, 2017, pp. 7-8[8]). This does not mean that strong state institutions which are able to exercise authority, legitimacy and capacity are undesirable. But it does problematise the simplistic assumption that fragility automatically will be addressed once state institutions are strengthened. In fact, the existence of relatively strong central government institutions within otherwise fragile contexts can provide opportunities for issues of authority and capacity to be instrumentalised for the purpose of diverting resources and attention away from deeper political and societal drivers that can have a larger impact on legitimacy and fragility (Leclercq, 2016[9]). This situation arises especially when certain branches of an authoritarian government are able to cannily use the language of development and local ownership to further consolidate their control (Gisselquist, 2017, p. 1276[10]).

Contexts that may be strong from an institutional standpoint, but inherently fragile because of the way they maintain that strength, can accurately be termed brittle. For example, Kaplan (2014[11]) warned that "interpreting overt stability as a reflection of fundamental strength or resiliency has often set the international community up for a surprise". A focus on institutions also implicitly appraises regime type. But the phenomenon of so-called "violent democracies" – those with relatively credible electoral processes and middle-income status but also high rates of violence – has tempered expectations about what it is possible for democracy to deliver if other issues are ignored or suppressed.[2] This does not mean democracy is undesirable. But it does indicate that fragile contexts do not vote their way out of fragility.

1.1.3. Fragility is about more than conflict

Traditionally, fragility and conflict have been most strongly correlated. Conflict is and certainly always should be a central concern of the international community. However, it

does not tell the whole story of fragility. By the same token, the 9 extremely fragile contexts that are experiencing conflict, out of the top 15 extremely fragile in the 2018 framework, should not monopolise international attention or distract development actors from less conspicuous fragile settings that also deserve considerable, albeit different, engagement. The human suffering within active conflict clearly requires special attention. But contexts that are stuck in a fragility trap can lead to potentially more prolonged suffering and thus also need attention.

Places that are stuck in such a trap are variously described as stalled, stagnant or chronically fragile. They are not all the same, however, and their differences matter. It is important to consider the duration of their fragility and differentiate those that are truly chronically fragile from those experiencing temporary fragility (Gisselquist, 2017, p. 1273[10]) – or a transition that could be considered a "fragile moment" that might even last years (Kaplan, 2014, p. 49[11]). Transitions are especially important to identify, as they require fundamentally different international support and present critical windows of opportunity to help peacefully foster change. For some extremely fragile contexts, especially those that have previously experienced conflict, even reaching a point of "resilient stagnation" might be desirable because it ideally provides opportunities to encourage those who hold wealth and power to see the benefits of pressing for more dynamic and widespread development (Putzel, 2010, p. 2[3]). It is thus important to tailor not only interventions in each context but also expectations of what is beneficial and feasible.

1.1.4. All levels of fragility – not just extreme fragility – matter

Fragile contexts can be seen broadly as those places that have been left behind, to use the vocabulary of the 2030 Agenda for Sustainable Development. The subcategory of chronically fragile contexts then can be considered places that have been left behind even among the wider category of fragile contexts. They experience different forms of feedback loops and conflict alone cannot explain why some contexts are trapped in fragility and others are able to exit or move in and out of fragility (Carment and Samy, 2017, p. 25[12]). These also are places that experience lacklustre progress, sluggish growth, only nominal institutional reforms and sometimes sustained, low-intensity conflict. They may demonstrate enough momentum to keep from slipping into deeper instability or back into full-scale conflict, but not enough to propel them towards greater resilience, despite often considerable investment from the international community.

Over the past decade, 27 countries have figured consistently in OECD fragility reports[3] (see Box 1.1). Of these, 19 have not experienced major conflict during this period but remain in situations of fragility. These contexts may not grab as many headlines as other fragile contexts, particularly those in active crisis. Regardless of their low profile, or because of it, they nevertheless demand sustained commitment from the development community. Unfortunately, these are also the contexts that can be cited to justify the assumption that fragility is too complicated or cannot be helped and that for a multitude of reasons certain places are destined to stay fragile forever. Yet, conversely, these are also the contexts that with the right mix of resources and attention could build on progress, however modest and static, that already has been achieved and on the substantial investments already made.

And it is likely that more places may fall into this subcategory of chronically fragile contexts in the future. While many of today's active conflicts hopefully will come to an end, some are likely to persist at lower intensity and contribute to sustained fragility. It can be expected as well that the benefits of global economic growth will still bypass many

fragile contexts. Patience and long-term commitment to support true generational change may take as many as 20 to 40 years, according to development bank estimates, and such places will continue to struggle with vulnerabilities throughout the transition (Ncube and Jones, 2013[13]). Expecting more profound and faster change in the most challenging environments, and with less time and fewer tailored resources, is the ultimate fool's errand of the development sector. Yet it is one that is undertaken with surprising frequency.

Box 1.1. Chronically fragile contexts

Since its inception, the *States of Fragility* report (previously called the *Fragile States* report) has provided snapshots of the current state of fragility in the world. Read in hindsight, these reports also reveal important insights into some of the temporal aspects of fragility and its duration and evolution over time.

A look at the contexts that have been considered as fragile since the 2008 report, i.e. those now categorised as chronically fragile, is illuminating. A number of points of interest stand out, particularly for anyone who seeks a better understanding of fragility's complexity, diversity and, in these cases, intractability.

- Since the 2008 report, 75 countries and contexts have been considered fragile at least once.
- Of these 75 places, 27 are chronically fragile and have appeared in every report since 2008: Afghanistan, Burundi, Cameroon, Central African Republic, Chad, Comoros, Democratic People's Republic of Korea, Democratic Republic of the Congo, Eritrea, Ethiopia, Guinea-Bissau, Haiti, Iraq, Kenya, Liberia, Myanmar, Niger, Nigeria, Pakistan, Sierra Leone, Solomon Islands, Somalia, Sudan, Timor-Leste, Uganda, Yemen and Zimbabwe.
- In 2016, total official development assistance to these 27 countries amounted to USD 35 billion.
- Most (17) of the chronically fragile contexts are low-income economies. Nine are lower middle-income contexts and one (Iraq) is an upper middle-income economy.
- Since 2008, Kenya, Myanmar, Nigeria, Pakistan, Solomon Islands, Sudan, Timor-Leste and Yemen moved to the category of lower middle income from that of low income. Iraq graduated to the category of upper middle income.
- Only Afghanistan and Iraq among the chronically fragile contexts have experienced major conflict throughout the last decade.
- Of these 27 countries, 19 have not experienced major conflict in the last decade.
- Comoros, Guinea-Bissau, Haiti, Liberia and Sierra Leone have not seen any battle deaths since 2008.

Sources: Based on (Uppsala University, n.d.[14]), *UCDP Definitions*, http://www.pcr.uu.se/research/ucdp/definitions/; (World Bank, n.d.[15]), *World Bank Country and Lending Groups* (database), https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank country-and-lending-groups.

1.1.5. Addressing fragility is about moving from complexity and categorisation to concrete action

The complexity of fragility should spur, not deter, new thinking about how best to continue to evolve policy understanding and programmatic approaches. The broad fragility umbrella covers a mix of situations that are fragile for different reasons and more or less resilient for different reasons. Fragility will look very different in a small island developing state than, for instance, in a subnational pocket within a large, natural resource-rich country. It will look different again in a country that has been in conflict for ten years or, for that matter, in one that exhibits impressive economic growth but poor progress in ensuring that growth is inclusive. External actors also can affect all types of fragility. This is highlighted in Trend Twelve: Fragility is a complex and dual-system problem. When these actors become part of a system, they have an influence on it and their actions provide the resources and incentives (or disincentives) for change. Assumptions that fragility can be simplified or isolated into one dynamic or another, have long outgrown their utility for crafting policies and programmes to address it.

At the same time, it is a delicate dance to retain the necessary analytical complexity without nuancing fragility all the way into irrelevance for field-level practitioners. The OECD has put forward a multidimensional framework of fragility that considers fragility as a combination of risks and coping capacities whose interaction shapes how fragility manifests. This is an important step towards sophisticating the way fragility is assessed and clarifying how to respond to it. But this is not the final step in fragility categorisation. Nor should the elements included in the framework be the only consideration. If fragility has demonstrated anything concretely, it is that the category must not get locked in by assumptions and preconceived notions. Developing relevant, concrete and bespoke options for responding to fragility means always retaining a certain degree of flexibility and creativity about how it is captured.

Moving forward, the OECD will continue to explore fragility through different clustering techniques for contexts in similar states of fragility. It also will continue to look at trajectories of fragility and analyse time series to better understand, from multiple perspectives, the behaviour of fragility and the interplay of risks and coping capacities over time. Within this mixed methods approach, it also will be important to reflect on findings, especially those that are anomalies, through a deeper qualitative analysis that takes account of historical, cultural and anthropological features of a given context. All of these features contribute to the overall trajectory of fragility.

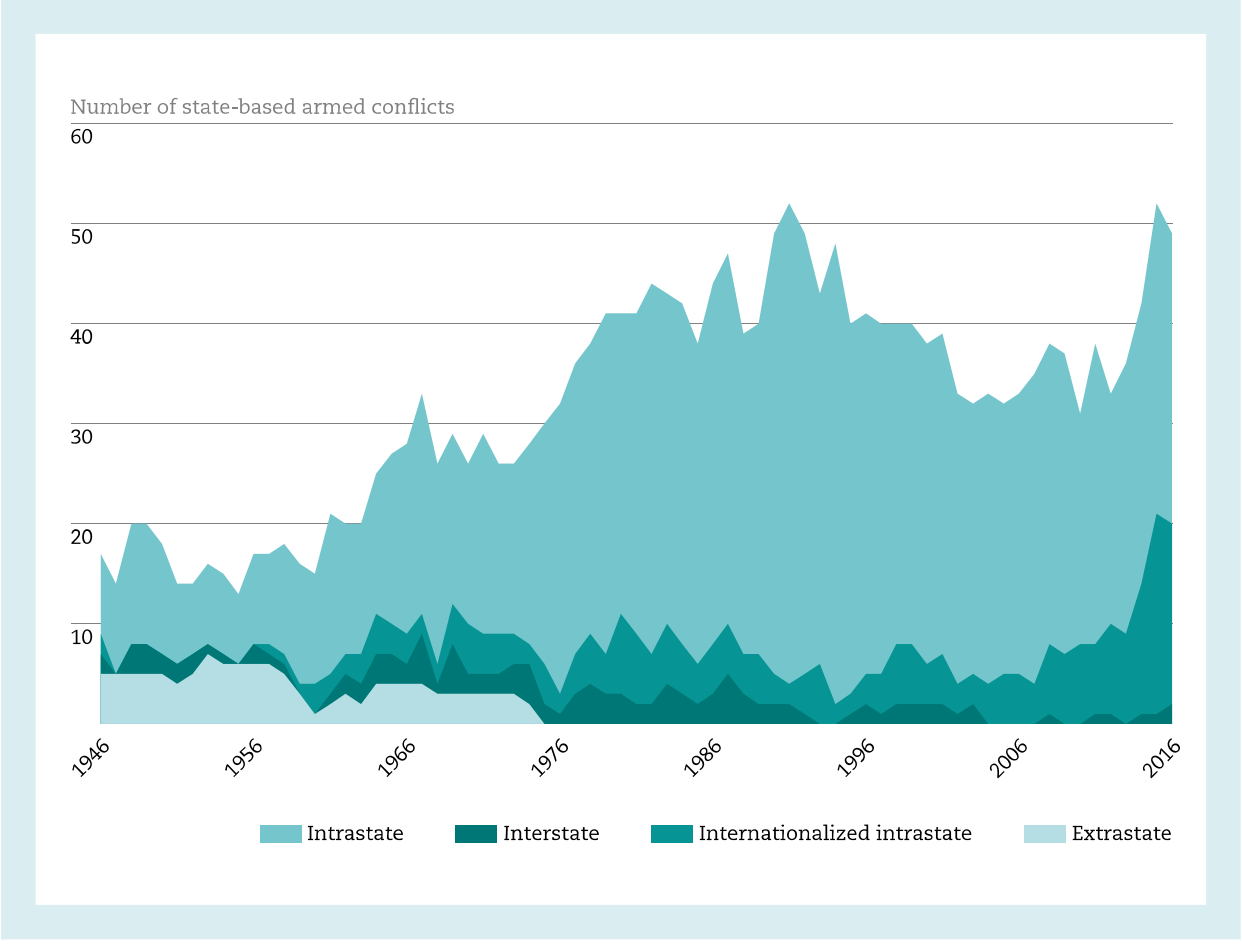
There is constant pressure, in this as in efforts to understand any concept, to simplify. But the emerging lesson about understanding and categorising fragility is that it should be allowed to remain as complex as necessary so that it accurately reflects the reality. At the same time, policy makers and practitioners will need this analysis to be further translated into practical tools and clear recommendations that constitute a mechanism for action and response. There are now several policy frameworks that can be culled to advance better responses to fragility, among them the Fragile States Principles, the New Deal for Engagement in Fragile Contexts, the 2030 Agenda for Sustainable Development, and the Sustaining Peace and refocused prevention agendas. The forward trend for fragility thus should be to capitalise on this moment of accrued wisdom and momentum from the new agendas to address the world's most intractable challenges – and to address them with concrete models for action that honour complexity and context specificity as well as simplicity.

1.2. Trend Two: Fragile contexts are increasingly battlegrounds in geopolitical contests

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Regional and international rivalries and conflicts more and more are playing out in fragile contexts. Full-fledged wars between states remain rare, but the distinction between intrastate and inter-state conflicts is now often badly blurred. Of the 47 intrastate wars recorded by the Uppsala Conflict Data Program in 2016, 18 (38%) were internationalised, "in the sense that external states contributed troops to one or more sides of the conflict" (Allansson, Melander and Themnér, 2017, p. 576[16]). This figure is exceptionally high by post-Cold War standards (Figure 1.1). It may also underrepresent the number of internationalised civil wars as it does not include conflicts where outside actors support combatants with arms, money or proxy forces rather than their own troops.

Figure 1.1. State-based armed conflict by type, 1946-2016



Source: Adapted from (Allansson, Melander and Themnér, 2017[16]), "Organized violence, 1989-2016", http://dx.doi.org/10.1177/0022343317718773.

StatLink http://dx.doi.org/10.1787/888933786781

While many studies of conflict-affected contexts now emphasise the local dimensions and small-scale conflict dynamics, the trend of internationalisation of civil wars presents new, worrisome challenges. Some research argues that external interventions make conflicts "far bloodier and more protracted than non-internationalized civil wars" (Jenner and Popovic, 2017, p. 1[17]). External actors offer combatants additional resources to sustain conflicts that would otherwise lose steam. They also complicate peacemaking by expanding the universe of interests and "veto players" involved in diplomacy and can get in the way of neutral mediation efforts (Jenner and Popovic, 2017, p. 1[17]).

Where global and regional powers support opposing sides in a civil war, a conflict can also poison broader international relations and undercut international institutions. The crisis in the Syrian Arab Republic ("Syria") has painfully illustrated all these trends since 2011. As more and more outside powers have involved themselves directly and indirectly in the multi-front conflict, the United Nations Security Council has been repeatedly deadlocked over how to deal with the crisis.

Not all external interventions in civil wars have negative consequences. The rapid French and African intervention to stop jihadist and rebel forces from overwhelming Mali in 2013 prevented the crisis from spiralling out of control. Nonetheless, protracted international civil wars are liable to create vicious cycles of international competition, serious violence and failed diplomacy. Historical cases such as the intervention by the United States in Viet Nam and by the Soviet Union in Afghanistan show that such cycles can be major drains on an intervener's resources and political capital. International decision makers need to ask why internationalised civil wars are on the rise and take steps to defuse and prevent such notably ugly conflicts.

These steps are not incompatible with policies to address the local origins of conflict. The best way to stop a civil war from becoming internationalised is to remove potential domestic sources of violence. Had the Syrian government and the opposition reached a settlement in 2011, when violence and outside interference remained relatively limited, the country's descent into chaos and the pernicious international consequences might have been avoided. Stopping violence once it starts is never simple or straightforward. There are a number of reasons to expect that more civil conflicts will become internationalised, so averting or containing this trend must be a priority.

1.2.1. What is driving the internationalisation of conflict?

There is no single explanation for the growing trend of internationalisation of civil wars, but three causes stand out:

Bad neighbourhoods. Research on earlier internationalised civil wars emphasised their link to what were called regional conflict formations or bad neighbourhoods. Intrastate conflicts rarely emerge in geographical isolation. They commonly arise in regions affected by economic weakness, ethnic grievances, cross-border criminal networks, and struggles between local and/or external powers for predominance. In the presence of such conditions, states may inspire or intervene in neighbours' conflicts to secure resources, expand their influence or secure themselves from genuine threats to their own security from overspills of violence. In recent years, the Middle East, the Sahel and Central Africa have been most affected.

The threat of transnational terrorism. Since the September 11, 2001 attacks, many powers have intervened in foreign conflicts to stem or contain what they regard as transnational terrorist threats, particularly jihadist groups. A *de facto* revision of the concept

of national self-defence expanded it to include pre-emptive strikes against existing and emerging terrorist bases (Jenner and Popovic, 2017, pp. 4-5[17]). But this is complicated by the fact that many non-state armed groups are deeply involved in local conflicts. Jihadists exploit state fragility and civil wars to expand their influence, building local alliances with less ideological forces, and the boundary between counter-terrorism and actively engaging in a civil war is often unclear or non-existent (International Crisis Group, 2016[18]).

Geopolitical power plays. In an era in which economic and military strength is becoming more diffuse, great power rivalries and regional struggles for primacy are becoming more open. These are taking place in multiple spheres ranging from maritime activities to cyberspace. Competition for influence over fragile contexts – sometimes driven by practical considerations like contests over resources or by less tangible factors such as prestige – are likely to remain part of wider international power plays. Where violent conflict intersects with fragility, this competition risks further complicating efforts to establish sustainable peace.

In worst-case scenarios, as has been seen in the Middle East, all these factors combine to fuel extremely violent clusters of civil wars. Tools such as mediation and peacekeeping have proven difficult or impossible to apply in such complex conflicts, as the United Nations and other external actors have discovered. Additional factors, such as tensions over large movements of refugees and migrants and fears of nuclear proliferation, may also push powers to intervene in other people's wars even more in the future.

1.2.2. Mechanisms for preventing and defusing internationalised civil wars

Given the limits of current international mechanisms for dealing with internationalised civil wars, what options are available for controlling this phenomenon? The simplest answer is that governments should show restraint and either avoid engaging in other countries' wars or do so within extremely strict limits.

However, in reality, decision makers in many capitals are likely to encounter overwhelming pressures to intervene in future civil wars. Simply counselling restraint will not suffice. More practicable mechanisms may include:

Regional/international approaches to conflict prevention. Where there is a significant risk of internationalisation of a civil war, outside actors who want peace must factor this risk into their preventive actions. Where conflict looms, the International Crisis Group (2016[19]) has argued, there is a need for multinational "framework diplomacy" and "policymakers should make early and concerted efforts to bring international players to the table to assess their interests, hear their analyses and develop common positions on how to act". Even if it is impossible to bridge these divisions and external actors support opposing sides in a civil war, policy makers should keep up contacts over limiting and containing the violence. At some point, it may be possible to forge an international or regional agreement on ending a conflict to guide domestic peace efforts, although cases such as Syria show how hard this can be.

Creating incentives for non-intervention. It may be possible to back complex framework diplomacy with coercive or positive steps to incentivise external actors to limit their role in a civil war. One such step might be to ensure that resources illegally extracted by intervening powers from a country in civil war cannot be sold on global markets. Another option could be targeted sanctions and military deterrence against interveners. Additionally, structured incentives, such as regional aid and trade packages or security guarantees, could be offered to actors in regional conflict formations as incentives to

co-operation. There are no guarantees of success. Experience has shown that coercive mechanisms such as sanctions may backfire, although the more positive incentives are unlikely to have full effect unless balanced with some realistic penalties.

Reinforcing the international architecture for managing civil wars. A strong case can be made for equipping the United Nations (UN) and regional institutions with tools to anticipate and mediate geopolitical competition over fragile and conflict-affected contexts. Potential steps include investing in the UN Secretariat's underdeveloped diplomatic capabilities to work with the People's Republic of China ("China"), the Russian Federation ("Russia") and other non-Western powers on civil wars; continuing to build up the African Union and other African organisations to handle high-stakes civil wars and bad neighbourhoods on the continent; and a gradual process to establish a regional security architecture in the Middle East to lower tensions among its most powerful players.

In an era of mounting geopolitical tensions, such gradual steps may seem unequal to the risks of further major violence. But efforts to manage internationalised civil wars have the potential to save lives, help states avoid collapse, and reduce frictions among global and regional powers. A prevention agenda focusing on these priorities would help secure not only countries experiencing fragility but the entire world.

1.3. Trend Three: City fragility is as important as state fragility

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Once synonymous with armed conflict and drug trafficking, Colombia has turned a corner. While still facing sharp political polarisation and the challenges of implementing a hard-won peace deal, the South American nation today is one of the region's best economic performers. A large part of the country's stability and vitality can be traced to changes in its cities. This may sound unlikely given the sky-high homicide rates of cities like Bogotá, Cali and Medellín a few decades ago. Today, these same cities are thriving, with violent crime rates plummeting to levels not seen since the 1970s.

The transition of Colombian cities away from fragility is nothing short of breathtaking. Bogotá, the capital, was rated one of Latin America's top destinations for foreign direct investment in 2017 and *fDI Magazine* called it a "City of the Future" (Procolombia, n.d.[20]). Or consider Cali, which currently features one of the fastest growing economies in the region and is ranked high for the ease of doing business. Then there is Medellín, Colombia's economic powerhouse and winner of the Lee Kuan Yew World City Prize in 2016 (Andrews, 2016[21]) and the World's Most Innovative City in 2013 (BBC News, 2013[22]), beating out New York and Tel Aviv.

Whether in Colombia or elsewhere, the pulse of cities offers insight into the overall health of countries. This is especially so in those parts of the world that have undergone an urban transition, as is the case for the Americas and Europe. Yet surprisingly little is known about the well-being of most of the world's cities, especially those growing at breakneck speed in Africa and Asia. There are real worries that many cities in poorer countries are urbanising before they industrialise, reducing their ability to provide services or integrate expanding peripheries. A small number of global cities are doing well. But hundreds more are growing ever more fragile.

1.3.1. The drivers of urban fragility are multidimensional

The incidence of city fragility has implications not just for the immediate residents but also for national, regional and even international stability. Fragile cities are not found only in fragile countries and cities that experience a rapid deterioration in their security, social and economic conditions can generate knock-on effects in ostensibly stable nations. Owing to the ways in which the supply chains and financial flows of cities are increasingly interconnected beyond national borders, disruptions experienced in one city can spread across national and international networks.

As is the case for other contexts, measuring a city's fragility cannot be readily boiled down to a single factor such as the homicide rate, a water shortage or pollution. Fragility is the manifestation of a convergence of multiple stresses, as illustrated in the OECD fragility framework (OECD, 2016[1]). When these risks accumulate, they undermine the legitimacy of a city's social contract that binds urban authorities and citizens (Muggah, 2015[23]). A disequilibrium of expectations then arises between municipal leaders and local residents, which in extreme cases can result in a collapse of services. All cities are fragile to a greater or lesser degree, and fragility is not exclusive to poorer urban agglomerations alone. Nor is fragility a permanent condition, as Colombia´s rebounding cities show.

Even so, many of the world's cities today are exhibiting worrying levels of fragility. According to a 2017 news report, the Bank of America Merrill Lynch, citing a USD 75 trillion infrastructure gap, has estimated that 80% of the world's cities are fragile (Rodrigues, 2017[24]). But fragility relates to more than just the availability and quality of infrastructure, as important as they are. A consortium of researchers, for instance, has identified 11 risk factors for study. These include the speed of population growth, levels of unemployment, income inequality, access to basic services (electricity), homicide rates, terrorism, conflict events and exposure to natural hazards (including cyclones, droughts and floods). This research extends to over 2 100 cities with populations of at least 250 000 inhabitants and examines trends over a 15-year period (Muggah, 2017[25]).

Among the findings of this research is that rapid, unregulated urbanisation appears to be a key driver of fragility. When cities grow exceedingly fast, there tends to be a higher likelihood of city fragility. One reason may be that cities that experience sprawl, such as Karachi or Kinshasa, also are more predisposed to social disorganisation and reduced social efficacy, which in turn are correlated with social tension. Cities registering slower population growth rates tend to be more stable. While the correlation between city size and crime rates is not particularly strong, city growth has a statistically significant effect on crime. In some Colombian cities, for example, a 1% increase in population growth rates is associated with a 1.5% increase in victimisation (Gümüş, 2003[26]).

Other drivers of urban fragility include inequality, unemployment and concentrated poverty (Muggah, 2017[25]). From the United States city of Baltimore to El Salvador's capital, San Salvador, criminal violence is more prolific in unequal cities compared to those featuring a more equal distribution of income and access to basic services. Social marginalisation together with real and relative deprivation in relation to income, property, service provision and social status are all connected to diminished social capital. There is also some evidence that the clustering and concentration of poverty – for instance, some neighbourhoods in United States cities where more than 40% of the population is poor – are associated with under-performing schools, poor housing and health conditions, incarceration, and higher rates of crime (Valdez, Kaplan and Curtis, 2007[27]).

1.3.2. City fragility can be aggravated and exacerbated

Policing and judicial excesses and deficits can also aggravate urban fragility (Muggah, 2017[25]). When city residents lose confidence in their police officers and the criminal justice system, they frequently resort to private, and in some cases vigilante, solutions. Where the reach of law enforcement is limited, there also tend to be higher levels of mistrust among neighbourhoods and neighbours. As has been shown in cities as diverse as Dili (Jütersonke et al., 2010[28]) and Detroit (Metzger and Booza, 2005[29]), the subjective experience of insecurity and fear has objective effects, among them whether to stay or migrate. Moreover, weak security provision has knock-on effects on other services such as electricity, water and sanitation.

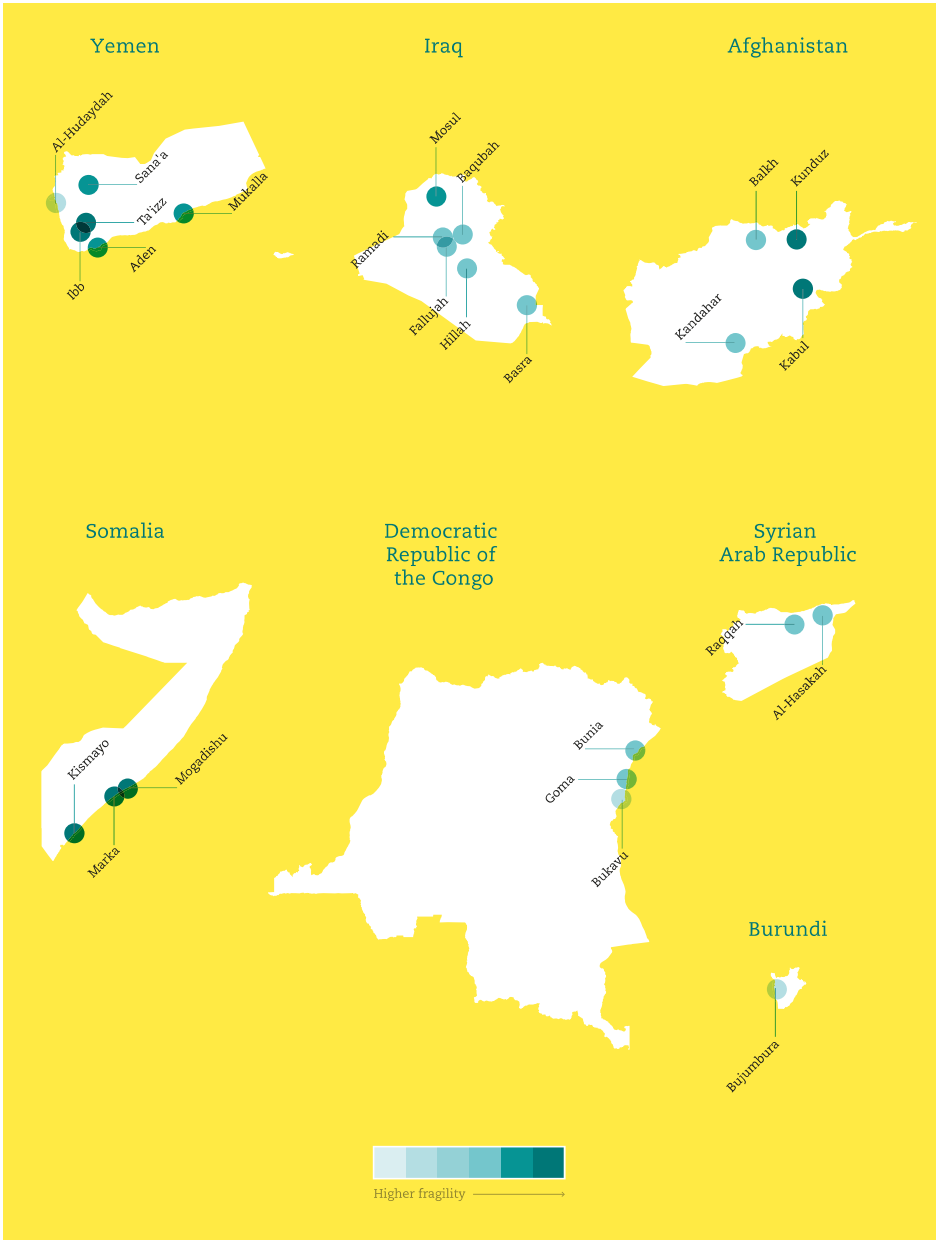
City fragility is exacerbated by exposure to sudden environmental shocks and slow-onset disasters (Muggah, 2016[30]). Flooding, storm surges, high winds, rising sea levels and extreme weather events are increasing in scale and intensity and affect urban residents and city infrastructure. The extent of these risks is chilling. A recent review of more than 1 300 cities determined that 56% of them are exposed to severe natural disasters (Verisk Maplecroft, 2015[31]). This is all the more worrying considering that over two-thirds of the world's cities are coastal and that 1.5 billion people live in low-lying coastal areas.

When all these factors are combined and compared across cities, global patterns can be more readily detected. A review of 2 100 cities found that roughly 14% of all the world's cities could be classified as "very fragile" in 2015, the last year for which comparative data were available (Igarapé Institute/UN University/World Economic Forum, 2015[32]). By way of contrast, 66% of the cities were classified as having "medium fragility" and 16% registered "low fragility" scores. African and Asian cities were often the most fragile.

The review classified cities in Europe and Oceania with the lowest fragility scores on average. The least fragile cities are largely concentrated in Australia, Canada, Japan, Norway and the United States. For example, the United States cities of Sarasota, Florida; Syracuse, New York; and Ann Arbor, Michigan, figure at the top of the list of least fragile cities, followed by Bournemouth (United Kingdom), Sakai (Japan), Canberra (Australia) and Oslo (Norway). Even so, many North American and European cities have also recorded deteriorating fragility scores over the past 15 years.

Urban fragility tends to be concentrated in a handful of countries (Figure 1.2). Three of the four most fragile cities – Mogadishu, Kismayo and Marka – are in Somalia. Six of the top 25 most fragile cities are in Iraq; five are in Yemen; and four are in Afghanistan. The drivers of fragility in these 25 cities include high rates of conflict-related violence and terrorism, above-average unemployment, and low access to basic services (Muggah, 2017[25]).

Figure 1.2. Top 25 most fragile cities, 2015



Source: Adapted from (Igarapé Institute/UN University/World Economic Forum, 2015[32]), "Fragile cities", (data visualisation), https://igarape.org.br/en/apps/fragile-cities-data-visualization/.

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1.3.3. Smarter and more resilient cities

The good news is that decision makers are waking up to the risks of city fragility. There is growing investment, not just in developing smarter cities (Muggah, 2014[33]) but also in cities that are more resilient (Berkowitz and Muggah, 2017[34]) to anthropogenic and climate threats. As shown by some Colombian cities, this requires integrated and inclusive solutions that build the capacities of a city's individuals, neighbourhoods, businesses and institutional systems to survive, adapt and grow. It is not just about preparing for future shocks, but also investing in routine and daily challenges such as social and economic inequality, poor service delivery, and uneven population growth that sap a city's ability to respond to disasters when they inevitably occur.

The lesson from Colombia is that urban fragility can be designed out. This requires building city plans and solutions that are designed inter-systemically, with co-ordination across sectors. Take the case of Medellín, which had a homicide rate of 38 per 100 000 in the 1990s – the highest ever recorded. Rather than focusing on a single risk such as threats to law and order, public authorities adopted an inter-sector approach that is known as urban acupuncture. A city's ability to overcome fragility requires re-imagining the urban landscape and accounting for multidimensional risk factors rather than one single risk factor.

1.4. Trend Four: Engagement on fragility creates tension between interests and values

Phil Vernon, independent consultant

Aid budgets are never secure, as voters' perceived interests always weigh more heavily in the balance than those of voiceless people far away. This is particularly true today, with governments under increased pressure to justify aid budgets in a climate of rising populism in many parts of the world. At the same time, embodied in development co-operation has always been the concept that it is right to help people improve their circumstances, reduce suffering, and flourish as individuals, communities and societies. The onus is therefore on governments to demonstrate that aid is effective and is spent carefully and without waste, and that it is in voters' own interests to help people elsewhere in the world. This inherent tension between interests and values is analogous to the tensions in medical practice. Hence the admonition to "do no harm" – drawn from medical ethics – has become familiar in development discourse (Anderson, 1999[35]).

This tension is accentuated around development in fragile contexts because its outcomes are more uncertain than in other contexts. Political institutions in fragile situations do not readily allow international actors to obtain the equivalent of the medical patient's consent or to be held accountable by citizens. As a result, the ethics of international development place a high value on the need for responsible and informed practice.

1.4.1. Different interpretations of value can distort the framing of aid

This phenomenon has contributed to simplistic notions of effectiveness. The emphasis on finding "what works" in fragile contexts implies that the only methods to be tried should be those that are already known to succeed. Yet the outcome of development engagements in fragile contexts is by nature uncertain, although lessons learned over the past decade have indicated these engagements should use long-term, adaptive and holistic approaches tailored to the specificities of each context and in which local people and institutions are in the lead (Vernon, 2017[36]; OECD, 2007[37]).

These approaches, however, tend to sit uncomfortably with over-simplified notions of causality and effectiveness. A truism of aid is that the most easily measurable interventions are often the least transformational, while the most transformational are often the least measurable (Natsios, 2010[38]). This is especially true in fragile situations, where structural change is essential. Development actors may know the right goals to aim for, but that does not mean it is easy to achieve them. There are no algorithms or simple linear pathways for reducing fragility.

Indeed, no one can be certain of how to achieve success in fragile contexts. History suggests that progress will happen differently in different contexts. Good aid programmes are those that encourage and accompany this evolution, applying resources and knowledge intelligently, responsively, carefully and collaboratively to maximise positive, if uncertain, outcomes. Achieving these will take many years and many donor country electoral cycles. Such uncertain, context-specific and time-specific programming lends itself poorly to the idea of sticking to what is already known to work.

The focus on "what works" feeds into mechanisms designed to demonstrate value for money. Given the scarcity of funds, it is essential to show voters and beneficiaries that money is being well spent. But value-for-money analysis is often done *a priori* as part of decision making before the impact (i.e. value) of a programme is known. This puts programmes that are appropriate for fragile contexts at a disadvantage compared with simpler and more predictable approaches elsewhere. Judging programmes solely through the lens of value for money or proven success can contribute to poor decisions, leading to funds being allocated to places where operations are cheaper and easier and to shorter term, simpler and less transformational programmes rather than to programmes that address the complex causes of fragility.

1.4.2. Fear can distort the framing of aid

Fear has become more audible in the discourse around aid to fragile contexts. In these times, politicians may benefit by framing aid as a way to keep citizens at home safe from uncontrolled migration or terrorism. This helps to reassure voters that their governments are keeping them safe and also helps to justify aid in the public mind.

But this framing, when translated into practice, can also distort development programming. An example is the use of aid to keep potential migrants where they are. Much aid to Syrian refugees is tied to preventing them from leaving Jordan, Lebanon and Turkey, which may not be the best solution for them as some may never be able to return home, whatever the outcome of the war (Supporting Syria and the Region Conference, 2016[39]). Nor is this approach necessarily the best policy for countries hosting these refugees, where the rapid influx of large numbers of refugees has resulted in the countries' citizens being as concerned as their counterparts in wealthier nations about what this will mean for their livelihoods and future.

Ambitions that aid will somehow solve the migration issue in the short term are misplaced. Research shows that development progress tends at first to stimulate migration rather than deter it, and remittances from migrants are often critical to the resilience of people back home (Clemens, 2014[40]). Funds that seek to reduce migration can therefore risk undermining both development progress and coping strategies. Moreover, both experience and common sense suggest that surge funding of this sort is unlikely to succeed in fragile places with underdeveloped institutions and limited absorption capacity.

Fear of terrorism is also influencing development programmes and more of them are likely to be expected to address the risk of violent extremism in some way. This is worrying on several levels. Much has yet to be learned – first, about drivers of violent extremism and second, about effective responses to it. Yet, many projects appear to have been rushed into operation. Lessons learned thus far suggest that reducing extremism calls for nuanced, long-term programming approaches designed to build social cohesion and based on a detailed understanding of local conditions. These also need to operate in partnerships of trust with communities and especially with the people most likely to be at risk and who are not always easy to identify (Royal United Services Institute, 2017[41]). The right programmes can take many years to develop and succeed. Their impact, though, can be undermined by the heavy-handed approaches of security actors, which have been found to be a major source of grievance (UNDP, 2017, p. 65[42]). Some of these actors have been trained and supported by the same donors who are providing development aid.

Fear and narrow definitions of value are just some of the ways in which development assistance is being pushed into uncomfortable territory where it is becoming harder to find the balance between short-term perceived interests and altruism. The distortion of aid by extraneous factors will always occur (Klouda, n.d.[43]), especially as the proportion of international aid programmed in fragile contexts continues to increase (OECD, 2016[1]). The foregoing analysis suggests that for international interventions to be effective in fragile and conflict-affected contexts, they must be clearly and consistently framed above all to reduce fragility and foster resilience. Making this a central pillar means that other factors can be clearly judged by whether they will contribute to or undermine this goal.

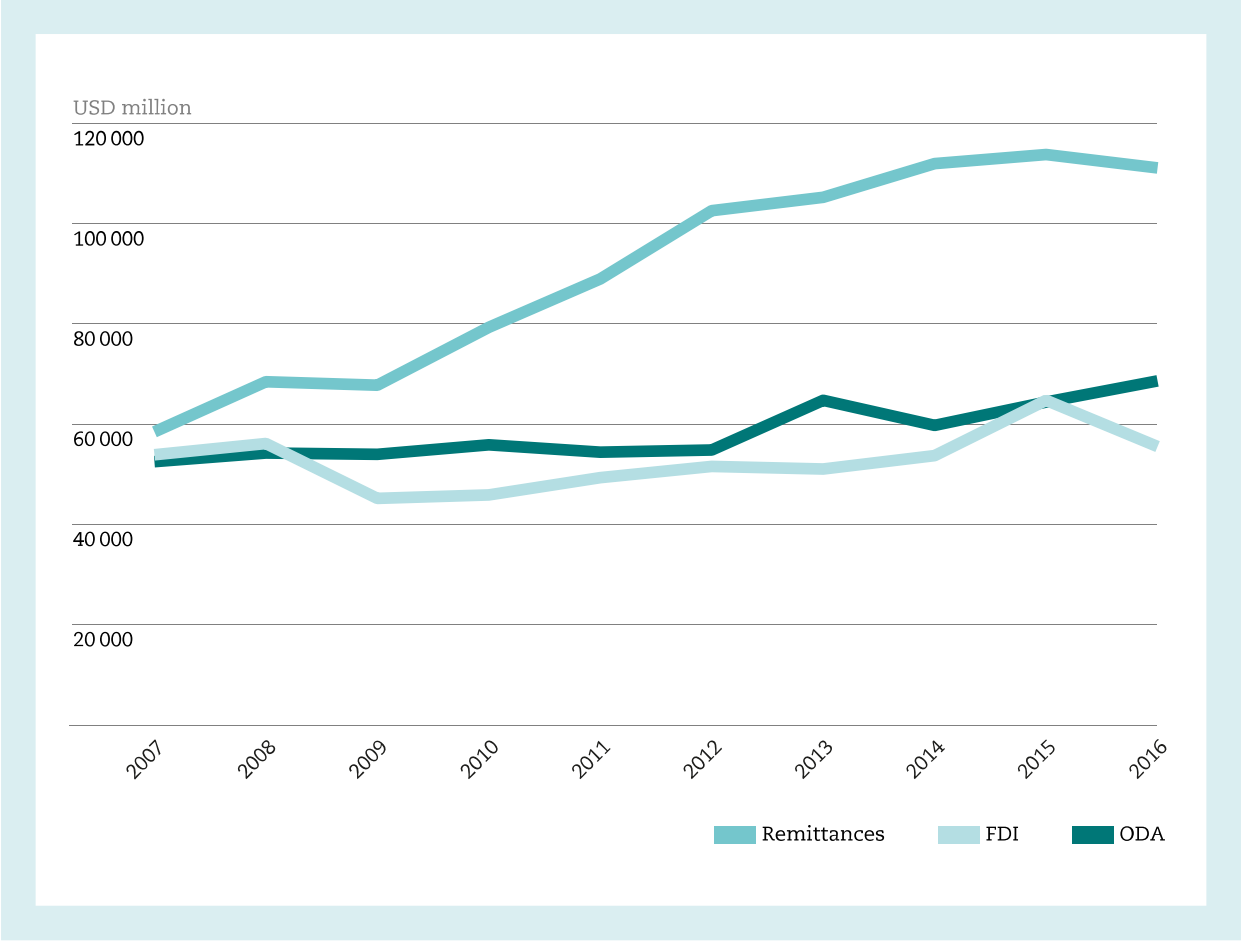
This also would allow value-for-money analysis to factor in the need for programmes to be intentionally adaptable, long-term, holistic and tailored to local specificities within a non-linear view of change. It would also allow greater acknowledgement of both the higher cost of operating and the higher risk of failure in such contexts. Because aid in fragile contexts will remain particularly prone to ethical dilemmas, more transparency about the challenges of working in these environments would help to move the debate about development and aid onto a more stable footing. Finally, it would be timely to provide more nuanced guidance to officials within donor governments, who are often struggling with the tension between values and interests, to help them navigate this difficult terrain. It is important to find a balance between these matters, because if aid fails in the fragile contexts where need is greatest, then it could undermine the case for providing aid at all.

1.5. Trend Five: Fragility will inform aid in the future

Duncan Green, London School of Economics and Political Science

If aid is primarily aimed at reducing extreme poverty and suffering, then its future lies in fragile contexts. Recent research predicts that poverty will continue to fall in stable settings but will rise in fragile and conflict-affected settings, with poverty in these contexts overtaking the rest of the world by 2020 and then pulling away, effectively bringing an end to the current era of rapid poverty reduction (Kharas and Rogerson, 2017, p. 28[44]). In the same vein, this report anticipates that by 2030 some 80% of the world's poor will live in fragile contexts. As shown in Figure 1.3, aid to fragile contexts has been rising steadily although not dramatically over the last decade, increasing to USD 68 billion in 2016 from USD 52 billion in 2007.

Figure 1.3. Financial flows to fragile contexts: Remittances, foreign direct investment (FDI) and official development assistance (ODA), 2007-16



Sources: Foreign direct investment and remittances data from (World Bank, 2018[45]), "Foreign direct investment, net inflows (BoP, current USD)", *World Development Indicators* (database), https://data.worldbank.org/indicator/, converted to USD, 2015 constant prices; (World Bank, 2018[46]), "Personal remittances, received (current USD)", *World Development Indicators* (database), https://data.worldbank.org/products/wdi, converted to USD, 2015 constant prices. Net official development assistance data from (OECD, 2018[47]), "Aggregate DAC Statistics Table DAC-2a: ODA Official Development Assistance: net disbursements", *OECD International Development Statistics* (database), http://stats.oecd.org/qwids/.

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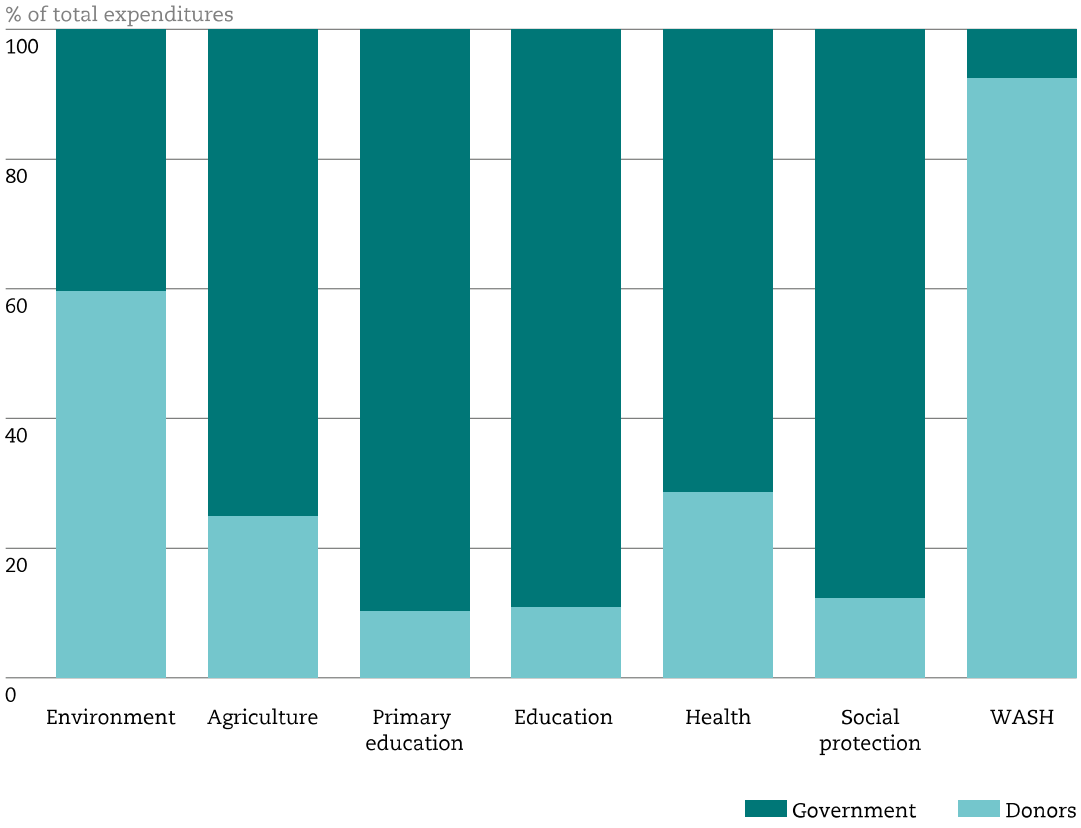
1.5.1. Fragile contexts present new challenges for aid

The increasing concentration of aid in fragile contexts lays bare the difficulties facing donors. First, these are the hardest settings in which to achieve results and the most likely to produce failures and scandals. In addition, the institutional design of aid agencies often prevents them from adapting their way of working to fragile contexts. For instance, security concerns mean that staff of the International Monetary Fund cannot even visit some fragile settings. Other donor staff who are able to work in fragile environments face daunting restrictions on their movements and contacts; many are confined to heavily fortified compounds with little access to partner governments and still less to non-state players who might be able to inform decisions. Staff turnover in such environments is often high. Finally, funding cycles are often dominated by short-term humanitarian responses, making it difficult to design longer-term strategies needed to address the fragility and its deeper causes.

The challenges to traditional aid approaches run even deeper, however. Bilateral and multilateral aid agencies have traditionally seen sovereign governments as their natural partners and/or arenas of action. But in fragile contexts, states are often weak or predatory. Many other actors fill the partial vacuum of politics and administration, among them traditional leaders, faith organisations, social movements and armed groups. The actions of individuals and organisations are constrained by these different facets of what is considered public authority, and in ways that are poorly understood by researchers and still less by aid agencies. Furthermore, the instruments of aid – funding cycles, logical framework approaches, project management, and monitoring and evaluation – assume a level of stability and predictability that is often absent in such settings.

Overall, the level of aid dependence of governments in fragile contexts has fallen back slightly over the past several years.[4] The relationship of aid to the delivery of essential services in these places raises a number of complex questions including whether aid creates incentives or disincentives for government ownership of these services. In best-case scenarios, the importance of aid can be exaggerated. In Mozambique, for example, health and education are overwhelmingly government-funded, with only water, sanitation and hygiene (WASH) largely aid-funded (Figure 1.4.). But in worst-case scenarios, donors' willingness to fund basic services can absolve the partner government from doing so. In South Sudan, for example, it is reported that donors fund 80% of health care and that the government funds just 1.1% (Foltyn, 2017[48]).

Figure 1.4. Donors and government spending by sectors in Mozambique, 2016



Source: Adapted from (Government Spending Watch, 2018[49]), "Government Spending Watch" (database), www.governmentspendingwatch.org/spending-data.

StatLink http://dx.doi.org/10.1787/888933786838

One recent response to the difficulties faced by development actors in fragile contexts is to turn to the international private sector for help. However, international companies face many of the same problems in operating in these difficult settings. High levels of risk and unpredictability do not encourage long-term investment and the possibility of corruption and abuse poses serious reputational risks to brand-conscious companies.

Companies could seek to offset risk through public-private partnership agreements with donors and/or governments in fragile contexts. However, some in the development community and private sector have raised concerns about the higher cost of capital, the lack of savings and benefits, complex and costly procurement procedures, and inflexibility of such agreements in these settings (Green, 20 November 2015[50]).

International companies are most likely to take on the risks of operating in fragile contexts when returns are commensurately high. Extractive industries drill and mine in many such places. But extractives as a sector are capital intensive, create relatively few local jobs, and have a chequered record on human rights and environmental protection.

Local small and medium-sized enterprises (SMEs) are the one part of the private sector that undoubtedly has a great deal to contribute to livelihoods and well-being in fragile contexts. However, SMEs often find it hard to navigate the complicated systems to access funding.

1.5.2. Options for improving the scale and impact of financial flows to fragile contexts

In trying to find effective ways to reduce poverty and vulnerability in fragile contexts, development actors increasingly accept that they must learn to "dance" with the system (Meadows, n.d.[51]), which is a matter of grappling with the messy realities of power and politics and navigating the unpredictable tides of events, opportunities and threats. This often means abandoning or significantly adapting approaches to statebuilding and best practice developed in more stable settings.

Aid professionals have responded to these challenges by setting up networks to find ways of providing aid and support that function better in fragile contexts. One is the Doing Development Differently (DDD) network, whose 2014 manifesto set out its proposed way of working (Doing Development Differently, 2014[52]).

DDD approaches give weight to understanding the specificities of the local context in order to be "politically smart [and] locally led" (Booth and Unsworth, 2014[53]) and to "work with the grain" (Levy, 2014[54]) of existing institutions. Responses to complex, messy problems need to be iterative, as donors and implementers adapt to changing circumstances and to lessons learned as their work progresses. These approaches are increasingly described as adaptive management.

Several new research programmes also are exploring the role of aid in fragile contexts and the efficacy of these new approaches. A recent analysis of theories of change among donors who seek to promote social and political accountability in fragile settings found an interesting bifurcation in thinking:

> One current of thinking advocates deeper engagement with context, involving greater analytical skills, and regular analysis of the evolving political, social and economic system; working with non-state actors, sub-national state tiers and informal power; the importance of critical junctures heightening the need for fast feedback and response mechanisms; and changing social norms and working on generation-long shifts requiring new thinking about the tools and methods of engagement of the aid community. But the analysis also engenders a good deal of scepticism and caution about the potential for success, so an alternative opinion argues for pulling back to a limited focus on the "enabling environment", principally through transparency and access to information. *(Green, 2017[55])*

In addition to the ideas outlined above, several additional options are worth exploring to try to improve the developmental contribution of financial flows in fragile contexts:

Diasporas and remittances As Figure 1.3 shows and as Chapter 6 discusses further, remittances to fragility-affected countries already eclipse official development aid and foreign direct investment. They also are expected to continue to rise faster and more steadily than either of these other sources. Diasporas that send the remittances also have good knowledge of local contexts and how to support development. Some donors are exploring whether instruments such as diaspora bonds can improve the developmental impact of such flows (Famoroti, 12 April 2017[56]).

Domestic resource mobilisation. Revenue raised from taxation and royalties on natural resources is growing in importance with respect to aid flows, but in many fragile contexts remains at low levels as a percentage of gross domestic product (GDP). Domestic resource mobilisation offers a way to further reduce aid dependence and strengthen the social contract among citizens, the state and the private sector. Until now, however, aid agencies have failed to recognise its potential. Aid figures reported to the OECD suggest only 0.2% of aid to places affected by fragility or conflict in 2015 and 2016 – a trifling USD 116 million in 2015 and USD 110 million in 2016 – was dedicated to technical assistance for domestic resource mobilisation.[5] Chapter 7 explores this subject in greater detail.

Localisation. Pushing power and decision making as close as possible to local levels makes good sense in fragile contexts to deal with the enormous variations in conditions over space and time. So far, the localisation agenda has been more apparent in statements than action, however.

1.6. Trend Six: Addressing fragility hinges on forging inclusive social contracts

Seth Kaplan, SAIS/Johns Hopkins University and Institute for Integrated Transitions

Many policy makers working to reduce fragility and violent conflict consider the social contract a powerful tool to enhance peacebuilding and statebuilding practice. But efforts to build inclusive social contracts in fragile settings often reflect "an incomplete and inadequate understanding of the typically fragmented and highly contested politics of fragile societies beyond the formal representatives of their governments and administrations" (van Veen and Dudouet, 2017[57]). A more comprehensive approach is needed that addresses the social divisions and weak institutions that plague fragile contexts.

While social contracts underpin state-society relations and strongly influence a country's stability and development prospects, policy makers have historically interpreted these contracts too narrowly. That is, they have framed their approach as if the state was a highly capable, monolithic entity and society was highly cohesive. Neither is true in fragile contexts. A more comprehensive approach, one that takes into account the challenges faced in fragile settings, would not start with such assumptions. Instead, it would emphasise the importance of subnational groups (often based on identity) in modern conflict and society-society relations (among these groups). Such an approach also would emphasise development of impersonal, effective institutions that can work equitably across different groups, classes and regions and across a wide range of policies (in areas such as education, economy, resource allocation and decentralisation) promoting inclusiveness, cohesion and equitable economic development.

1.6.1. States and societies are not uniform

Society is not a cohesive entity forming a single political community in fragile contexts. Particularly in fragile contexts, society tends to be fractured into various groups that often are based on ethnic, religious, clan or other identity. These groups typically have little mutual trust; different perceptions of history and ongoing dynamics (including what others might view as fact); and different concepts of the legitimacy of rules and public authority including the state. Fragility rises or declines with the ability of such groups to work together, especially in the pursuit of public goods. The level of co-operation among groups affects how security apparatuses, administrative bodies and legal systems perform. The

more cohesive the society, the more likely these institutional entities will work as advertised, inclusively and without bias.

Relationships among identity groups are much affected by history. Historical legacies may influence the actions of leaders, levels of trust and perceptions regarding a wide range of issues. Any lingering resentment or trauma may make co-operation harder to achieve, as was evident in conflict-prone contexts such as the Balkans and Africa's Great Lakes region. The chances that divisive leaders may emerge are greater when historical grievances are unresolved. Such legacies are hard to change, especially in the short term.

In fragile settings, horizontal society-society dynamics have an important impact on how vertical state-society relationships evolve. They also influence whether a social contract can be fashioned and the nature of any contract that might ultimately be achieved. In such contexts, developing a social covenant or some other form of pact that brings together various ethnic, religious, clan and ideological groups may be essential to progress on other fronts. All else being equal, once a society settles on shared, fundamental principles and values – for instance, who is or can become a citizen, what makes a government legitimate, or how to accommodate myriad ethnic, religious and regional identities – it is more likely to be able to forge a sustainable social contract. This is particularly the case when institutions are unable to equitably enforce rules and commitments. A positive example is what Tunisia has done in the years since its uprising and political transition in 2011. In contrast, societies that have stark differences in opinion over fundamental principles and values, such as Libya, Syria and Yemen, are likely to struggle to forge a consensus across groups on the type of social contract and government they need.

States, the other component of the social contract, typically do not work uniformly across territories in fragile contexts. The effectiveness of institutions and their ability to serve different parts of society equitably vary across location and entity. Different parts of a government work differently for different people, sometimes based on wealth or identity and sometimes on relationship and corruption. Such differences are apparent between urban and rural areas and between the centre and outlying areas. What is coherent and functional in one place may be incoherent and dysfunctional in another. Furthermore, factors such as limited or non-existent infrastructure, a lack of adequately trained managers, and insufficient or unstable revenue sources hamper the ability of institutions to project authority across all of a state's territory.

1.6.2. Social contracts require effective leaders and impartial institutions

In some cases, leaders intentionally keep state institutions weak or biased. They may direct a disproportionate amount of resources to regions where their supporters live, for instance, depriving other areas in the process. They may deliberately keep the judiciary, electoral commission, finance ministry and other pivotal agencies weak in order to stay in power or harvest government resources for their own use. In these cases, weak institutions are as much a product of political calculus as of a lack of human, financial and technical resources. Because of how the incentives in these contexts shape behaviour, fragile environments struggle to break out of the vicious cycle whereby weak institutions encourage fickle or biased leadership that works to undermine the institutions that could challenge its authority.

Ultimately, impersonal, capable institutions are needed to achieve fairness. These are institutions that encourage leaders to work on behalf of all parts of a society and make all groups in that society feel they have a set of known and enforceable rights and remedies that cannot be overturned arbitrarily or ignored. In this sense, a country can never have a

robust social contract that is genuinely inclusive until its institutions work equitably for everyone, the powerful included.

1.6.3. Exclusion and marginalisation must be reversed

Exclusion and marginalisation are to some extent natural products of the dynamics in fragile contexts. Those with power naturally prioritise their own supporters over everyone else and institutions naturally favour those with power or wealth over everyone else. Reversing this dynamic calls for building greater cohesion across groups and strengthening institutions so that society and the state work more inclusively. These can boost the chance for a robust social contract.

While elections and economic and social reform may be essential to social contract formation, they are rarely sufficient. Too often, they also are overemphasised at the expense of policies that address the deeper, more fundamental dynamics that influence a context's social cohesion and institutions. Indeed, elections and reforms often produce much less change than expected and can be as much a hindrance as a help to push progress towards an inclusive and legitimate social contract. In Sri Lanka, for example, the Sinhala majority has repeatedly prevented the kind of compromise that would satisfy the minority Tamils. In Kenya, Nigeria and Ukraine, electoral competition for political power has repeatedly increased social divisions rather than healed them. In Guatemala, democracy has repeatedly failed to empower disadvantaged groups.

Social institutions including civil society organisations (CSOs) can play an important role, negative or positive, in the forging of a social contract. They can strengthen, or weaken, social cohesion. They can enhance the accountability of state institutions or work to enhance their partiality. The shrinkage of civil society space in recent years, which typically results from the perception of elites that CSOs are a threat, reduces their scope to have any influence at all.

The state-society relationship, and perception of the legitimacy of public authority and the national rules system (i.e. the state), can vary tremendously by group. Groups that benefit – or perceive that they benefit – from public resources and the rules of the game can have significantly better relations with the state and better perceptions of legitimacy than those who do not.

Social contract concepts are likely to continue to inform actors working on fragility, especially international actors. They will see better results the more they take into account the unique dynamics that drive local contexts in a way that addresses these issues. Policies and projects should prioritise building social cohesion, reducing horizontal inequalities, strengthening the relationships among groups, and ensuring institutions work equitably across different parts of a society and territory. If they do not, international actors risk achieving short-term gains such as higher growth and improved macroeconomic indicators at the expense of long-term prospects, as happened in many Arab countries in the years before the 2011 uprisings. Development and socio-economic gains must be inclusive and broad-based to be sustainable.

Box 1.2. Social capital and fragility

The OECD defines social capital as "networks together with shared norms, values and understandings that facilitate co-operation within or among groups" (OECD, 2001, p. 41[58]). Security, political settlement, infrastructure, financing and human capital all pose major challenges. But the absence of shared networks and norms for co-operation is arguably the biggest underlying deficit in fragile contexts. It results in broken social contracts, inter-group divides, and weak and/or illegitimate institutions for mediating conflict, sharing power, building resilience and promoting inclusive development.

In the late 1990s, the World Bank's social capital initiative placed emphasis on a "synergy view" of social capital that incorporated a focus on communal associations, social relationships, local perceptions and civic groups within broader considerations of institutional reform and political economy (Woolcock and Narayan, 2000[59]). This initiative informed the gradual creation of a holistic, risk-informed framework for promoting social capital with a focus on three core functions:

- Bonding: Efforts within like-minded communities to strengthen social ties, promote self-help approaches, share information and assets, pool funds, and provide psycho-social support.
- Bridging: Efforts to bring together different communities with fewer shared interests to maximise capacities in the face of shocks and stress and to mend divisions that can lead to conflict.
- Linking: Efforts to connect communities and local networks with formal institutions and governments to access services, share information, and strengthen trust and responsive action in the face of crisis.

Social capital and social cohesion are often used interchangeably. Social cohesion also may be presented as a contributing factor to social capital or vice versa. Each is ultimately concerned with societal trust, norms, co-operation, inclusion and institutions.

The growing convergence between fragility and resilience approaches has prompted deepened interest in social capital. Mounting evidence shows that bonding, bridging and linking activities foster resilient capacities to cope with complex risks and exposure to conflict, price shocks and disaster (Aldrich, 2012[60]; Frankenberger et al., 2013[61]; Bernier and Meinzen-Dick, 2014[62]). Social capital is a driving force behind resilience approaches; resilience, at the same time, has become central to the definition of fragility as a condition of higher risks and insufficient coping capacities for dealing with them (OECD, 2016[1]).

Separate analysis by Fukuyama (2005[63]) has shown the critical role that social capital plays in promoting statebuilding and social contracts by addressing co-ordination, commitment and accountability problems in the absence of strong formal institutions and incentives.

Social capital is best pursued as a comprehensive approach aimed at maximising co-operation and hedging against negative outcomes. For example, bonding without bridging can lead to insulated communities that face greater risk of intercommunal conflict. Bridging without bonding leads to shallower forms of co-operation. Bonding and bridging without linking confine efforts to the grassroots level in the absence of higher levels of financial support, leadership, information sharing or state legitimacy.

Linking without bridging can lead to patterns of clientelism and patronage without inclusion or benefits for wider communities.

Pursuing comprehensive efforts for building social capital will require a major shift away from the current aid approach of providing localised, short-term, one-off projects and towards scalable solutions that can perform bonding, bridging and linking functions across wider geographies and vertical levels of government (Cooley and Papoulidis, 27 November 2017[64]). These efforts must crowd in expertise in peacebuilding, resilience, political economy, development, humanitarian assistance and conflict resolution. This expertise then should guide iterative, adaptive and politically smart applications of bonding, bridging and linking in a diverse range of fragile contexts. Such efforts can also contribute new tools for measuring social capital, which remains challenging.

Contributed by Jonathan Papoulidis, World Vision and Stanford University

1.7. Trend Seven: New attention to gender stereotypes in fragile contexts is required

Henri Myrttinen, International Alert

Since the adoption of United Nations Security Council Resolution 1325 on Women, Peace and Security in 2000, global policy frameworks on conflict, peace and security have recognised how the impacts of conflict and fragility on people and societies are mediated in multiple ways through gender. The gendered social expectations and roles assigned to women and girls, men and boys, and those with other gender identities mean that they are in different positions of power and face different kinds of vulnerabilities in situations of conflict and fragility (Myrttinen, Naujoks and El-Bushra, 2014[65]; Myrttinen and Daigle, 2017[66]; Wright, 2014[67]). Pre-existing disparities and inequalities are often exacerbated. However, conflict and fragility also can simultaneously create new opportunities and spaces for people to challenge social norms, roles and power structures. Taking on new roles can sometimes be voluntary, as when women choose to join armed groups. At other times, the process is born of necessity, for example when women have to take on greater social and economic responsibility for the welfare of their families in the absence of men.

As important as gender is, it is not the only variable that needs to be considered in fragile contexts. Neither women nor men constitute a homogenous category. Gendered positions of power and the expectations placed on people rely on other factors such as age, class, sexual orientation, ethno-religious background, disability and marital status. Gendered social dynamics also do not play out independently of each other. Rather, the lives of men, women and those with other gender identities are intimately and inextricably linked. They unfold in relation to each other. These insights have been thoroughly discussed in research.

Nonetheless, as highlighted in recent research by OECD Gendernet and the International Network on Conflict and Fragility (INCAF) (OECD, 2017[68]), policy and programming in conflict-affected and fragile settings tend to approach gender narrowly, treating it as a technical add-on rather than as a starting point for analysis and programme and policy design. There is also a tendency to view women and women's issues as somehow separate from the concerns of the general population, although women in most societies are in a slight majority and all societal issues affect women as well as men. Furthermore, stereotypes of women as innately non-violent and vulnerable and men as violent and resilient continue to dominate the way gender is conceptualised, despite extensive evidence that these are simplistic caricatures. Indeed, recent research is exploring often-overlooked

facets of gender including the vulnerabilities faced by men and boys in situations of conflict and the active roles played by women and girls in perpetrating armed violence.

1.7.1. Men and boys as vulnerable

Conventional wisdom says that women and children are among the most vulnerable in situations of conflict and fragility along with elderly men, people living with disabilities, and people of diverse sexual orientations and gender identities. While these groups indeed face multiple vulnerabilities, this conventional classification does them a disservice when it disregards the sometimes vastly different needs and vulnerabilities of different women, men and others. The needs of a child of an urban, upper-class family will differ from the needs of an elderly person with a disability living in a rural area. Furthermore, taken together, the categories of people mentioned above comprise, depending on the context, between two-thirds to three-quarters of a society's population. This hardly allows for a prioritisation of the *most* vulnerable.

These blanket approaches to identifying the most vulnerable in a society also often assume that young adult, able-bodied men, particularly those without families, have few or no vulnerabilities. New research on Afghan and Syrian refugee men, however, paints a different picture and shows the many vulnerabilities they face. These include exploitation in the labour market, police harassment, lack of access to services because these are geared towards other groups, and sexual violence, abuse and exploitation (International Rescue Committee, 2016[69]; Khattab and Myrttinen, 2017[70]; Turner, 2016[71]; Myrttinen, forthcoming[72]). These vulnerabilities are worsened by men's internalised expectations – to be tough, stoic and independent, to not seek help, and to fulfil the role of breadwinner for the extended family by sending remittances. Service providers often do not understand these vulnerabilities and lack the skills and resources to deal with them.

1.7.2. Participation of women and girls in armed violence

The vast majority of armed actors are men and, to a lesser extent, boys. But women and occasionally girls also are also direct and indirect participants. This is evidenced by women's participation in substantial numbers in the Maoist People's Liberation Army in Nepal, the Kurdish People's Protection Units (YPG) in Syria and the Revolutionary Armed Forces of Colombia (FARC). They make up an estimated 30-40% of these three forces. However, it is not only in organisations that have at least rhetorically embraced gender equality that women are active as combatants, supporters or recruiters. In recent years, women have also voluntarily joined groups that seek to roll back women's rights, social space and mobility such as violent far-right and neo-Nazi groups in Europe and North America and Islamist groups like the so-called Islamic State and JAS (Boko Haram) in Nigeria (Fangen, 1997[73]; Milton-Edwards and Attia, 2017[74]; Lakhani and Ahmadi, 30 November 2016[75]). Substantial numbers of women and girls also are members of violent armed gangs, such as the Central American *maras*.

Certainly, not all women and girls, nor for that matter all men and boys, join such groups voluntarily. However, dominant narratives highlighting only abduction, coercion or brainwashing of women members obscure the fact that women, as much as men, have grievances and political convictions that may compel them to take up arms and that they also do so for other economic or personal reasons. These reasons may include going against dominant gender norms, escaping abusive or repressive family structures, protecting themselves and their family, and finding a new sense of purpose and belonging.

Assumptions that women never join armed groups voluntarily or that, if they do, they were manipulated by men, amount to a denial of women's agency. Such assumptions also have direct consequences in both peace processes and peacebuilding. Treating women as innately peaceful or solely as victims of war, even when they are former combatants, is positive discrimination and has often led to the sidelining of women (Vinas, 2015[76]). In peace negotiations, which tend to focus on bringing armed actors to agreement on a settlement, women often are either absent or relegated to secondary negotiating tables to discuss what are termed women's issues. In reintegration processes, too, women combatants have been routinely sidelined, lumped together with other women victims (as in Nepal) or shunted into vocational training programmes that reflect gendered stereotypes more than the women's skills or wishes. Similarly, in terms of preventing violent extremism, simplistic approaches that focus mainly on using mothers as their sons' de-radicalisers, potentially place these women in danger; these approaches also overlook women's multiple roles in violent extremism and complex reasons for participating (Satterthwaite and Huckerby, 2013[77]).

1.7.3. A more effective way forward to overcome gender stereotypes

Conflict- and fragility-affected situations and post-conflict settings should be approached from a comprehensive, nuanced and context-sensitive gender angle. This allows for a deeper understanding of social dynamics and thus improved and effective policy responses to situations of conflict and fragility. A gender angle means breaking away from conventional stereotypes and examining how different women, men and others face new threats as well as new opportunities. In practice, it means seeing men and boys as potentially vulnerable due to dominant social norms. It also means starting to see women, girls, and those with diverse sexual orientation and gender identity not "as objects for charity [but rather as] rights-bearers" who possess social and political agency including, in some cases, the agency to take up arms (Davis, Fabbri and Alphonse, 2014[78]).

It is also necessary to move away from quantitative approaches to vulnerability – such as asking who may be *most* vulnerable, especially if these are based on pre-determined assumptions rather than research – and to qualitative understandings where there is an examination of how and why different people are differently vulnerable in a given situation.

1.8. Trend Eight: Development must deliver on hope

Sara Batmanglich, OECD

In recent years, policy proclamations and programme documents related to fragility and conflict have frequently used the term "root causes". It has become increasingly popular as shorthand to describe factors that lead to a variety of complex effects such as conflict, migration and extremism. In rushing to find solutions, root causes are often framed in relation to what the international community can do to address them. Thus, explanations of why these root causes exist tend to remain general and focused around a lack of something – for instance, a lack of jobs. However, this approach neglects to take into consideration the possibility that international development, in its current articulation, has proven inadequate to address what might be termed the deeper taproot causes, such as emotions and feelings, from which the shallower root causes grow.

There is a common theme running through much of the disaffection that the development sector is currently hearing from people in fragile contexts, those who are dissatisfied with the results of decades of aid for their countries and their communities. While development

indicators in many places show progress on multiple fronts – better roads, schools, hospitals, access, poverty reduction, etc. – these laudable successes have obscured a notable, less easily measured failure. Development may well have delivered these benefits to varying degrees. But for many people, it has failed to deliver on hope: hope for a better future for themselves and their families, and hope for an environment that fosters, accommodates and encourages their dreams and aspirations and those of their children. This is of central concern to fragility because, with hope absent, the opportunity costs of decisions are drastically reduced, leaving little to stand in the way of people, and especially young people, making harmful or dangerous choices.

1.8.1. A failure to understand the implications of hope and aspirations

While thwarted ambitions were part of the discussion around the Arab Spring, the development community still has not internalised the implications for how it can better understand and support the realisation of those ambitions through development programming. This is despite widespread evidence of the critical role that hope and ambition play in shaping people's perceptions of their well-being. Assessment tools often overlook perceptions, although these can considerably impact how people experience satisfaction or dissatisfaction and therefore can inform subsequent consequences (UN/World Bank, 2018[79]). The migration literature echoes these aspects particularly strongly, finding that feelings of "inescapable stagnation" (Carling and Talleraas, 2016, p. 7[80]) and a "lack of hope in local futures" (Carling and Talleraas, 2016, p. 36[80]) lead people to take risks in order to find a better future elsewhere. Despite the vast differences in contextual dynamics, there are striking similarities between the goals and aspirations of refugees from places as diverse as Cameroon, Jordan, Malaysia and Turkey. (Barbelet and Wake, 2017, p. 11[81]). Displaced people across six different contexts echoed this same lack of optimism about meeting their aspirations, with recent field research finding that the overwhelming majority of people who are receiving humanitarian aid do not feel they are on an empowered trajectory towards self-reliance (OECD, 2017[82]).

Education is perhaps second only to safety as a central input into decision making about whether to stay or to go, and even when adult refugees have lost hope for their own lives, they transfer their aspirations onto their children (Barbelet and Wake, 2017, pp. 11-12[81]). Education also has the valuable potential to be able to reduce the appeal of groups that prey on despair and resentment, with some research warning that extinguishing the hope that results from learning creates conditions that perpetuate inter-generational poverty, fuels instability and undermines prospects for recovery (Watkins and Zyck, 2014, p. 2[83]).

Hope, or the lack thereof, plays a similar role in areas afflicted by high levels of violence. Youth are especially susceptible to reacting when they feel abandoned by their government or their society. Central American *maras*, or gangs, provide a feeling of belonging and sense of purpose to youth who have so little to look forward to that they feel, as one Salvadoran anthropologist put it, "born dead" (International Crisis Group, 2017, p. 12[84]) A lack of community-level mechanisms that are sufficiently empowered and supported to deal with the scale of desperation leads to a situation where youth, feeling doubly disserved by both state and traditional authorities, have "less and less to lose" (Sears, 2017, p. 17[85]). This sentiment is far from unique to developing countries. A community leader from Los Angeles has summed up the violence he sees as being about "a lethal absence of hope" and added, "Nobody has ever met a hopeful kid who joined a gang" (Cowan, 2017[86]).

Frustrated aspirations contribute to perceptions of exclusion and marginalisation, and these are now increasingly recognised as conflict risks (UN/World Bank, 2017, pp. 16-17[87]).

Unfortunately, people who understand how to market mobilisation as an antidote to grievances have long recognised these sentiments as opportunities. Mobilisation, and the belonging that follows it, becomes an attractive beacon in an otherwise bleak and hopeless landscape. Researchers conducting interviews across several African countries recently asked youth which emotion best captured their decision to voluntarily join an extremist group; the most common response was "hope and excitement" (UNDP, 2017, p. 74[42]). Again, this sentiment is not unique to developing countries alone. Research on foreign fighters who have travelled from Western countries to fight with militant groups in Iraq and Syria is still in its nascent stages, but preliminary findings indicate that "the absence of a future and feelings of exclusion" contribute to their search for a cause to embrace as well (van Ginkel et al., 2016, p. 54[88]).

Violent extremism is packaged to provide purpose, belonging, direction and a chance to express a clear personal identity. These represent gaps that cannot be filled by jobs alone even if there were enough jobs, and in most fragile contexts, there are not. While unemployment is a major problem, often underlying it is "hopelessness and a belief that there is no fairness" and it is this, not the lack of jobs alone, that burnishes the appeal of violent livelihoods (Mercy Corps, 2015, p. 23[89]). Affiliation with extremist groups can also provide hope of economic advancement, with loans and payments providing the means to fund more standard business ambitions where there are few other options (Mercy Corps, 2016[90]).

1.8.2. Greater focus on the human element in development

Despite this cross-cutting evidence, why have considerations of hope not featured more prominently in discussions of development impact? The obvious explanation is that hope is subjective and difficult to measure, and thus it would seem out of place and quite likely even unprofessional in a project document or a proposal. As the development community has moved towards greater rigour with tracking results – a commendable professionalisation of the sector – it has left little appropriate space for inclusion or prioritisation of softer and less quantifiable programming goals.

But beyond these practical concerns, there is also a more systemic explanation. One of the key recommendations from *States of Fragility 2016* was to put people at the centre of better programming. This related to the report's acknowledgment of the current preference for structural responses to fragility's challenges, which are typically more visible and easier to manage and evaluate and may yield more immediate results. But downplaying the human element in development and the individual agency of people leads to a deficit of the delivery of dividends that actually matter to people. Doing better will require continuing to shift the mind-set with which development is approached to one that seriously takes into account well-being as a core component. A focus on well-being is not only about the satisfaction of objective needs and wants, but also about the quality of life that people experience. Far from being an altruistic approach, this also can tangibly affect progress. The role of shame, pride and self-esteem in poverty alleviation continues to be explored including the possibility that shame may perpetuate poverty by undermining individual agency.

1.8.3. Patience for development to deliver is wearing thin

In many fragile contexts, patience to wait and see what development will eventually deliver is wearing thin. Hope was raised that people's lives would considerably improve and now that hope is fading. Places where expectations were inflated, intentionally or unintentionally, are potentially at higher risk of resentment boiling over when expectations are dashed than are places where expectations never existed in the first place (Mercy Corps, 2015, p. 36[89]). This risk is especially

exacerbated where competition for people's futures is rife and development is no longer the only game in town that is ostensibly offering an aspirational horizon.

Development never was and never will be a panacea. As raised elsewhere in this report, it is fallacious to think that a country can develop its way out of fragility. Nevertheless, development should itself aspire to meet people's aspirations and, at the very least, understand that to not do this is to potentially negatively affect the very dynamics that development sees itself as an answer to. With the decades of accrued development wisdom, it is now time to evolve to a "new humanism" (Gass, 2017, p. 5[91]) and a greater recognition of the primacy of human agency in affecting peaceful outcomes, ones where development is not an end in itself but a means to deliver the hope of a better future.

1.9. Trend Nine: Violent extremism feeds off violence and violence feeds off fragility

Rebecca Wolfe, Mercy Corps and Yale University

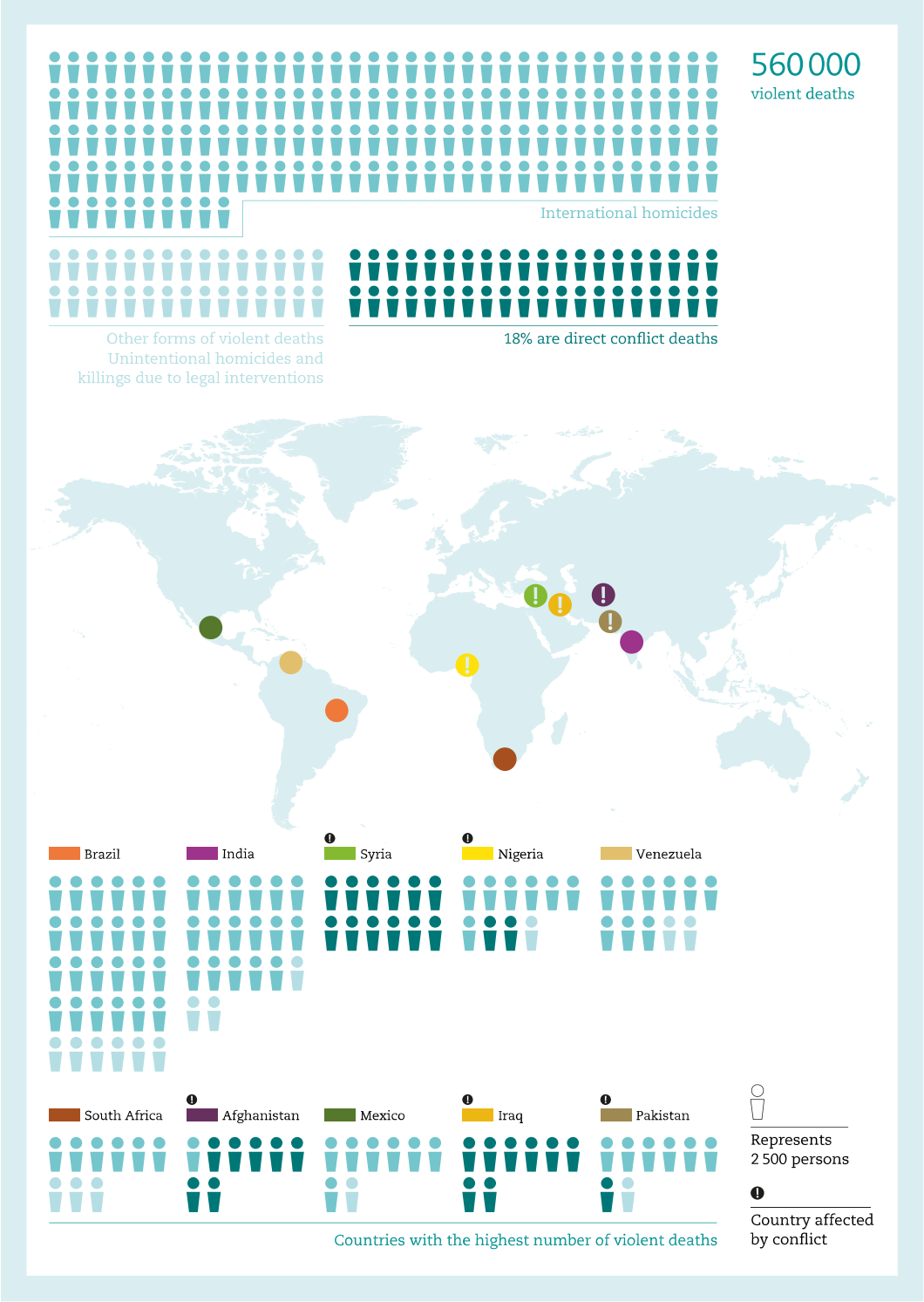
States of Fragility 2016 highlighted the importance of violence as both underpinning fragility and one of its results. The report also pushed the international community to examine all sorts of violence – not just violence emerging from conflict, but also organised violence, crime, intimate partner violence and interpersonal violence – so as to better understand and address fragility. Similarly, the Sustainable Development Goals (SDGs) enshrine peace as a cross-cutting pillar to the entire 2030 Agenda. The elevation of governance issues within SDG 16 recognises that countries will not be able to meet their other development goals unless violence and fragility are addressed.

1.9.1. All forms of violence are not considered equal

Yet while there is a growing recognition of the relationships among various forms of violence, and specifically how violent extremism largely emerges from other types of conflict, it has not fully penetrated the international community's approach. Foreign policies, donor commitments and media attention continue to emphasise violent extremism over other forms of violence. This can be seen in the resources poured into defeating the so-called Islamic State in Raqqah and Mosul, which took precedence over tackling the core factors that allowed the group to emerge through ending the Syrian conflict and addressing the exclusion felt by many Sunnis in Iraq. Politicians and media often focus on terrorist attacks and the subsequent calls to address extremism in Berlin, Kabul, London, Mogadishu, Maiduguri, Paris and New York. A result is that attention tends to fix onto these sensational incidents rather than the more persistent violence that affects more people globally, impedes the ability to address fragility and achieve the SDGs, and foments the conditions that allow extremist groups to emerge.

On the first point, as *States of Fragility 2016* clearly laid out, violent conflict is a small proportion of the type of violence that affects people worldwide (Figure 1.5). Mc Evoy and Hideg (2017[92]), writing for the Small Arms Survey on global levels of violence, report that 18% of the 560 000 violent deaths in 2016 were due to armed conflict. Of the 99 000 deaths related to armed conflict, only 26% were due to terrorism. However, because of the prominence of terrorist attacks in the media, some people assume these attacks are more common than they really are and as a result, people tend to be more afraid of terrorism than other threats (Kahneman, 2013[93]). This puts policy makers and politicians in a bind as they must choose between being responsive to actual risk or to perceived risk (McGraw, Todorov and Kunreuther, 2011[94]). This attention contributes to the overemphasis on programming to prevent and counter violent extremism compared to other forms of violence reduction programming or even more development-oriented programming that addresses deeper grievances and drivers of multiple forms of violence.

Figure 1.5. Global overview of violent deaths, 2016



Source: Adapted from (Mc Evoy and Hideg, 2017[92]), *Global Violent Deaths 2017: Time to Decide, p. 18*, www.smallarmssurvey.org/fileadmin/docs/U-Reports/SAS-Report-GVD2017.pdf.

1.9.2. Violence affects all dimensions of fragility

On the second point, the interplay between violence and fragility that keeps societies stuck, unable to address the fragile conditions that contribute to violence or to reduce violence enough to address fragility, is clear. Based on World Bank data, 72.8% of the 705.55 million people living in extreme poverty (defined as USD 1.90 per day) in 2015 were clustered in the 58 countries and settings considered fragile in the OECD fragility framework. These fragile contexts also are often immersed in protracted conflict. Unless fragility in these places is addressed, this percentage is projected to rise to 80% by 2030, the year for achievement of the SDGs.[6]

Violence frequently is regarded as only affecting the security dimension of fragility. But this interplay between violence and fragility is apparent in each of the other four dimensions of fragility – societal, political, environmental and economic – as well. It creates a negative spiral where fragility and violence worsen over time. In the societal dimension, for instance, grievances among groups can erode trust and create conditions that elites can use to mobilise supporters for violence. This violence destroys whatever trust remains among social groups. Moreover, violence can cause displacement, which further disintegrates relationships and breaks social bonds. Population movements often worsen segregation between groups, contributing to polarisation (Enos, 2017[95]), exacerbating fragility in societies and increasing the ability of recruiters for armed groups to justify the use of violence.

Similarly, along the political dimension, violence creates insecurity, making it harder for governments to provide services whether due to conflict or to other forms of violence such as gangs who control urban neighbourhoods. This adds stress to already fragile state-society relationships where marginalised populations feel the government does not serve them, and it allows other groups – sometimes violent ones – to gain support by promising services. In the economic and environmental dimensions, violence creates the insecure conditions that impede access to markets or productive land, deters investment that would create economic growth, and causes overuse of resources. In 2017, conflict cost the global economy USD 14.3 trillion (Institute for Economics and Peace, 2017[96]). Even low-level but persistent violence has significant costs. In the Middle Belt region of Nigeria, violence between farmers and pastoralists costs the Nigerian economy up to USD 13 billion a year (McDougal et al., 2015[97]).

The interplay between violence and fragility further creates the conditions that allow violent extremist groups to emerge. Most violent extremist groups are able to gain support when the government is largely absent, when there are strong grievances either between groups and/or with the government, and when people feel marginalised and excluded (International Crisis Group, 2016[18]). Most often, there is pre-existing conflict, as was seen in Afghanistan, Iraq, Libya, Somalia, Syria and Yemen. Consequently, to address violent extremism other forms of violence and fragility must be addressed.

1.9.3. Fragility and violence must be addressed together

What are the best ways to address violence and fragility simultaneously? The danger of tackling these issues sequentially is not knowing where to start. Addressing fragility is difficult in the presence of persistent violence. A recent review by Zürcher (2017[98]) of development programmes and their ability to reduce violence finds that these programmes were effective only in more secure areas. However, addressing violence first and ignoring fragility until violence subsides carries its own risks that the conditions that led to the violence remain in place and risk igniting renewed violence (World Bank, 2011[99]). The

security approaches used to address gang violence and organised crime in urban areas of Latin America such as Rio de Janeiro, Guatemala City, Bogotá and San Salvador, as well as in protracted conflicts like those in Afghanistan, Iraq and Nigeria, are rarely paired with follow-on programming to address underlying fragility. As a result, violence often returns after much-heralded initial reductions.

One possible way to get a better handle on the violence-fragility link is to layer short-term and longer-term programming. Short-term programming can quickly reduce violence or address immediate needs to stabilise people's lives. However, that approach is often not sustainable, as experience across the world has shown. Therefore, at the same time or immediately after violence subsides, significant resources should be dedicated to addressing the longer-term issues – particularly those related to inclusion (social, political and economic) and state-society relations – rather than persist in the habitual practice of focusing primarily on infrastructure in post-conflict reconstruction.

In Afghanistan, on a small scale, Mercy Corps combined unconditional cash transfers, which gave young people some short-term economic relief, with vocational training, which gave the youth skills to have more profitable livelihoods. This approach led to decreased support for armed opposition groups like the Taliban, more so than either cash or vocational training alone (Mercy Corps, 2018[100]). Research on this project, as well as a recent study of a cognitive behavioural therapy and cash programmes in Liberia (Blattman, Jamison and Sheridan, 2017[101]), demonstrate the complexity of what motivates people over the short and long term to participate in violence and shows how both need to be addressed. One could imagine using a similar approach with a military surge to increase security in an area in the short term and quickly moving afterwards to implement governance and economic development programmes to address underlying fragility in the long term. Box 1.3 explores related issues of security sector reform in the context of spreading violent conflict.

To return to a point discussed above, while many knew when the Iraqi city of Mosul would ultimately fall, the international community has not quickly moved into the recovery and development phase after gaining control and improving security in this area. Its delay risks the emergence of a new militant group or revival of previously active ones. This is not to say it is easy to address the violence-fragility link. However, the link will not be broken without changing how the international community invests resources and until reducing all types of violence, not just those forms that are the most politically expedient, is a priority. Ultimately, preventing the emergence of violent extremist groups will only be possible by making stronger inroads in addressing fragility and filling the vacuums of governance and rule of law and the isolation that these groups seek to exploit. What is clear is that by myopically focusing on violent extremism, the international community will continue to ignore the conditions that give rise to it, as well as the wider fragility dynamics that provide and protect the spaces permissible to violence of many forms.

Box 1.3. Reforming the security sector in a time of rising global insecurity

Past failures to fund sustainable, long-term improvements in security governance have contributed to the global burden of violence. The rising incidence of violence, large population movements and resurgent violent extremism now expose states and people to greater risks across every dimension of fragility. These pressures are pushing security assistance into repressive and technocratic programming while drawing attention, energy and resources away from governance-driven, security sector reform agendas.

These trends in global conflict also have renewed multilateral focus on responses, bringing unprecedented coherence to the global argument for better security sector governance and holistic reform. The United Nations' re-energised focus on preventing conflict and sustaining peace complements the 2030 Agenda, which for the first time makes peace and justice integral to sustainable development. The Sustainable Development Goals call on all states to establish accountable and resilient institutions that make all people feel safe in their everyday lives. This makes a governance-driven agenda for security sector reform a necessity for sustainable development.

This global consensus puts people's safety at the centre of the discussion about security sectors. There is increasing recognition that a heavy-handed security approach often exacerbates violence and governance deficits, thereby entrenching root causes of violent conflict. Deeper analysis of conflict drivers shows how violence is linked to social and political grievances in ways that only multidimensional strategies can address. Security sectors must respond to social and political violence. But they cannot solve the deeper societal dynamics that fuel such violence in the first place. The immediate challenge for security sectors is how to respond to violence without exacerbating conflict, while partnering in broader socio-economic strategies that address the root causes of violence. Success will depend on security sector reform strategies that are based on credible evidence, viable policy recommendations and long-term support for non-linear change processes.

Shifting global priorities are bringing new attention to features of insecurity that have long been ignored and security sectors worldwide must develop better ways to respond. Awareness is growing of the social violence that characterises everyday life in the world's cities. These concerns merge with the risks associated with responding to war and humanitarian crises in urban areas that are increasingly the scene of political violence. Similarly, understandings of violence against women, for example, have broadened to include forms of everyday harassment and abuse that women everywhere face regularly. International normative frameworks and reporting mechanisms are pushing conventional security agendas to become more people-centred. Their monitoring and oversight in multiple international fora put a new spotlight on these and other systematically neglected facets of security. All these efforts reaffirm the role of a well-governed security sector in preventing conflict, sustaining peace and achieving sustainable development.

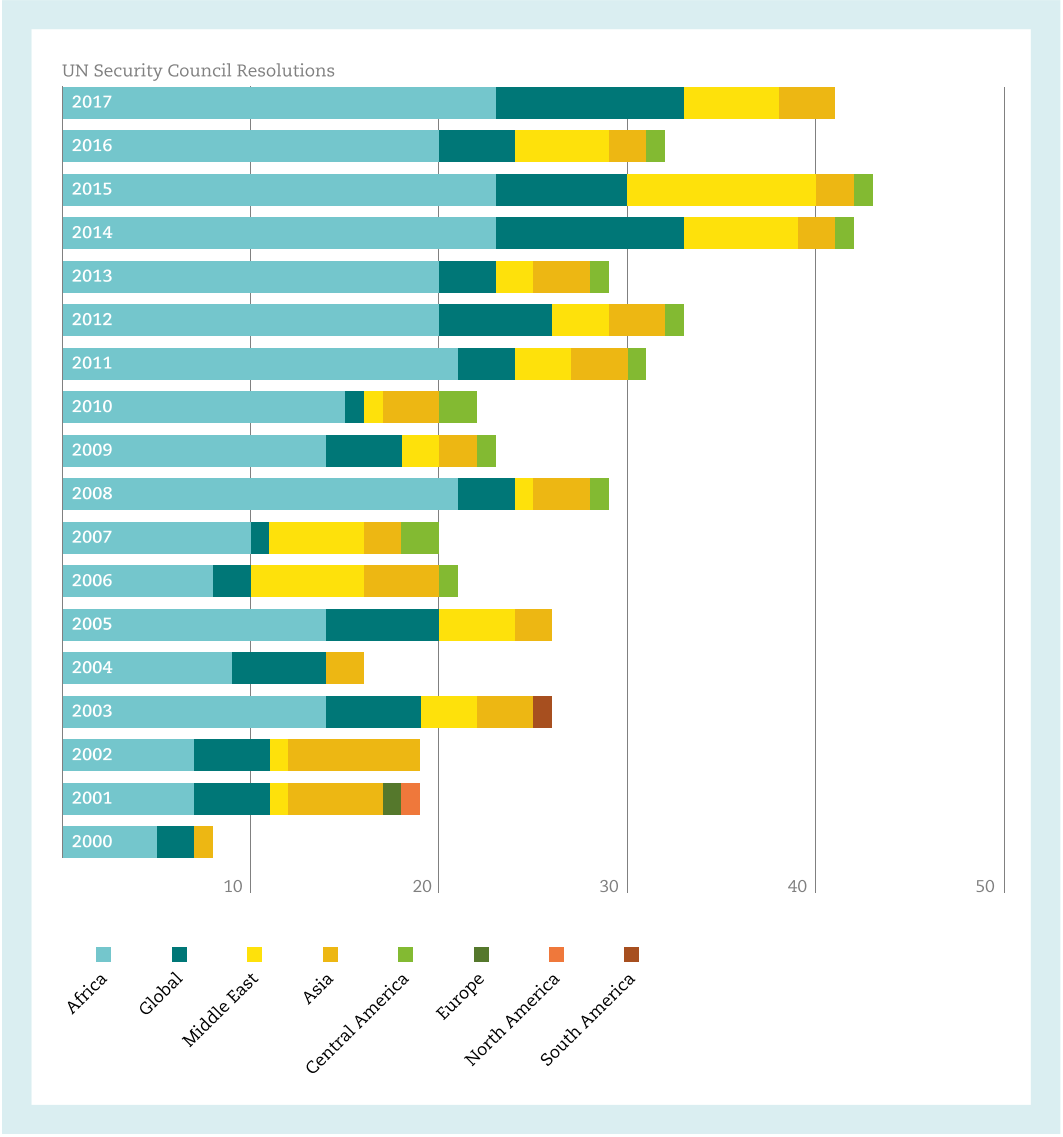
Contributed by Fairlie Chappuis, Geneva Centre for the Democratic Control of Armed Forces (DCAF)

1.10. Trend Ten: Illicit economies and criminal networks thrive on fragility

Mark Shaw, Global Initiative against Transnational Organized Crime

Conflict, fragility and the presence of organised crime or illicit trafficking are connected, as attested by the steady uptick of UN Security Council resolutions that link them (Figure 1.6). The Security Council, concerned as it is with issues of peace and security, mentioned or referred to the issue of organised crime or illicit trafficking in just over one-third of all its resolutions between 2000 and 2017. The number of mentions increased steadily over that period, peaking in 2014 when a remarkable 63% of resolutions mentioned or referred to the issue of organised crime and illicit trafficking.[7] This is a remarkable international development, but it is one that is not often mentioned or well understood.

Figure 1.6. United Nations Security Council resolutions by region, 2000-17



Source: Adapted from (Global Initiative against Transnational Organized Crime, 2018[102]), "Charting organized crime and illicit flows at the Security Council: An interactive tool", http://globalinitiative.net/scresolutions/.

Nor is the connection between conflict, organised crime, illicit flows and fragility more generally well analysed. Where responses have been sought, local solutions (such as the training of domestic law enforcement) are manifestly unable to address the issue. Part of the challenge is that while the impacts of the growing global illicit economy are often pernicious, they are what might be termed slow burners. They are not always visible at first and sometimes are even initially welcomed as development. When the effects do become apparent, the impact and costs are indirect or not labelled as problems of organised crime. Also, because there is such an array of older and emerging grey or criminal markets, it is often hard to aggregate the total cost and identify exactly how they interact with more apparent aspects of fragility.

For these reasons, measuring the global illicit economy remains challenging, although it is said to amount to somewhere between 2.3% and 5.5% of global GDP. That is roughly equivalent to the combined output of the African continent (Reitano and Hunter, 2018[103]). It is known, however, that global illicit markets began to change significantly in the early 2000s. That change had three dimensions. Multiple new markets emerged outside of what had been considered the traditional purview of organised crime (most prominently drugs). Markets spread to almost all continents of the world including Africa where, as elsewhere, they intertwined with issues of fragility. The criminal networks themselves have spread, with organised crime groups now originating and operating in every corner of the globe. For example, West African criminal networks are a feature of the fragility of southern Italy, just as Italian groups are present on the conflict-prone northeast coast of Africa. These networks and linkages sustain and connect fragility in far-flung places, facilitated by the global communications revolution.

Three major trends affect the linkage between fragility and illicit markets and, in a vicious spiral, are in turn affected by them.

1.10.1. Global financial incentives have changed

Global financial incentives have changed as the illicit economy has grown. In short, there are new and multiple places to invest illicit funds. This has important implications for fragility. In the past, the profits from what might be termed organised crime were invested locally. Think, for instance, of the late-19th century robber barons in the United States. Now, however, criminal money is syphoned out of fragility-affected and developing countries, producing two sets of self-reinforcing incentives. First, important and emerging financial centres around the world have an interest in masking the extent to which they host criminal proceeds. Second, few incentives exist for the local investment of criminal money in many developing and fragile economies. In such a scenario, there is little interest on the part of criminal bosses in seeking long-term stability and security, but every interest in maintaining the fragile status quo.

The result is a growing gulf between what can be seen as places where crime openly occurs, be it in the poppy fields of Afghanistan or around the sourcing of environmental commodities from Asia or Africa, and the places where profits are hidden. Afghan farmers, African poachers and Central American enforcers earn little; the money extracted higher up the economic chain never passes through the most fragile base of the illicit pyramid. This business model funds external middlemen and criminal empires that have few interests in – and in fact strong disincentives for – long-term stability in their zones of extraction. The system has becoming strongly self-reinforcing: criminal value is taken out, promoting harm and poor governance and sustaining fragility, while its benefits are exploited elsewhere. The illicit economy is unequal and exploitative with little prospect of lifting up

a second generation of the poor through sustainable investments in things such as education. In the long term, there are only losers on the ground.

1.10.2. Illicit economies lead to their own forms of governance

The second area of concern for fragility is that illicit economies spawn what might be called crime governance. This is in contrast to the strong legal governance of the places where illicit money is invested. At its most basic level, crime governance includes the development of extortion economies in which money is paid to those who promise protection or, failing payment, becomes the source of instability. For example, across the poor and fragile contexts of Central America, and linked to local drug economies, this protection economy plays out on a daily basis. But extortion "taxes", as they can be called, are present now in many cities in the developing world. Such relationships are unexplored because their victims remain silent. Yet crime governance can be seen where criminal actors call the shots in important, although marginalised, parts of urban complexes around the developing world. Rio de Janeiro, Cape Town and Manila are just some examples. Such zones of fragility and violent economy exist also in the developed world. Legitimate forms of service delivery are driven out and people live in pockets of criminal governance where the gangs hold sway.

Crime governance also has wider implications for political fragility when criminal figures are elected to local or national legislatures and state and criminal interests overlap within government itself. This blurring of the boundaries destabilises regions, promotes criminal interests and ensures that criminal actors are protected by politics. The Balkans, for example, is now widely seen as deeply afflicted. But this region is only one case among several. These relationships are core sources of fragility at the local, national and regional levels. Where criminal markets are politicised, responses then become much more complex. The old exculpatory Cold War refrain – he may be a warlord but he's our warlord – is being repurposed for the age of the criminal ecosystem.

1.10.3. Organised crime erodes sustainable development

Third, illicit markets and organised crime erode sustainable development across a range of sectors. In contexts that are fragile and where people's livelihoods are tenuous, the shocks that organised crime delivers to the economy and the environment erode individual and family resilience. The cost is incalculably high – whether from the trafficking of environmental commodities such as timber or animal products that cause soil erosion or undermine livelihoods in tourism; illegal mining of state resources; overfishing by criminal operations; health systems that are infiltrated by counterfeit pharmaceuticals; or the control of local drug markets decimating school systems. Organised crime impacts all the Sustainable Development Goals and, in just over 10% of cases, achieving the goals are directly linked to reducing organised crime (Global Initiative against Transnational Organized Crime, 2015[104]).

Environmental crime markets, beyond their general effect on scarce resources, are of particular concern in fragile contexts where they reduce local resources in a way that is not recoverable and they empower violent and corrupt actors. One feature of these markets is a form of commodity hopping, where criminal groups seek out the next commodity for exploitation when existing markets are depleted. Those engaged in rhino horn trafficking, for example, are as acutely aware as any conservationist that this is a finite resource. Commodity hopping creates spirals of resource depletion, greatly increasing environmental

fragility while feeding external tastes and so deepening the unequal divisions between places of extraction and investment/consumption.

In an age of such interconnected global criminal markets, then, the biggest mistake is to assume that fragile zones are disconnected from the global illicit economy. With few exceptions, places that can be classed as fragile demonstrate a web of connections – as sources, transit zones, markets, etc. – for illegal activities and the extraction of profits. In every case, these unequal and exploitative relationships shape local political economies, and almost always with a focus on sustaining the system that maintains fragility, by extracting profits, protecting those who are violent locally, and protecting those externally who feed off and protect criminal activities and interests. Therefore, considerations of illicit economies must be as inextricably linked to attempts to address fragility as they are to its perpetuation.

1.11. Trend Eleven: Climate change is compounding risks in fragile contexts

Janani Vivekananda, adelphi

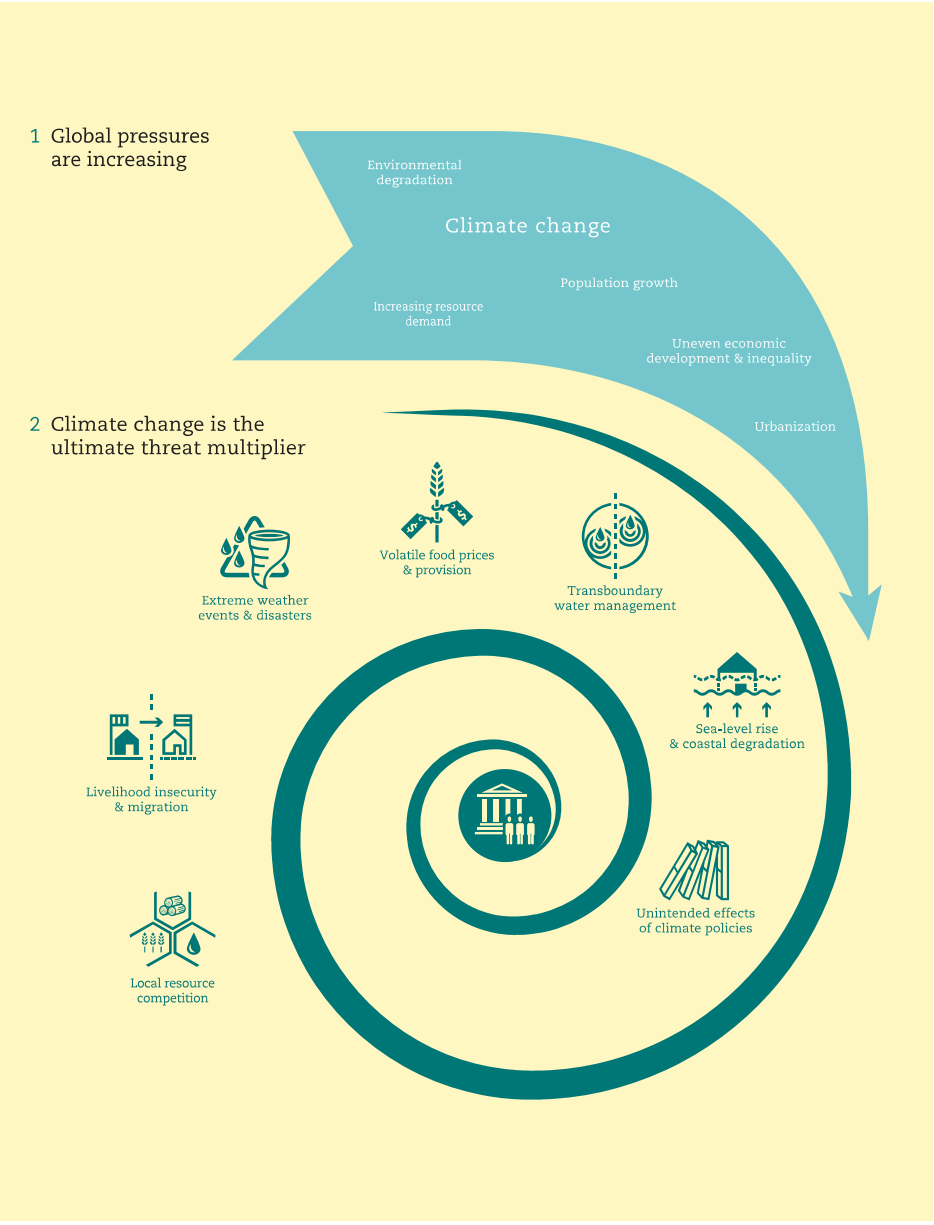
Climate change is one of the most pervasive global threats to peace, affecting security, development and peacebuilding. In 2017, extreme weather events linked by many experts to climate change[8] featured hurricanes, floods and tropical storms affecting the Caribbean, North America and South Asia. Drought and desertification pushed thousands more people towards extreme hunger in the Sahel and the Middle East. These climate change-related impacts occurred against a backdrop of ongoing and worsening political conflict and humanitarian crises in many parts of the world.

Climate change is affecting the human security of vulnerable communities, particularly those in fragile and conflict-affected contexts where governance is already stretched. Its impacts are seen in terms of political instability, food insecurity, a weakening of the economy and large-scale movements of people (Rüttinger et al., 2015[105]).

Climate change also interacts with existing political, social and economic stresses (Figure 1.7). It can compound tensions, catalysing violence or threatening fragile peace in post-conflict contexts (Peters and Vivekananda, 2014[106]). Violent conflict in turn will leave communities poorer, less resilient and poorly equipped to cope with the impacts of climate change.

The framing of three climate-fragility risks set out here offers a lens to understand one causal chain of the challenges posed by climate change to fragility. It concludes that climate change-related weather extremes and conflict trends are projected to increase (UN OCHA, 2018[107]). Effective management of fragility requires informed and flexible strategies to cope with the complex and linked risks which climate change may pose in fragile situations.

Figure 1.7. Seven compound climate-fragility risks threaten states and societies



Source: Adapted from (Rüttinger et al., 2015[105]), *A New Climate for Peace: Taking Action on Climate and Fragility Risks*, https://www.newclimateforpeace.org/.

1.11.1. Climate change affects livelihood security and migration

The link between climate change and displacement is an underestimated global trend. In 2016, 24.2 million people were displaced as a consequence of sudden onset natural hazards (Internal Displacement Monitoring Centre, 2017, p. 31[108]). Climate change is projected to increase the frequency and magnitude of extreme weather events (Field et al., 2012[109]). In tandem with

poor coping capacity, these contribute to disasters[9] that in turn will contribute to increased displacement and changing migration trends.

Migration in response to changing environments has occurred throughout history. Seasonal migration is a familiar and key livelihood strategy across South Asia, the Middle East, Africa and other regions. However, migration trends are changing. Due in part to the impacts of a warming climate, the duration of circular migration patterns is increasing, as is the need to migrate permanently and to new places. Transboundary migration shows a marked rise in recent years, with nine out of ten international refugees moving to a low-income or middle-income country (WFP, 2017[110]). Evidence suggests that countries with the highest level of food insecurity, which is often linked to climate change and armed conflict, have the highest outward migration of refugees (WFP, 2017, p. 77[110]). Environmental degradation and change – mediated in different ways by governance and political and societal issues – are important structural factors contributing to livelihood insecurity and migration.

The impacts of climate change on Africa, where 80% of people depend on agriculture for their livelihood, have been severe. Drylands are especially affected by climate change. These include the Lake Chad basin region, northern Kenya, southern Ethiopia and South Sudan. In South Sudan, a temperature increase of 2-3 degrees Celsius has exacerbated drought and food and livelihood insecurity (UNDP, 2017[111]; Omondi and Vhurumuku, 2014[112]). A combination of drought and poorly planned development projects has spurred a rapid increase in the movement of people and displacement within and across South Sudan's borders, which have heightened grievances against the state and led to famine and communal conflicts (Human Rights Watch, 2017[113]).

Migration, along with the prospect of alternative jobs and an additional labour force, can present opportunities for migrants as well as for host societies and countries. However, research on the links between climate change, migration and fragility is currently not sufficient to inform policy responses that can promote migration that is co-ordinated and pragmatic and that also does not drive people towards higher-risk areas such as already fragile cities, coastal megacities, river deltas, and places where livelihoods are already at risk and projected to worsen (Greenpeace, 2017[114]).

1.11.2. Cities are unprepared for extreme weather events and disasters

The world is poorly prepared for a rapid increase in climate change-related natural disasters affecting cities. It is estimated that assets worth USD 158 trillion – double the total annual output of the global economy – will be in jeopardy by 2050 without preventive action (GFDRR, 2016[115]). Although cities offer many advantages for many individuals, urbanisation often exacerbates and highlights inequalities through the proximity of rich and poor. This, in turn, can be a factor leading to instability and conflict. Climate impacts, which are especially devastating in cities given the concentration of people and assets, can deepen inequalities, further fuelling grievances.

The relationship between disasters and fragility is frequently mutually reinforcing. Disasters place additional stresses on already overburdened governments. They also displace large volumes of people, reduce economic opportunities and shift access to resources. A lack of structural and individual coping mechanisms, such as social safety nets, insurance mechanisms and social networks to support migration, can fuel grievances. This is especially the case where national or international disaster relief is inadequate or inequitably distributed.

Poorly planned and executed humanitarian responses to disasters also can worsen tensions and increase fragility. An example is when these responses do not take account of sensitive conflict

dynamics such as power relations among different identity groups who frequently live in very close proximity in cities. In fragile cities, moreover, weak governance can undercut efforts to build resilience, making the impact of a disaster more severe. Conversely, disaster risk reduction and disaster management initiatives offer opportunities, if done properly, to address climate-related fragility risks and build peace.

1.11.3. Volatile food prices and provision

The UN's first-ever global assessment on food security and nutrition finds that world hunger is on the rise, driven by a combination of factors that include climate change and conflict (FAO/IFAD/UNICEF/WFP/WHO, 2017[116]). In a reversal of its steady, decade-long decline, hunger now afflicts 11% of the global population. Between 2015 and 2016, the estimated number of chronically undernourished people rose to 815 million from 777 million. Some of the highest proportions of food-insecure and malnourished children in the world are now concentrated in conflict zones. Many of these areas also are adversely affected by climate change, such as northeast Nigeria, Somalia and Yemen. But even in regions that are more peaceful, droughts or floods linked to climate change and to the El Niño weather phenomenon[10] can interact with pockets of instability to fuel conflicts and challenge governance, which contributes to communal and border conflicts over natural resource access (UN OCHA, 2017[117]).

The scientific evidence reliably shows that increasing temperatures, the stronger El Niño effect in 2015 and 2016, and reduction in groundwater resources are major drivers of food insecurity. Food insecurity in turn increases fragility (Box 1.4). There also is clear evidence that climate change is reducing crop quality and yield (Food Security Information Network, 2017[118]; Myers et al., 2017[119]), which "ultimately depend on a dynamic balance of appropriate biophysical resources, including soil quality, water availability, sunlight, CO2 and temperature suitability" (Myers et al., 2017[119]). Lower crop yield and quality decrease food supply and increase prices. In Kenya, in a recent example, drought led to sharp food price increases including a 31% increase in the price of the main staple, maize flour (Okiror, 2017[120]). The drought became a major issue in the Kenyan presidential elections of August 2017, demonstrating how food security issues at the local level can scale up and be politicised at the national level (Okiror, 2017[120]).

Food insecurity, particularly relating to food provision, and price volatility can be strong drivers of discontent (Hendrix and Brinkman, 2013[121]). There are important gendered components of this risk. For example, reducing food insecurity, especially in countries affected by conflict or the legacy of conflict, would have some impact towards reducing incentives for men to join armed groups (FAO, 2017[122]).

The impact of compound climate risks on food security is rightly, albeit slowly, emerging as a major global concern. Adequate policy and practical responses, however, still are lacking. This past year saw acknowledgement of the relationship between food security issues and security issues such as protests and recruitment to insurgent groups, and examples of a more conflict-preventive, risk-based approach are emerging among certain donors in fragile contexts (USAID, 2016[123]).

1.11.4. Climate trends are interrelated

As climate extremes and conflicts are increasing, so too are geopolitical and socio-economic extremes. The world is currently and simultaneously facing high levels of public uncertainty over shifts in the world order, the highest numbers of displaced people in decades, and a peak in global hunger. Migration, extreme weather events and food security are but three examples

of interrelated, climate-sensitive drivers of fragility, and they illustrate the complexity of addressing fragility. Strategies that do not take into account the systemic and linked nature of these climate-fragility risks will fail, and may exacerbate the risks they set out to address. Linked risks need a linked response. Reducing vulnerability while creating opportunity – the cornerstone of managing fragility – depends on informed, flexible strategies that build both social and institutional resilience to face linked threats that climate change may pose in fragile situations.

Box 1.4. Food insecurity and fragility

The correlation between fragility and food insecurity is evident across the world, from Afghanistan to the Democratic Republic of the Congo and from the Sahel to Syria. One of the major drivers of food insecurity is conflict, as evidenced by famine-like conditions in northeast Nigeria, Somalia, South Sudan and Yemen in recent years. Almost 500 million food insecure people live in countries affected by conflict and violence (FAO/IFAD/UNICEF/WFP/WHO, 2017[116]). In most of the 80 countries in which the World Food Programme (WFP) operates, high levels of instability have raised the agency's annual costs by USD 2.24 billion (WFP, 2017, pp. 51-53[124]).

While there is little dispute that fragility can contribute to hunger, the relationship between the two is complex and interdependent. Food systems have broken down with increasing frequency and on an increasingly larger scale in recent decades, accompanied by mass population movement, rising grievances and loss of government legitimacy. All of these create fertile ground for pressing security threats that include state and economic collapse, societal tension and radicalisation.

In fragile contexts, policies must address food insecurity and support the establishment of strong, resilient and inclusive food systems (WFP, 2017[124]). It is crucial to leverage the 40% of total humanitarian spending that currently goes to food assistance in a manner that helps to address disruptions to food systems, for example through the use of cash-based transfers.

In food-insecure contexts, addressing the immediate and root causes of hunger and malnutrition will reduce the risk of countries sliding into (greater) fragility. Upfront and sustained investment into shock-responsive social protection and resilience-building measures will be marginal when compared to the potential costs of rising fragility.

Given that food and fragility are inextricably linked, they require a comprehensive response.

In crisis situations, this would imply a complementary package of humanitarian, resilience-building and development actions that aim to collectively reduce need over time.

Contributed by Rebecca Richards, World Food Programme (WFP)

1.12. Trend Twelve: Fragility is a complex and dual-system problem

Robert Lamb, Foundation for Inclusion

Why is it so hard to solve social problems in fragile contexts and conflict environments? The answer seems obvious: institutions are weak, social capital is low, the economy is

informal, crime and corruption are high and the capacity to absorb external aid is severely constrained. The attitude of many seems to be that fragility means that almost nothing works the way it is supposed to, so of course it is hard to make progress on most social problems. Fragile environments are complex.

Shift the focus and the answer is less obvious. That is, why do people who are trying to solve problems in fragile and conflict-affected environments so regularly offer assistance in ways that are ineffective or counterproductive? Again and again, donors fail to genuinely harmonise their efforts, let host societies take the lead on their development, adequately account for local conditions, focus on sustainability, and act with sensitivity to the potential for conflicts and second-order effects. In other words, donors generally fail to follow the lessons and best practices that have been discovered and published in scores of publications and declarations for more than half a century. Lamb and Mixon (2013[125])[11] identified 15 top-level lessons like these that have appeared and reappeared in print for more than six decades. They found that ten of them appeared in a World Bank report (IBRD[126]) published in 1949. Six of the seven lessons published in the official "Lessons from Iraq" report were in a previous report on lessons for post-conflict reconstruction that had been published a decade earlier, just prior to the 2003 Iraq intervention (CSIS/AUSA, 2003[127]; SIGAR, 2013[128]).

Donors repeatedly failed to absorb and institutionalise these lessons for much the same reason that fragility is hard to address. International development is complex. It is complex not in the trivial sense that it is difficult and complicated. Rather, like fragility, it is complex in the technical sense of being what scholars call a complex system (Gallo, 2013[129]; Ramalingam et al., 2008[130]).

1.12.1. Complexity in the aid system

Even under the best of circumstances, when policy makers accept an authoritative recommendation to implement a well-designed aid package, it is not a straight line from recommendation to implementation. How that package ends up getting delivered depends not just on intent and best practices but also on the requirements and constraints imposed on it by budgeting, management, security, planning, contracting and other bureaucratic functions. It depends as well on the knowledge, norms, incentives, processes and competing priorities faced by personnel in those offices (Lamb and Mixon, 2013[131]; Lamb, Mixon and Halterman, 2013[132]). The interactions among all of these factors within and between donor agencies are generally too complex for anyone to be in a position to predict, with any degree of confidence, how any particular policy decision will be implemented on the ground.

For example, there might be a recommendation to engage with local communities. But the donor's security office decides whether donor personnel are permitted to travel to areas to meet these communities and the security officer risks getting fired if personnel are kidnapped or killed. A contracting officer may or may not recognise the importance of flexibility in the methods of aid delivery but could be too risk-averse to approve a waiver of certain requirements if doing so would set a precedent. Indeed, there are dozens of reasons why best practices do not get implemented that have nothing to do with the complexity of fragile environments but everything to do with unseen dynamics, practices and regulations within donor agencies.

1.12.2. The dual-system problem

By the time an aid package makes its way through this complex aid system, it is sometimes unrecognisable from what had originally been recommended. Only then does it enter the complex system whose fragility is its target. No wonder it is so hard to solve problems in fragile and conflict-affected environments. Recommendations and decisions about aid packages have to make their way through two complex systems before they turn into outcomes. First the complex aid system transforms aid decisions into aid packages in unpredictable ways. Then the complex fragility system transforms aid packages into development outcomes in unpredictable ways (Figure 1.8).

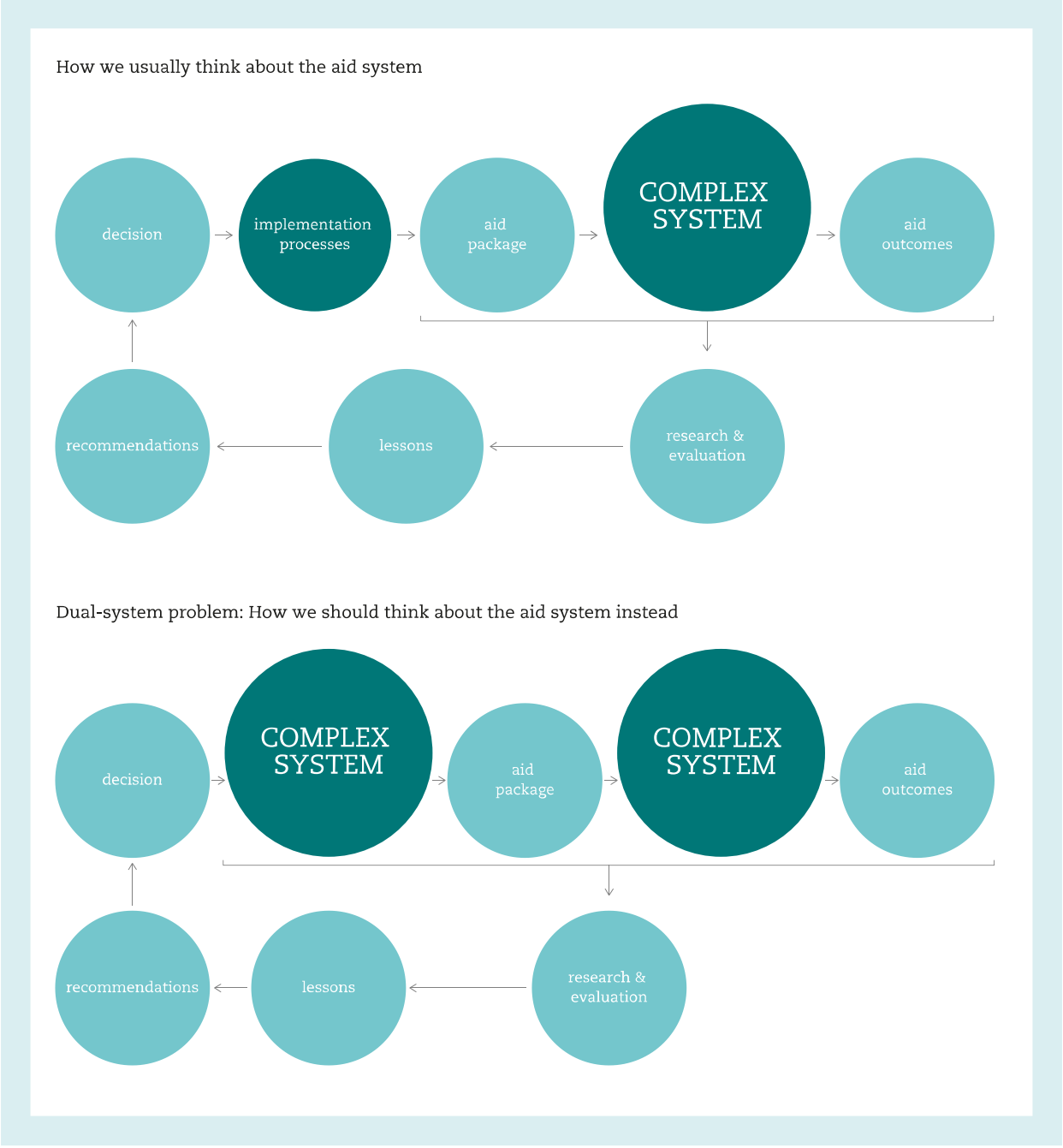
It is this dual-system problem (Lamb and Gregg, 2016[133]; Lamb and Gregg, forthcoming[134]) that complicates the ability of donors to deliver assistance appropriately. The development community has to acknowledge the dual-system problem and find ways to overcome it, if it wants to improve life for people touched by sectors that are fragile.

1.12.3. Systems thinking starts at home

Many analysts and practitioners continue to employ linear theories of change (e.g. from inputs and activities to outputs, outcomes and impacts) and linear research methods (e.g. correlations, regressions and indices). However, it is fairly common today at least to acknowledge that fragile sectors are in fact complex systems. More appropriate methods, among them systems mapping and political economy analysis, are starting to be employed (OECD, 2017[135]).

Much less acknowledged is that donor agencies, foreign and domestic policy institutions, and the international aid system as a whole are also, technically speaking, complex systems. In fact, authors of programme evaluations, best practices and lessons learned studies frequently produce recommendations that their own systems are fundamentally incapable of delivering, because they are unaware of bureaucratic constraints. It would be better not to focus recommendations only on what policy makers and practitioners should do in the field in the future, but also to focus the underlying research on why policy and aid systems have failed to implement those exact recommendations in the past.

Figure 1.8. The dual-system



Source: Contributed by the author, Robert Lamb.

Human systems are combinations of components. Some are designed, such as constitutions, legislatures, schools and other formal institutions. Some are so-called informal components that are not designed but emerge organically, such as norms, values, social groupings, economic networks and demographics. All of these system components interact in complex combinations and over time the system as a whole behaves in certain ways as a result. In the worst case, cognitive biases, misunderstandings, fear and self-interested behaviours fall

into vicious cycles that lead to mass violence, economic crisis or famine. In the best case, opportunities, hope, social progress and behavioural norms fall into virtuous cycles of steady improvement in the quality of life for most people in the system – a stable equilibrium that makes life predictable and pleasant. In between those extremes lies a wide range of dynamics and outcomes often simplified under the label of fragility. In other words, fragility emerges from complexity.

This form of thinking, called systems thinking, forces recognition that the *stability* of better-developed sectors also emerges from complexity. The relative predictability of those sectors, however, creates an illusion of control. It is assumed that formal (designed) institutions are what make a sector resilient, when in fact it is the constructive interaction between these formal and informal dynamics that produces stable and prosperous sectors in any society. Building more formality into sectors without accounting for informal dynamics is a common approach that has been repeatedly shown to fail (Kaplan and Freeman, 2015[136]). The distinction between formal and informal is not always clear or constructive, in any event. It is better simply to understand each system on its own terms. This is something the OECD multidimensional fragility framework begins to make possible because it attempts to capture not just risks, but also coping capacities.

1.12.4. From systems thinking to systems doing

To overcome the dual-system problem in international development and fragility, systems thinking and methods need to be applied much more seriously to both fragile environments *and* donor systems. Linear thinking and methods will not work in either, since they generally assume independence between factors. This assumption is almost never appropriate. In complex systems, a great many interrelated components need to be accounted for. Among these are non-linear causality or feedback loops that lead to resistance to change, exponential change or oscillating changes, depending on the system's structure; accumulations and depletions of resources (e.g. money, resentments, arable land, populations, etc.) that make it seem like nothing in the system is changing until a tipping point is reached and some small change suddenly cascades in surprising ways; and, usually, long delays between causes and their apparent effects that can make it difficult to distinguish between short-term and long-term results (e.g. a short-term success complicates long-term progress).

Methods for studying and planning for complex systems, both qualitatively and quantitatively, do exist (Meyers, 2009[137]). Systems thinking is a minimal requirement, not just in understanding higher order effects and unintended consequences of aid on the ground but also in determining what aid packages are fit for purpose and possible to deliver through donor systems in the first place (Wright, 2008[138]). More formal methods, such as political economy analysis and system dynamics modelling, are helpful in fragile environments. But these methods can and should be applied as well to the policy systems of donor countries in order to identify and rectify sources of resistance to reasonable recommendations and better ways of working (Serrat, 2011[139]; Stroh, 2015[140]; Senge, 1990[141]). Collective strategies can be developed in ways that account for complexity in both systems and make it possible to identify barriers to success from policy decisions all the way through to development outcomes (Lamb, 2018[142]).

The dual-system problem can be solved. But it begins with a recognition that problems in fragile contexts will never be adequately addressed with the assistance of donors who overlook the complexity of their own systems. That complexity has hidden the back office functions, emergent behaviours and non-linear dynamics that have prevented the

institutionalisation of effective aid practices for more than half a century. Now that this complexity is known, in both donor systems and fragile environments, making solutions to fragility more effective should not require another half century.

Notes

[1] The justification for this category was expressed as follows: "Concern is growing about the ability of these countries to reach development goals as well as about the adverse economic effects they have on neighbouring countries and the global spillovers that may follow." See https://openknowledge.worldbank.org/handle/10986/7155.

[2] For more on brittle autocracies and violent democracies, see www.clingendael.org/sites/default/files/2017-10/The_State_and_The_Future_of_Conflict.pdf.

[3] The following countries have featured in reports from 2008 through 2018: Afghanistan, Burundi, Cameroon, Central African Republic, Chad, Comoros, Democratic People's Republic of Korea, Democratic Republic of the Congo, Eritrea, Ethiopia, Guinea-Bissau, Haiti, Iraq, Kenya, Liberia, Myanmar, Niger, Nigeria, Pakistan, Sierra Leone, Solomon Islands, Somalia, Sudan, Timor-Leste, Uganda, Yemen and Zimbabwe.

[4] In fragile contexts, average net ODA as a percentage of GNI was 6.4% in 2010. It dropped to 4.5% of GNI in 2016. Data are available at https://data.worldbank.org/indicator/DT.ODA.ODAT.GN.ZS.

[5] For further information, see https://stats.oecd.org/Index.aspx?DataSetCode=CRS1.

[6] These calculations are based on the International Futures Model developed by the Frederick S. Pardee Center for International Futures at the University of Denver in Denver, Colorado. The methodology is available at http://www.ifs.du.edu/ifs/frm_MainMenu.aspx.

[7] These numbers are based on a project by the Global Initiative against Transnational Organized Crime that reviewed the contents of United Nations Security Council resolutions regarding organised crime and illicit trafficking between 2000 and 2017.

[8] These events are too recent for published academic evidence to cite at the time of writing. However, interviews with prominent global climate scientists support the link between a number of 2017 extreme weather events and climate change. See for example https://www.carbonbrief.org/media-reaction-hurricane-irma-climate-change.

[9] The definition of disaster is drawn from (Field et al., 2012, p. ix[111]): "Disaster risk emerges as the interaction of weather or climate events, the physical contributors to disaster risk, with exposure and vulnerability, the contributors to risk from the human side." See http://www.ipcc.ch/pdf/special-reports/srex/SREX_Full_Report.pdf.

[10] El Niño is a phenomenon that typically occurs every two to seven years, disrupting normal weather patterns and bringing heavy rains and drought to different parts of the world. It is a complex and naturally occurring weather pattern that results when water temperatures in the Pacific Ocean near the equator vary from the norm. Most scientists agree that the current warming trend is due to greenhouse gases put into the atmosphere by human activity. El Niño also can contribute to an increase in global temperatures in years in which the phenomenon occurs. Naturally occurring El Niño events and human-induced climate change are likely to interact and modify each other, but there is currently little understanding of how this will occur and to what effect.

[11] For further information, also see (Lamb, 2017[145]), (Lamb, 2013[147]) and (Lamb and Mixon, 2014[146]).

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Chapter 2. What are the key findings from contexts affected by fragility?

by

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This chapter provides a snapshot of fragility in the world today. It introduces the 2018 OECD fragility framework and the 58 fragile contexts included in it. It looks at how levels of fragility have changed since the States of Fragility 2016 *report, reviewing areas of improvement and deterioration across the five dimensions of fragility for a selection of contexts. It also examines the two contexts that moved out of the framework and the four contexts that moved into the framework. Building on the multidimensional approach to fragility introduced in the 2016 report, this chapter offers an aggregate picture of fragility and explains a cluster analysis to assess levels of economic, environmental, political, security and societal fragility.*

As fragility is a multidimensional phenomenon, it does not lend itself to simple explanation. It occurs over a spectrum of intensity, with all countries and societies exhibiting fragility at some point and to some extent. With this in mind, the OECD introduced a new multidimensional fragility framework in 2016 in order to better reflect fragility's complexity and to highlight those contexts that require differentiated attention. The framework represents a major shift in how fragility is conceptualised by framing it as a combination of risks and coping capacities in economic, environmental, political, security and societal dimensions.[1]

The framework considers current exposure to negative events, such as disasters and armed conflict, as well as capacity to cope with future negative events (Box 2.1). It thus offers the advantage of a more comprehensive and universally relevant perspective because it takes into consideration that each context experiences its own unique combinations of risks and coping capacities. Figure 2.1 shows the contexts counter-clockwise by increasing levels of fragility. However, the ordering is only indicative; inherent in the concept of multidimensionality is the fact that contexts next to each other in this visualisation of the framework face different types of fragilities and thus should not be directly compared to one another.

Box 2.1. What is fragility?

The OECD characterises fragility as the combination of exposure to risk and insufficient coping capacity of the state, system and/or communities to manage, absorb or mitigate those risks. Fragility can lead to negative outcomes including violence, the breakdown of institutions, displacement, humanitarian crises or other emergencies.

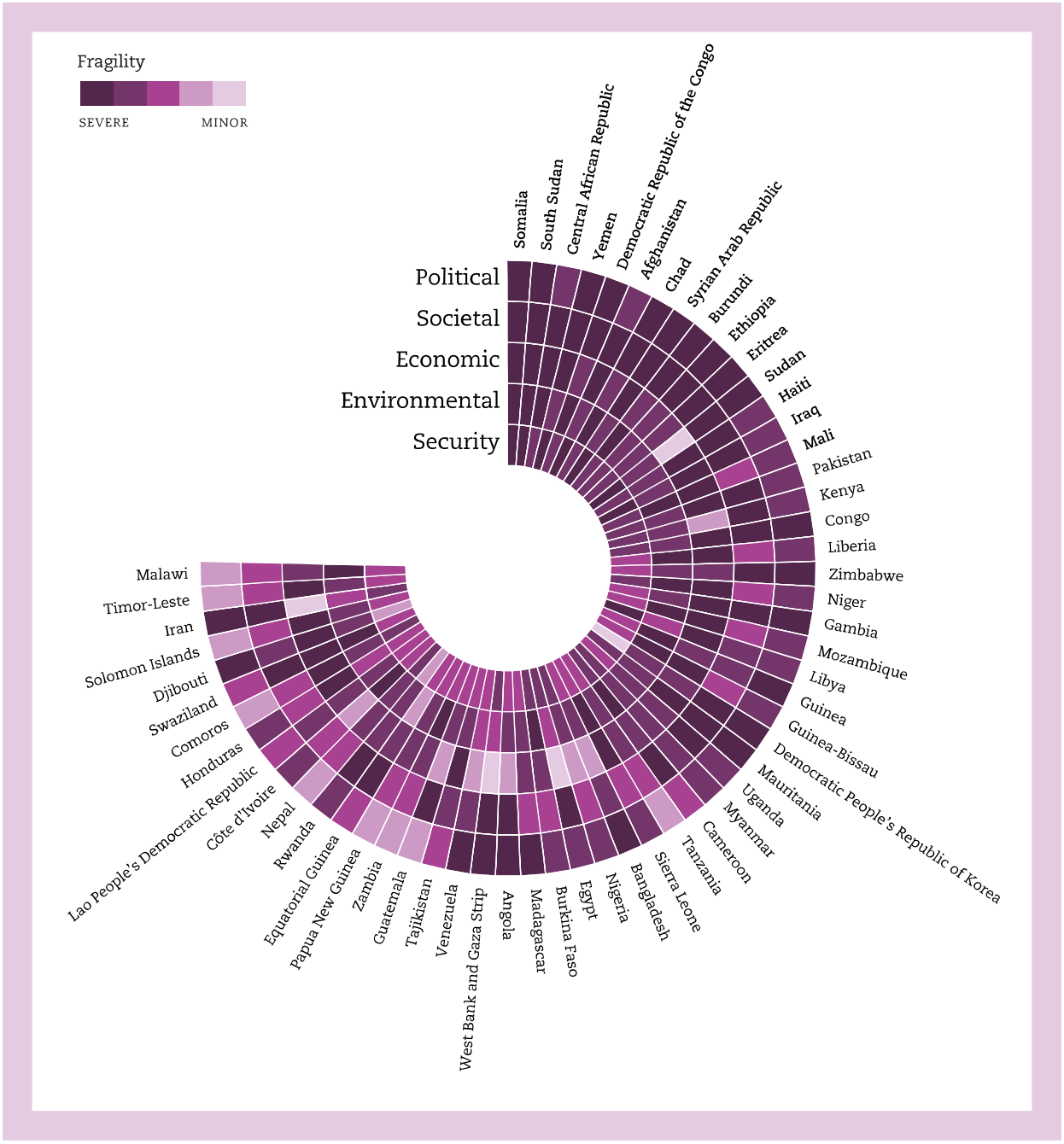
Source: (OECD, 2016[1]), *States of Fragility 2016: Understanding Violence*, http://dx.doi.org/10.1787/9789264267213-en.

2.1. Multidimensional fragility

The multidimensional aspect of the fragility framework is one of its most important features. It allows for a more nuanced perspective because it captures the diversity of contexts affected by fragility and the dimensions of fragility in each context where indicators point to worrying or encouraging performance. The use of dimensions helps to highlight areas that might require further attention due to the vulnerabilities that are present and to show where coping capacities need to be further strengthened. The resulting granularity supports the need for differentiated approaches based on the particular type of fragility a context is experiencing and the risks and coping capacities contributing to that fragility.

The framework also offers an aggregate picture of fragility, done in the second stage of the analysis, and so provides an overall picture of fragile contexts. The result is a detailed, dynamic overview of the state of fragility in the world.

Figure 2.1. OECD fragility framework 2018



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2.1.1. Aggregate fragility in the 2018 fragility framework

The average of aggregate fragility increased between the 2016 and the 2018 fragility frameworks. This is mostly due to increases in environmental, security and societal fragility. The following key points emerged in the 2018 assessment of the state of fragility:

Economic fragility. Average economic fragility in the 58 contexts decreased slightly. The countries that improved the most in this dimension are Angola, Republic of the Congo ("Congo"), Equatorial Guinea, Iraq and Myanmar. Central African Republic, Libya and Mozambique experienced the most severe deteriorations in this dimension of fragility.

Environmental fragility. Average environmental fragility has increased since the 2016 fragility framework. Countries that deteriorated in this dimension are Burundi, Mozambique, Syrian Arab Republic ("Syria"), Tajikistan, United Republic of Tanzania ("Tanzania") and Yemen. The Islamic Republic of Iran ("Iran"), Myanmar, Sierra Leone and Swaziland had the most profound improvement.

Political fragility. Average political fragility has decreased since the 2016 fragility framework. This reflects improved performance by Burkina Faso, Egypt, Myanmar and Papua New Guinea. Burundi, Niger, South Sudan, West Bank and Gaza Strip, and Yemen experienced the most severe deterioration.

Security fragility. Average security fragility has increased from the 2016 *States of Fragility* report, although the most recent data show a levelling off of this increase. Fragility in this dimension increased most dramatically in Burkina Faso, Cameroon, Chad, Congo, Niger and Yemen. Improvements were evident in Djibouti, Iraq, Nigeria, Pakistan, Uganda, and West Bank and Gaza Strip.

Societal fragility. Average societal fragility has increased slightly since the 2016 fragility framework. This measure captures major deterioration in Burundi, Cameroon, Egypt, Mozambique, Pakistan, Tanzania, Yemen and Zambia. Central African Republic, Iraq, Somalia and Sudan evidenced improvement in this dimension of fragility.

2.1.2. Cluster analysis and the dimensional severity of fragility

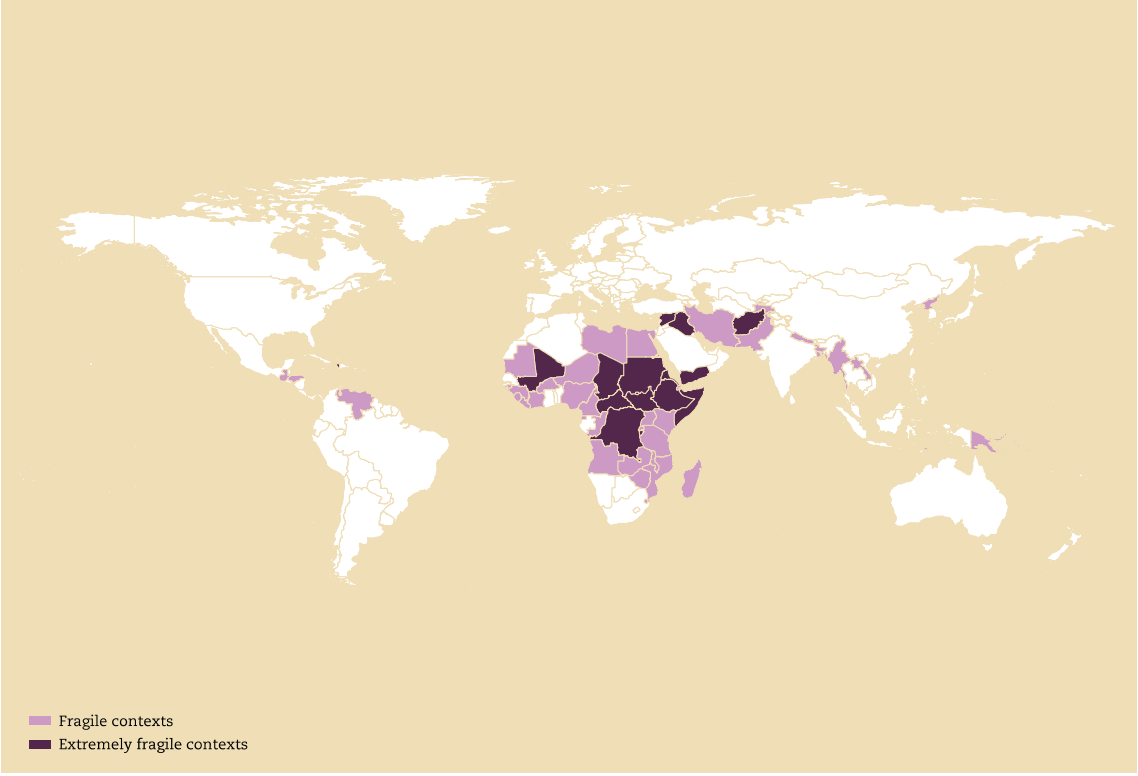
In order to determine the severity of fragility in each dimension, contexts are clustered together in groups with similar characteristics and a profile of each cluster is generated that captures its main quantitative attributes. The clusters serve as an indicative tool to qualitatively assess different levels of fragility within each dimension. The lens used for assessment of the unique combination of risks and coping capacities in each cluster is the impact that these have on people's lives. While this is a subjective exercise, it is designed to ground the quantitative understanding of fragility with a qualitative understanding of how people who live in these contexts are experiencing fragility on a daily basis. As an outcome of the cluster analysis, the clusters are ranked on a six-level severity scale from 1 (severe fragility) to 6 (non-fragile). The shading of the colours for each dimension from darker to lighter in the 2018 framework presented in Figure 2.1 corresponds to the degree of severity on that scale. Further information about the clustering technique is available in the Annex to the report.

2.2. Overview of results from the 2018 fragility framework

The 2016 fragility framework included 56 fragile contexts, 15 of them classified as extremely fragile and 41 as fragile. Using the same cut-off threshold as for the 2016 framework, the 2018 fragility framework increases the total number of fragile contexts to

58, with the same 15 contexts still considered as extremely fragile and 43 contexts now considered fragile (Figure 2.2).

Figure 2.2. 58 fragile contexts in the OECD fragility framework 2018



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Sudan is the only one of the 15 extremely fragile contexts to have demonstrably improved, and this is the result of better performance in the societal, political, security and environmental dimensions. This better performance relates to decreases in horizontal inequality, the perception of corruption, deaths due to violence by non-state actors and deaths from infectious disease, and to an increase in access to justice and the robustness of civil society. Another notable change in the extremely fragile category is seen in Syria, which has worsened considerably since the 2016 fragility framework and is the world's worst-performing country in the security dimension and on several indicators in the societal and economic dimensions.

The same three countries – Somalia, South Sudan and Central African Republic – are the top-three most extremely fragile contexts in both the 2016 and 2018 frameworks. Somalia remains the most fragile context in the world due to its persistent weak results on all institutional performance indicators distributed across all five dimensions and to its extremely poor indicators on government effectiveness, rule of law, perception of corruption and socio-economic vulnerability.

Mali, too, remained in the extremely fragile category, mainly because fragility worsened in the economic dimension due to increased resource rent dependence and higher rates of people not employed or not in education. Despite this deterioration, Mali experienced some improvement in other dimensions, although it continues to perform poorly on indicators in the security dimension and on perception of corruption.

2.2.1. Movements into and out of the 2018 framework

Two countries, Cambodia and Lesotho, moved out of the framework in 2018. Djibouti, Equatorial Guinea, Iran and Nepal moved into the framework, although Equatorial Guinea appeared in the framework because it finally met the data threshold and not necessarily because of a drastic change in its overall fragility. (Box 2.2 discusses data constraints more fully.) Following are some key points about the other contexts that appear for the first time in the framework:

Djibouti is particularly weak in the political dimension. Poor performance on several indicators – specifically voice and accountability and judicial and legislative constraints on executive power – can explain its inclusion in the framework. There is also a fairly high perception of corruption. In recent years, Djibouti has slightly worsened in all dimensions apart from the security dimension, which reflects some significant decreases in risks related to human activity such as terrorism, violent conflict and the homicide rate.

Iran is an addition towards the end of the framework but exhibits high fragility in both societal and political dimensions. Iran is one of the 15 worst-performing contexts in terms of societal fragility due to an extremely high level of horizontal inequality and a high level of gender inequality. The large number of refugees and displaced people in Iran also drives societal fragility.

Iran's outcomes in the political dimension also contributed to its inclusion in the 2018 fragility framework. It scores high on the political terror indicator that measures state-sanctioned or state-perpetrated violence (e.g. assassinations of political challengers and police brutality) and demonstrates low levels of judicial constraints on executive power. Iran's weak performance on indicators measuring voice and accountability negatively affected its performance in the societal and political dimensions of fragility. Performance in the economic and security dimensions also worsened. This is evidenced by rising unemployment and increased risk of violent conflicts, which is the statistical risk of violent conflict in the next one to four years, based on 25 quantitative indicators.

Nepal shows fragility in both the security and economic dimensions. Its worst-performing indicators in the security dimension relate to government effectiveness and to the high level of criminal activities that are similar, for comparative purposes, to those of Egypt and Russia. In the economic dimension, Nepal's economic fragility can be explained in part by the low growth rate of gross domestic product (GDP) and its unchanged level of aid dependency, which matches that of Zimbabwe.

The earthquake in April 2015, which killed nearly 9 000 people and resulted in economic damages of about USD 5.2 billion, has most likely exacerbated fragility in both dimensions (CRED, 2018[2]). While Nepal is not particularly weak in the environmental and societal dimensions compared to other contexts in the framework, these dimensions still worsened over time. In the political dimension, however, there have been improvements, with a decrease in the perception of corruption and an increase in the voice and accountability indicator.

Box 2.2. Data challenges with the measurement of fragility

While measuring fragility has become vastly more rigorous in recent years, in many ways it is still more art than science. In most respects, this is the result of considerable limitations to existing data. The data are insufficient to keep up with the ever-expanding qualitative conceptualisation of fragility and with the causes and consequences of fragility. Statistical imputation methods can be used to fill data gaps. But this approach is best used sparingly, even if it means dropping indicators or countries and territories that otherwise would have been included. This has an impact not only on the OECD fragility framework but also on the development sector more broadly. It is thus worth highlighting the specific challenges of capturing fragility, as many of these will need to be addressed before the policy community is able to continue to evolve both understanding of and responses to the myriad manifestations of fragility. Here are some of these challenges:

Data threshold. To be included in the OECD fragility framework, a context must have at least 70% of required data. This criterion meant that just 172 contexts could be included in the calculations in 2018.[2] It should be noted that the absence of data does not mean the excluded contexts are not, in fact, fragile. Indeed, many of these are small island developing states facing distinct fragility challenges. Five of these contexts[3] have been considered fragile in other methodologies (ADB, 2016[3]).

Country level. The primary unit of analysis in the fragility framework is the state or territory. This means that the framework is unable to capture external factors and macro-level drivers that spill over borders as well as subnational and micro-level drivers that indicate pockets of fragility within borders. Both kinds of drivers can obviously have a large impact on fragility and are important to take into account through other means. Going forward, the OECD will continue to explore how different layers of fragility, beyond just the nation state, can be incorporated into the framework.

Time. Various aspects of time continue to present problems for measuring fragility, which is an inherently mutable and dynamic phenomenon. Issues with the age of data, which are from 2016 for the most part, arose in the 2018 OECD framework. This was the case, for instance, with analysis of Venezuela's performance and with Myanmar's positive trajectory between the previous framework and the current one. A related issue is that data are not collected frequently enough to always take account of shocks, triggers and rapidly unfolding situations and, in some cases, to even compare data from year to year. An additional challenge is that most measures of fragility are snapshots in time, so it is also difficult to capture the dynamics of change and overall trajectory. These are important markers because a society may be continuously adapting to its fragility and thus building resilience.

Informality. In many places, informal networks, institutions, processes, economies and practices serve critical functions within society that are impossible to separate from either the risks the society faces or its inherent coping capacities. Informal systems, indeed, often are the backbone of coping capacity. Yet there are more and much better data on formal mechanisms and institutions than on informal systems, despite the latter's importance. This makes it difficult to credibly capture the important impact that informal aspects can have on a context's overall fragility.

Societal dynamics. Intra-group and inter-group dynamics are increasingly recognised as fundamental influences on every society's pathway (UN/World Bank, 2018, p. xxii[4]). These include horizontal inequality, which shapes the economic and political relationships among groups, as well as shared histories, mutual trust and mistrust, narratives, grievances, and perceptions. Factors such as social and cultural capital and societal cohesion also affect the way that societies experience and deal with fragility. While various forms of inequality can be measured, it is still very difficult to quantitatively and fully capture the myriad interwoven influences and systems that determine how well, or how poorly, societies function.

Although four countries moved into the 2018 fragility framework, Cambodia and Lesotho both improved appreciably enough to drop off. **Cambodia** markedly improved in the political dimension, with positive gains on decentralisation and regime persistence. Measures of the levels of state-sanctioned or state-perpetrated violence also improved. Cambodia also slightly improved in the economic dimension through better performance on indicators of resource rent dependence, economic remoteness and aid dependency.

Lesotho saw improvement in the environmental, security and economic dimensions, which contributed to it no longer being included in the fragility framework. The environmental dimension improvement was due to a dramatic decrease in the prevalence of infectious disease. Lesotho also demonstrated better performance on the rule of law indicator and a decrease in violent conflict risk, which also had positive impacts on security fragility. Improvements in the economic dimension included decreases in aid dependency and socio-economic vulnerability which, coupled with improvements in regulatory quality, added to the overall positive change.

2.2.2. Deteriorations and improvements of fragile contexts

Slight statistical variations with the data can explain some minor adjustments to the placement of contexts in the fragility framework from 2016 to 2018. However, several countries deteriorated or improved enough to merit explanation.

Deteriorations

Libya improved in the security dimension due to a decrease in deaths caused by non-state actors. However, its aggregate fragility worsened because of increased fragility in the economic, political and environmental dimensions. On certain indicators, Libya performs worse than Central African Republic and Somalia, both of which are considered extremely fragile contexts. On rule of law, Central African Republic performs better. On regulatory quality, Somalia performs better than Libya, which performs worse than all other contexts. Libya's socio-economic vulnerability and aid dependency have increased. Resource rent dependence and the unemployment rate are currently stable and Libya continues to have the highest percentage of GDP from natural resources.

Congo has performed better in the economic dimension in recent years, but its aggregate fragility increased mainly due to deterioration in the security and political dimensions. In particular, the political dimension has worsened as a result of loosening constraints on executive power, lowered voice and accountability, and higher perception of corruption by citizens. Congo also shows an increase in the levels of gender inequality, which stand as the seventh highest in the world.

Tajikistan worsened in all five dimensions. However, deterioration was particularly apparent in the security, environmental and societal dimensions. The decline in the security dimension was the most obvious, with risks associated with terrorism and violent conflicts having increased.

Cameroon experienced increased fragility in the security dimension. The number of armed security officers per 100 000 inhabitants, already one of the lowest in the world in 2016, decreased even further, while battle-related deaths and the homicide rate increased. Several other risk indicators, such as the impact of terrorism and violent conflict risk, have also increased. The rule of law indicator has worsened, affecting both security and environmental fragility.

Egypt performed well in the economic and political dimensions. Resource rent and aid dependence as well as unemployment decreased. GDP grew and there were improvements in both legislative and judicial constraints on executive power. Nonetheless, both security and societal fragility increased. The societal deterioration is due to issues around civil society, access to justice, voice and accountability, and an increase in horizontal inequality.

Pakistan worsened in aggregate fragility despite improvements in the economic and security dimensions. This is mostly due to deterioration in the environmental dimension and in the societal dimension, where Pakistan ranks as the sixth worst in terms of horizontal inequality.

Improvements

West Bank and Gaza Strip experienced slight improvements in the societal and environmental dimensions, but the improvement in aggregate fragility is mostly due to the security dimension. Here, there was a large decrease in the risk of violent conflict. However, despite its trend upwards in the framework and improvement in overall security, West Bank and Gaza Strip still ranks second worst in the world, just after Syria, in control over territory. The political dimension has also worsened due to decrease in voice and accountability and an increase of political terror.

Nigeria experienced considerable improvements in the security dimension including increased control over territory and a significant decrease in battle-related deaths, deaths by non-state actors, the homicide rate and the impact of terrorism. But on this terrorism impact indicator, Nigeria still has the third-worst score of any context in the world, just after Afghanistan. A major decrease in resource rent dependence reduced economic fragility. Nigeria also saw modest improvements in the political dimension with a decrease in the perception of corruption and political terror.

Myanmar improved in all dimensions of fragility. The most significant improvements occurred in the political dimension, thanks to better performance on several different indicators. Institutional improvements were reflected in indicators of governance such as voice and accountability, access to justice, regulatory quality, government effectiveness, rule of law, and decentralised elections. There was also improvement on gender equality, resource rent and aid dependency, and socio-economic vulnerability. However, the analysis drew on data that dated from before the current Rohingya crisis, meaning this year's fragility framework does not capture any negative effects and impacts of the crisis.

Guinea made significant improvements in the political dimension, as perception of corruption, regime persistence and political terror all decreased. It also saw slight improvements in the societal, environmental and economic dimensions. This was due to increased voice and accountability and improved regulatory quality, among other issues,

and a decrease in the prevalence of infectious disease and in the unemployment rate. However, the impact of terrorism and the risk of violent conflict have increased fragility in the security dimension.

Papua New Guinea experienced significant improvements in the political dimension. These were driven by better performance on perception of corruption, political terror, regime persistence, and voice and accountability. Violent conflict risk also decreased, although the country still suffers from a relatively high homicide rate and a significant level of violent criminal activities.

Box 2.3. Fragility in the Northern Triangle

In recognising the multidimensionality of fragility, the OECD fragility framework goes beyond traditional framings of fragility and so covers a broader range of fragile contexts than other fragility lists or groupings. This means that Guatemala and Honduras have been included in both the 2016 and the 2018 fragility frameworks. El Salvador, the third country of the Northern Triangle, has not featured in either framework.

Although the three countries share skyrocketing homicide rates, widespread gang violence, high levels of corruption and many other similarities, they nevertheless are experiencing fragility to differing degrees. This is why El Salvador is not in the fragility frameworks despite considerable and worrying deteriorations in the security dimension, and Guatemala and Honduras are still considered fragile despite having made some of the most significant improvements compared to the 2016 framework.

In the economic dimension, El Salvador scores slightly better than these two neighbours, mainly due to better scores in education and regulatory quality, lower resource rent dependence, and higher employment rates for women. It also does better in the environmental dimension.

While El Salvador and Guatemala perform similarly in some aspects of the political dimension, there are differences in their performance in certain indicators. El Salvador has a higher degree of voice and accountability, has more judicial constraints on executive power, and performs better in perception of corruption. Guatemala has deteriorated on this latter indicator, scoring the worst of the three Northern Triangle countries.

El Salvador also fares slightly better in the security dimension, despite deteriorations in rule of law, government effectiveness, and violent conflict risk, but it experienced a recent, sharp surge in its homicide rate. Indeed, for 2015 and 2016, El Salvador was considered the most violent place in the world while Honduras was reported to be the third-most violent and Guatemala the fifth-most violent (The Economist, 2017[5]). In addition, the homicide rate in Honduras has significantly improved, dropping to 42 (per 100 000 inhabitants) in 2017 from 86 in 2012 (Rísquez, 2017[6]).

Of the three Northern Triangle countries, Guatemala is the worst performer on the societal dimension in the 2018 framework, due mainly to much higher horizontal inequality and a lower score for access to justice. Yet, compared to the last framework, Guatemala also made slight improvements in access to justice, voice and accountability, and the core civil society index. Of the three countries, Honduras scored highest on access to justice and El Salvador performed best in inequality indices.

The nuances of the different countries' performance and their impact on aggregate fragility demonstrate the importance of taking a multidimensional approach. They also

show the difficulty of comparing levels of fragility in different contexts, even in the same region. In its multidimensionality, fragility is inherently fluid, further emphasising the need to go beyond the numbers to delve more deeply into the reasons for changes and whether they may last. For instance, in the Northern Triangle, the ratio of private security guards to police officers is very high at five to one in Guatemala and seven to one in Honduras (Kinosian and Bosworth, 2018[7]). This raises questions regarding the legitimacy of the state to provide basic services and the implications of security being a private good that only those with a certain income can afford. While it is unknown whether the proportionately large number of private security companies in Honduras is related to its more positive performance on homicide indicators, this ratio shows why it is important to complement any quantitative work with focused qualitative work to build a more comprehensive picture.

Notes

[1] For a more complete description of the indicators considered in each dimension and the methodology behind the fragility framework, see the Technical Annex.

[2] A list of excluded contexts is available in the Technical Annex.

[3] The Asian Development Bank, for instance, considers Afghanistan, Kiribati, Marshall Islands, Federated States of Micronesia, Myanmar, Nauru, Papua New Guinea, Solomon Islands, Timor-Leste and Tuvalu to be fragile situations.

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Chapter 3. How are fragile contexts faring in achieving sustainable development?

by

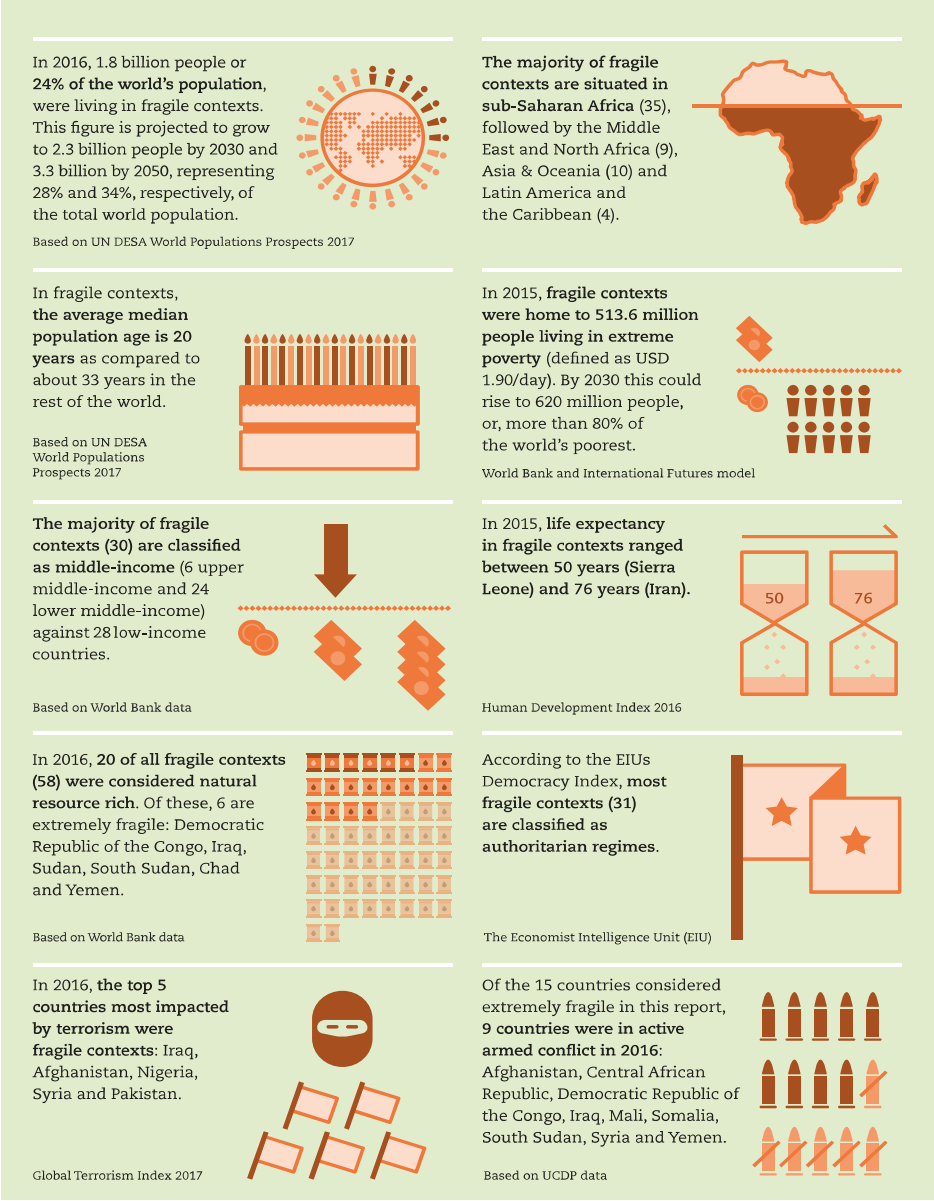
Cora Berner, Development Co-operation Directorate, OECD

Chapter 3 presents initial progress made by fragile contexts towards the Sustainable Development Goals and other development indicators, stressing as well the unique challenges fragile contexts face in meeting global development ambitions. It addresses some of the challenges of collecting data and measuring progress on sustainable development in fragile contexts and then compares the 58 fragile contexts in the fragility framework against a range of issues associated with sustainable development. Among the issues considered are projected population growth, the growing concentration of global poverty in vulnerable settings and the impact of violence in fragile contexts. This chapter also looks at the issue of governance and fragility, in particular performance in delivery of basic services and public goods such as education and health, and discusses the challenges of inequality in fragile contexts.

Many individual fragile contexts have made important strides towards achieving sustainable development. But as a group, they are already lagging behind countries and economies that are not fragile. While most fragile contexts are on track to meet Sustainable Development Goals (SDGs) 13 and 17, great challenges remain regarding achievement of SDGs 1, 2, 3 and 16, among others (Sachs et al., 2017, pp. 15-19[1]). In fact, most fragile contexts rank among the worst-performing countries on SDG 16 targets (Institute for Economics and Peace, 2017[2]).

This means that fragile contexts are already the furthest behind for an agenda grounded in a commitment to leave no one behind. Out of 157 countries for which data on SDG progress are available, fragile contexts consistently rank in the lower third. The extremely fragile countries of the Democratic Republic of the Congo, Chad and Central African Republic are at the bottom of the rankings, in 155th, 156th and 157th place respectively (Sachs et al., 2017, p. 11[1]). Key characteristics of fragile contexts are presented in Figure 3.1.

Figure 3.1. Key characteristics of fragile contexts



Sources: (UN DESA, 2017[3]), "World Population Prospects 2017", (database), https://esa.un.org/unpd/wpp/; (World Bank, 2018[4]), "Poverty & Equity Data Portal", (database), http://povertydata.worldbank.org/poverty/home/; (International Futures, n.d.[5]), "IFs Modelling System, Version 7.31", (database), http://www.ifs.du.edu/ifs/frm_MainMenu.aspx; (World Bank, 2018[6]), "Total natural resources rents (% of GDP)", *World Development Indicators* (database), https://data.worldbank.org/indicator/NY.GDP.TOTL.RT.ZS; (Institute for Economics and Peace, 2017[7]), *Global Terrorism Index 2017: Measuring and Understanding the Impact of Terrorism,* http://visionofhumanity.org/app/uploads/2017/11/Global-Terrorism-Index-2017.pdf; (UNDP, 2016[8]), *Human Development Report 2016,* Human Development for Everyone, http://hdr.undp.org/sites/default/files/2016_human_development_report.pdf; (The Economist Intelligence Unit, n.d.[9]), *The Economist Intelligence Unit's Democracy Index,* https://infographics.economist.com/2018/DemocracyIndex/; (Uppsala University, n.d.[10]), UCDP - *Uppsala Conflict Data Program*, http://ucdp.uu.se/.

3.1. Lack of data

The lack of data and weak statistical systems in many places remain major challenges to planning for and tracking SDG achievement (OECD, 2017[11]). For instance, about two-thirds of the 232 SDG indicators lack data and 88 indicators lack even an agreed methodology for measuring them. In addition, only 37 countries have national statistical legislation that meets the United Nations (UN) Fundamental Principles of Official Statistics; a continued lack of gender-disaggregated data and "gaps in political will, funding and capacity" pose further obstacles to comprehensively tracking progress towards sustainable development (OECD, 2017, p. 80[11]).

On the whole, for 10 of the 58 countries in the 2018 fragility framework, the data available do not even cover 80% of the SDG indicators (Sachs et al., 2017, p. 50[1]). Despite these obstacles, the *Development Co-operation Report 2017* finds that donor support for statistics has increasingly shifted to fragile situations, making the Democratic Republic of the Congo and Afghanistan – two extremely fragile contexts – the top two recipients of aid for statistics between 2013 and 2015 (OECD, 2017, p. 81[11]). These are promising developments. But donors from the OECD Development Assistance Committee (DAC) and non-DAC donors will need to continue to follow up on their commitments to the 2030 Agenda. These commitments concern more than simply delivering development but also building the capacity to understand and monitor that delivery and its results.

Box 3.1. Strengthening national statistical capacities in fragile contexts

With the support of development partners, national statistical systems have made progress in strengthening their statistical capacities. But they remain weak in fragile contexts. These systems suffer from inadequate facilities and a lack of resources and technical skills. In addition, some developing country governments are unable to safely access all of their territory. These issues contributed to fragile contexts lagging in reporting on Millennium Development Goals for all eight objectives. As noted in the 2017 PARIS21 *Partner Report on Support to Statistics* (PRESS), fragile contexts[1] are now receiving attention from the statistical development community as a result (Paris 21, 2017[12]). According to the report, total financial commitments to statistical development received by fragile contexts between 2013 and 2015[2] amounted to USD 507 million. This represents nearly one-third of all statistical development commitments worldwide over the same period.

According to the 2017 PRESS report (Paris 21, 2017[12]), Afghanistan, Democratic Republic of the Congo, Madagascar, Myanmar, South Sudan and Yemen received more than two-thirds of all statistical aid to fragile contexts. Overall, 11 fragile contexts received more than USD 10 million each in commitments dedicated to statistical development. Five donors – Canada, the United Kingdom, the European Union (EU), the United Nations Population Fund (UNFPA) and the World Bank – provided nearly 80% of the total aid towards statistics to fragile contexts.

The most recent Sustainable Development Goals (SDGs) monitoring report also shows that only one in ten fragile contexts has a fully-funded national statistical plan under implementation in 2017 (UN DESA, 2018[13]). In terms of sector distribution, the greatest proportion of total commitments is going to demographic statistics and particularly to support civil and birth registration, which remains low in fragile contexts (59% registered versus the global average of 71%) (UN DESA, 2017[14]). International support has paid off over the years. The average Statistical Capacity Index score of contexts experiencing fragility increased by 5, to 51 from 46 out of 100, between 2010 and 2015 (World Bank, n.d.[15]). In the same period, the average for International Development Association (IDA) borrowing countries increased

only by 2, to 63 from 61 out of 100. Fragile contexts continue to gradually engage in statistical capacity activities. Myanmar, for example, has conducted its first census in 30 years and Libya created its first National Strategy for Statistical Development to be implemented in 2018-23.

More commitments and long-term investment for strengthening systems and capacity development are crucial in contexts experiencing fragility, as these are at the centre of any statistical building activity. This is especially true in light of the 2030 Agenda for the implementation and monitoring of National Development Plans and the SDGs to fill sector-specific gaps in areas such as environmental and economic statistics. Statistical capacity development needs to be at the centre of the support provided to fragile contexts. Ensuring that funding for statistical development is explicitly included in this support is one way to guarantee consistent and sustainable statistical capacity.

Figure 3.2. Fragile states with more than USD 10 million of commitments, 2013-15



Note: Bosnia and Herzegovina is included on the World Bank's Harmonized List, which was used for the *Partner Report on Support to Statistics*, but is not included on the OECD fragility framework.

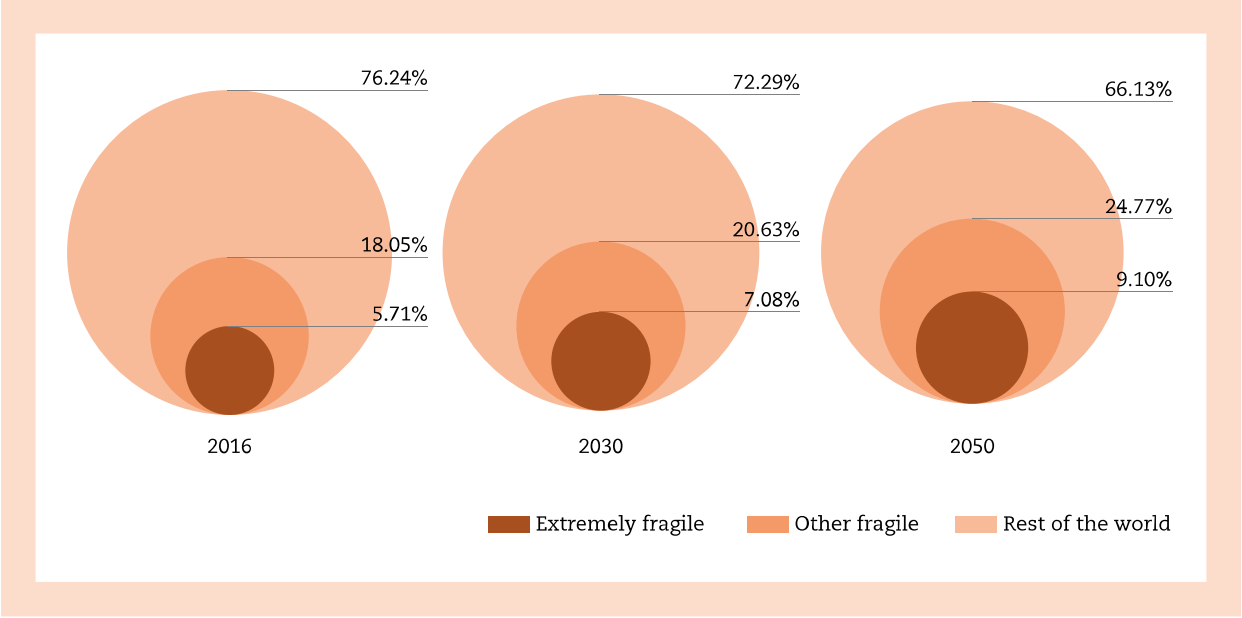
Source: (Paris 21, 2017[12]), *Partner Report on Support to Statistics: PRESS 2017*, www.paris21.org/sites/default/files/2017-10/PRESS2017_web2.pdf.

StatLink http://dx.doi.org/10.1787/888933786895

3.2. Population

Projections developed for this report suggest that the percentage of the world's population living in fragile contexts will increase in the coming decades. Currently, about 1.8 billion people live in fragile contexts, representing 24% of the global population. By 2030, the population in these contexts is projected to increase to 2.3 billion people, about 28% of the world population. It is estimated to increase further, reaching 3.3 billion people, or 34% of the world population, by 2050 (Figure 3.3).

Figure 3.3. Projections of global population in fragile contexts, 2016-50



Source: (UN DESA, 2017[3]), "World Population Prospects 2017", (database), https://esa.un.org/unpd/wpp/.

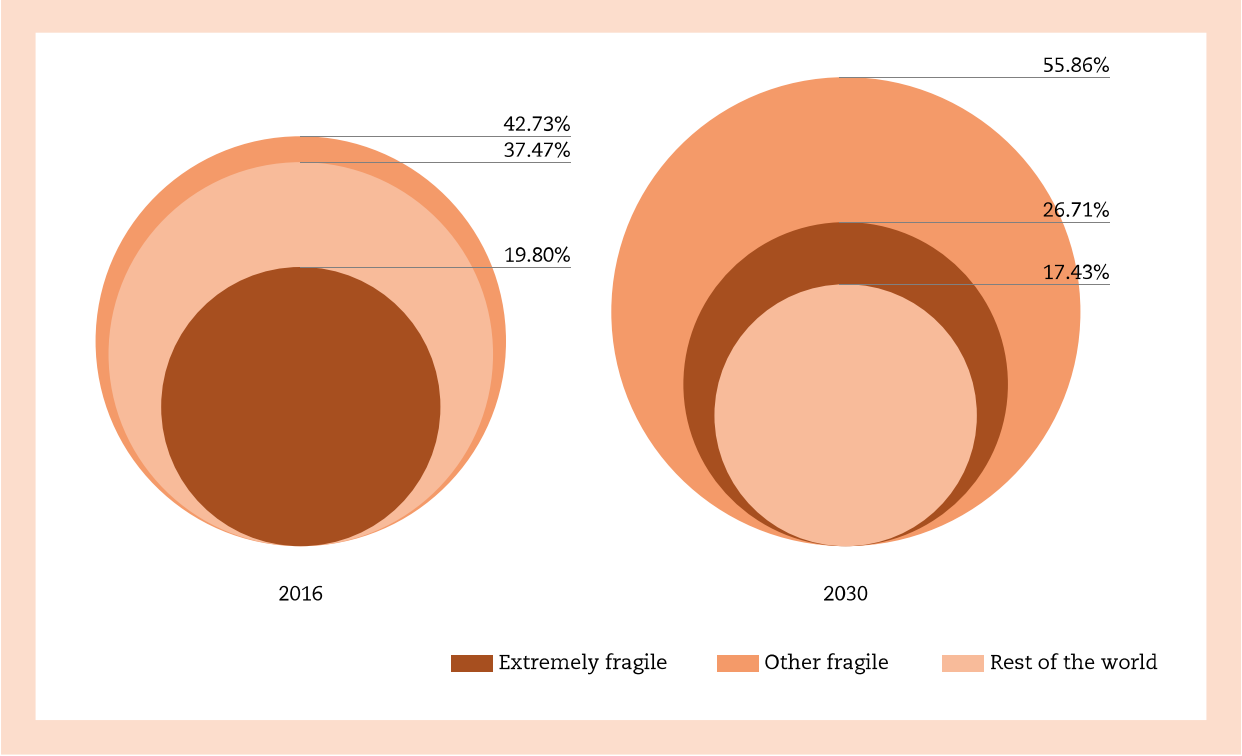
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Population growth will remake regions. While 60% of the global population (4.5 billion people) were living in Asia in 2017, estimates suggest that more than 50% of the anticipated growth in world population between 2017 and 2050 will occur in Africa (UN DESA, 2017, p. 1 [16]). Half of this global population growth is predicted to occur in just nine countries, six of which are affected by fragility (the Democratic Republic of the Congo, Ethiopia, Nigeria, Pakistan, Tanzania and Uganda) (UN DESA, 2017, p. 5[16]). For example, by 2050, Nigeria – currently the world's seventh-most populous country – is projected to overtake the United States in terms of population and become the third-most populous country in the world (UN DESA, 2017, p. 5[16]). The population of Pakistan, which currently ranks among the ten largest countries in the world, is likely to surpass the 300-million mark by 2050. In all of these countries, population growth is mainly driven by high fertility rates, with the highest rates of fertility in the Democratic Republic of the Congo, Nigeria, Tanzania and Uganda (UN DESA, 2017, p. 6[16]).

3.3. Poverty

Most of the 58 countries identified in this report as affected by fragility face great challenges in ending extreme poverty, which is defined as living on less than USD 1.90 a day. The UN finds that the percentage of people living in extreme poverty around the world has decreased significantly, to 11% in 2013 from 28% in 1999 (UN DESA, 2017, p. 16[14]) However, according to calculations undertaken for this report, the percentage of people living in extreme poverty is projected to rise in 40 of the 58 fragile contexts by 2030, the horizon for achieving the SDGs. If no action is taken, the number of people living below the international poverty line in fragile situations is estimated to rise to 620 million in 2030 from 513.6 million in 2015. This means that more than 80% of the world's poorest people could be living in fragile contexts by 2030. In 2030, the extremely poor will be mostly concentrated in 4 of the 58 countries in the OECD framework: Nigeria (population 130 million), the Democratic Republic of the Congo (population 80 million), Tanzania (population 30 million) and Madagascar (population 28 million).

Figure 3.4. Projections of extreme poverty in fragile contexts, 2016-30



Sources: (World Bank, 2018[4]), "Poverty & Equity Data Portal", (database), http://povertydata.worldbank.org/poverty/home/. Projection data from (International Futures, n.d.[5]), *IFs* "Modelling System, Version 7.31", (database), www.ifs.du.edu/ifs/frm_MainMenu.aspx.

StatLink http://dx.doi.org/10.1787/888933786933

The fastest progress towards ending extreme poverty has been in East Asia and Southeast Asia, where it declined by 32% from 1999 to 2013 (UN DESA, 2017, p. 16[14]). In sub-Saharan Africa, where the majority (36) of fragile contexts are located, the pace of poverty reduction has been slower, with about 41% of the population still living in extreme

poverty in 2013 (World Bank, 2017, p. 36[17]). Another recent study makes similar projections, arguing that the least likely places to end poverty by 2030 are 31 "severely off track countries" with low government effectiveness, a weak private sector, conflict and violence, natural hazards, and environmental risks that contribute to stagnating poverty rates (Gertz and Kharas, 13 February 2018[18]). The same study also estimates that four out of five people affected by extreme poverty in 2030 will be living in these countries. These findings track with fragility. All but two countries identified by Gertz and Kharas in their study (13 February 2018[18]) are considered fragile in the OECD fragility framework.

Even advanced economies face challenges with regard to reaching domestic poverty targets. This can be seen in a recent baseline assessment of Canada's SDG achievement that finds progress has stalled towards the goal of reducing domestic income poverty by 50% in 2030 (McArthur and Rasmussen, 2017[19]). Indeed, it will not be easy for many countries to meet the poverty eradication target of SDG 1, and this should put in stark relief the severe challenges faced by fragile contexts. As tackling extreme poverty will increasingly be an issue attached to the fragility agenda, a concerted effort will be required to better understand and address the multiplicity of factors that are hampering swifter progress in these places.

3.4. Inequality

The widening gap between the rich and the poor has become one of the defining challenges of the 21st century. As a 2017 Oxfam report highlights, the richest 1% have owned more wealth than all the rest of the world since 2015 (Hardoon, 2017[20]). Income inequality is a major hurdle to inclusive growth and poverty alleviation, posing great challenges to meeting the 2030 Agenda (World Bank, 2016, p. 69[21]). Inequality is a global problem. But its consequences are even more devastating in fragile contexts, especially in sub-Saharan Africa and the Middle East where income inequality has stabilised at extremely high levels (Alvaredo et al., 2018, p. 40[22]). According to the Gini Index, countries considered extremely fragile, among them Haiti and Central African Republic, are also among the countries with the most unequal income distributions (Sachs et al., 2017, p. 436[1]). These figures needs to be treated cautiously, however, in light of recent research criticising standard measurements of income inequality and raising questions about the relatively low quality of the data used to compute the Gini Index (World Inequality Lab, n.d.[23]; Alvaredo et al., 2018, p. 27[22]). Another criticism is that income and wealth levels are often implausibly low in these measurements, especially at the top of the distribution, (World Inequality Lab, n.d.[23]).

There is now a greater appreciation among researchers of the importance of people's perceptions of deteriorating life satisfaction, partly as a result of such questions and also in consideration of the role that perceived deterioration in life satisfaction played in driving the 2011 Arab Spring upheavals. To better understand and evaluate income inequality, academics are starting to go beyond income-wealth-consumption metrics to include measures of subjective well-being and life satisfaction as significant components in analyses of inequality (World Bank, 2016, p. 73[21]). The OECD, for instance, is currently in the process of developing a "New Economic Narrative" that includes a new perspective on growth and inclusion (OECD, 2017[24]). Issues such as these are likely to grow in importance for inequality assessments and their relevance in fragile contexts is especially salient. In many fragile places, youth unemployment is rampant and a lack of hope in the future and future prospects prevails. The disparity between people's expectations and the reality of their lives can exacerbate grievances, especially when people become aware or

perceive that others elsewhere are faring better; these grievances can deepen social divisions and worsen fragility (UN/World Bank, 2018[25]).

3.5. Governance

Academics and policy makers by now recognise the importance of credible, efficient governance as a driver for sustainable development (World Bank, 2017[26]). Governance in the development context is variously defined as "the process through which actors reach and sustain agreements over the distribution of rights, resources and responsibilities" (World Bank, 2017, p. 3[26]) or "the exercise of political, economic and administrative authority necessary to manage a nation's affairs" (OECD, 2006, p. 147[27]). It is crucial to ensure security, enhance economic growth, and mitigate inequalities and social exclusion (World Bank, 2017[26]).

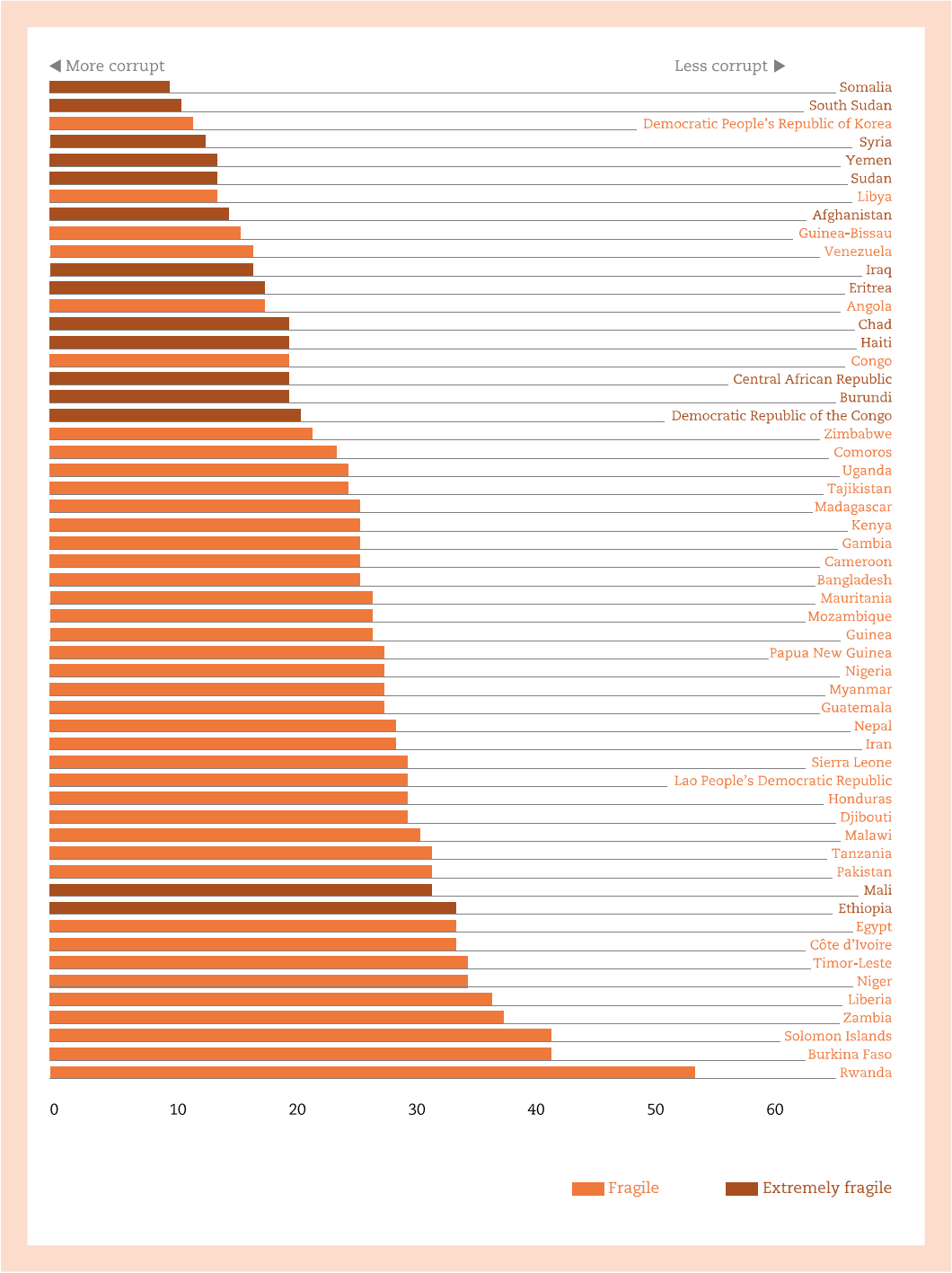
Yet in situations of fragility, where state presence is often weak and non-state actors or alternative authorities fill gaps in state service provision, strengthening governance structures is a complex task that requires inclusive approaches in order to accommodate different actors and reduce the risk of conflict (UN/World Bank, 2017, p. 142[28]).

Against this background, progress in governance performance in fragile contexts varies greatly. The 2017 Ibrahim Index of African Governance finds that African countries and the majority of fragile contexts in Africa have improved in most categories of governance over the last decade, albeit at differing levels (Mo Ibrahim Foundation, 2017[29]). At the same time, however, deteriorations in the safety and rule of law category, particularly in national security, are sources of concern. The worst-performing fragile contexts in this category include Burundi, Cameroon, Central African Republic, Ethiopia and Libya (Mo Ibrahim Foundation, 2017, p. 38[29]).

In the area of participation, the Ibrahim Index for 2017 shows a mixed picture for fragile contexts in Africa. Côte d'Ivoire, Nigeria and Sierra Leone are among those that have experienced increasing improvement, while Burundi, Chad, the Democratic Republic of the Congo and Swaziland have shown increasing signs of deterioration over the last decade (Mo Ibrahim Foundation, 2017, pp. 43-59[29]).

Corruption is one of the biggest obstacles to strengthening governance structures in fragile contexts (Figure 3.5). All countries in the 2018 OECD framework, with the exception of Rwanda, also rank highest in corruption perception scores on the 2016 Corruption Index (Transparency International, 2017[30]). Corruption is most endemic in extremely fragile contexts, with Somalia ranking the worst, followed by South Sudan, the Democratic People's Republic of Korea, Syria and Yemen; in Central America and the Caribbean, Haiti and Venezuela rank among the countries with the highest corruption perception scores (Transparency International, 2017[30]).

Figure 3.5. Corruption perceptions index in fragile contexts, 2016



Source: (Transparency International, 2017[30]), *Corruption Perceptions Index 2016*, https://www.transparency.org/news/feature/corruption_perceptions_index_2016#table.

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3.6. Education

Education is a key driver for economic growth and poverty alleviation and can significantly contribute to peace and stability in situations of fragility (World Bank, 2016[31]). Yet most fragile contexts still lag far behind non-fragile contexts in providing quality education as called for in SDG 4. For example, from 2011 to 2016, some of the lowest percentages of children of official school age enrolled in primary education were in fragile contexts such as Sudan (53.8%), Djibouti (53.5%) and Liberia (37.6 %) (Sachs et al., 2017, p. 411[1]). On a more optimistic note, several countries in the fragility framework such as Egypt, Iran and Sierra Leone have made significant progress, reaching almost 100% enrolment in primary education for that same period (Sachs et al., 2017, p. 411[1]).

Overall, however, when weighted against the average of expected years of schooling, the data suggest that most of the 58 contexts considered fragile in 2018 still have significant improvements to make. This is particularly the case for Burkina Faso, Chad and Niger where children can expect on average a maximum of 2.3 years of years of schooling (Sachs et al., 2017, p. 411[1]). A majority of countries affected by fragility also figure among the countries with the lowest ratio of female-to-male (age 25 and above) mean years of schooling. Of the 35 countries with the lowest score for this indicator, 26 countries are in fragile situations (Sachs et al., 2017, p. 415[1]). Of these, Afghanistan, Chad and Guinea are particularly noteworthy, as they display the highest levels of gender inequality in education worldwide (Sachs et al., 2017, p. 415[1]).

3.7. Gender

Gender inequalities persist worldwide and pose significant challenges to sustainable development in both fragile and non-fragile contexts (OECD, 2017[32]). In fragile settings inequitable gender relations can drive conflict and violence, while women's active participation can contribute to sustainable peace and resilience (OECD, 2017, p. 21[32]).

Some characteristic features of fragile situations tend to reinforce existing gender inequalities and disproportionately affect women and girls. These features include "weak institutions and services, ineffective or uneven rule of law, insecurity and restrictions of movement, and the dominance of informal institutions such as patronage networks" (OECD, 2017, p. 20[33]). Indeed, with the exception of a few outliers, most fragile contexts face great challenges in achieving gender equality. Especially in sub-Saharan Africa, fragile contexts still experience high rates of unmet demands for contraception and early child marriages and witness a high number of women and girls subject to physical or sexual violence (African Union/AfDB/UNDP, 2017, p. 71[34]).

Eight of the top ten most gender unequal societies in the world in 2015 were also contexts considered fragile in the OECD fragility framework. They are Yemen, Chad, Niger, Mali, Côte d'Ivoire, Afghanistan, the Democratic Republic of the Congo and Sierra Leone (UNDP, 2016, pp. 214-217[8]).

There are fragile places, however, that have made great headway on gender equality on some indicators, and particularly with regard to increasing women's representation in national parliaments. Rwanda is a stand-out example. In 2016, women held 63.8% of seats in the Parliament of Rwanda, a higher proportion than in Switzerland, Denmark or Sweden, which are among the world's most gender equal countries. Several other fragile contexts, notably some in sub-Saharan Africa, have already closed the gender gap in the labour force,

with Malawi, Mozambique, Burundi and Rwanda performing particularly well (Sachs et al., 2017, p. 416[1]).

In this regard, the meaningful inclusion of women in peace negotiations, constitutional reform processes and new institutions can contribute to sustainable peace and to advancing formal recognition of women's rights (OECD, 2017, p. 21[32]). The transition in governance structures and justice systems that fragile settings often experience can provide an opportunity for women to be recognised and included as agents in peacebuilding and state-building processes.

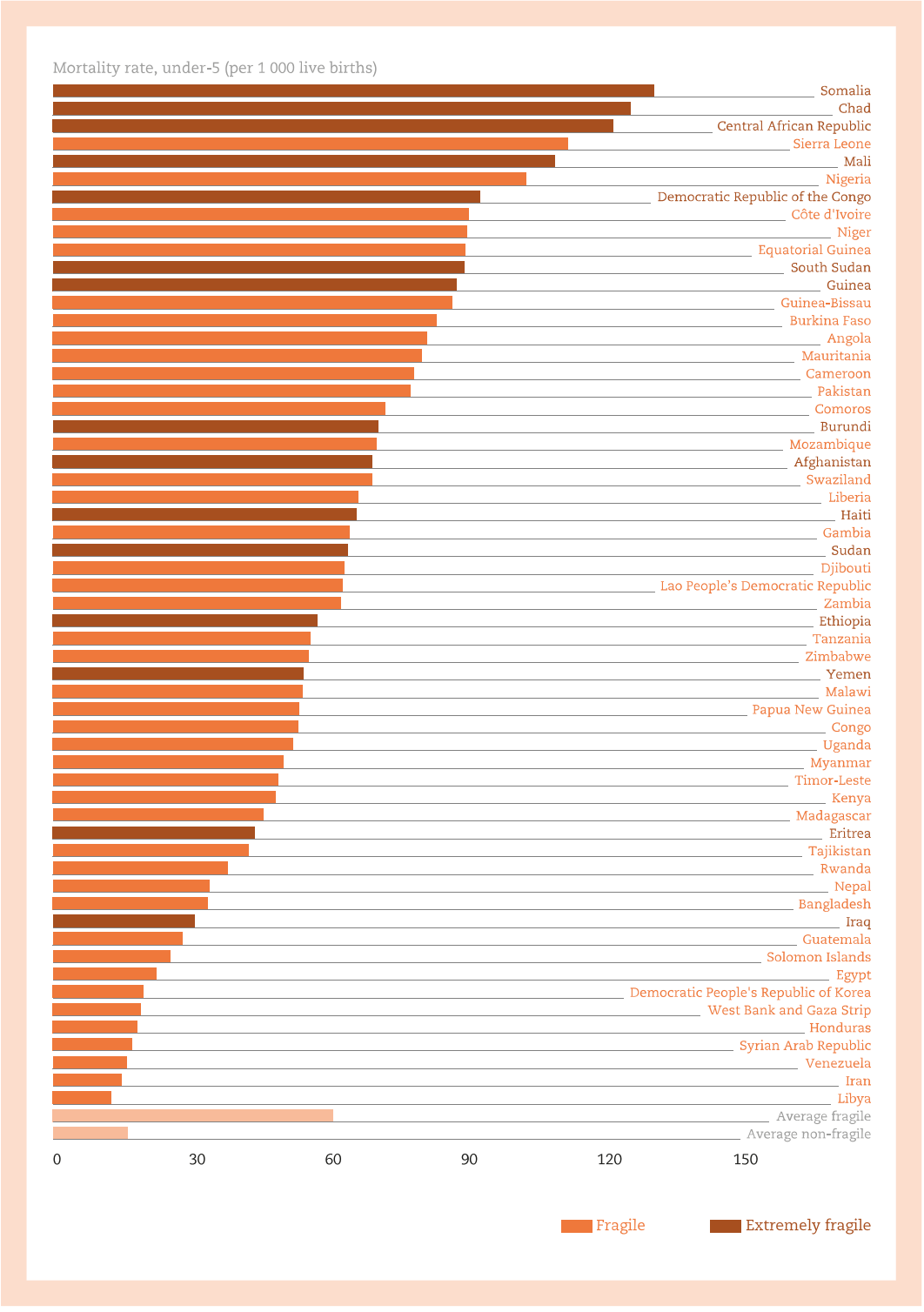
To conclude, some fragile contexts have made impressive gains in gender equality when measured numerically. But, true gender equality is also qualitative, although qualitative progress is more difficult to capture. While specific gains in certain countries certainly are laudable, it should not be overlooked that achieving gender equality in fragile contexts will still require dedicated efforts at the social and structural levels. These efforts are needed to challenge prevailing social norms, strengthen women's empowerment, support the active role of women in peace processes, and enable equal rights, responsibilities and opportunities for women and men.

3.8. Health

Both fragile and non-fragile contexts have made important progress in reducing maternal and child mortality. Globally, the maternal mortality ratio declined by 37% between 2000 and 2015 (UN DESA, 2017, p. 4[14]). For the same period, the mortality rate for children under five fell by 44 % (UN DESA, 2017, p. 4[14]). However, fragile contexts have experienced very uneven progress in this respect, which underscores the magnitude of the sustainable development challenges they face and their need for focused support in creating and strengthening systems that can deliver quality healthcare for all (Figure 3.6).

For example, maternal and under-five child mortality rates (per 1 000 live births) in 2016 in upper middle-income countries on the fragility framework, such as Libya and Iran, are similar to rates in Argentina and Saudi Arabia, which perform very well on the Human Development Index (UNDP, 2016, pp. 226-229[8]). On the other hand, under-five child mortality rates per 1 000 live births in the extremely fragile and low-income contexts of Somalia (132.5), Chad (127.3) and Central African Republic (123.6), were the highest in the world. Overall, the average 2016 under-five child mortality rate in fragile contexts was 62.5 (per 1 000 live births); the average in non-fragile contexts was 16.5 (per 1 000 live births).

Figure 3.6. Under-five child mortality rates in fragile contexts, 2016



Source: (World Bank, 2018[35]), "Mortality Rate, Under-5 (Per 1 000 Live Births)", *World Development Indicators* (database), https://data.worldbank.org/indicator/SH.DYN.MORT.

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Globally, life expectancy at birth increased by four years from 2000 to 2015, which is partly attributable to a decline in numbers of new HIV/AIDS and malaria infections and deaths and to advances in medical treatments (UNDP, 2016, p. 68[8]). Despite these improvements, a great number of countries and contexts in the 2018 fragility framework still have some of the lowest life expectancies in the world (WHO, 2017[36]). According to 2015 data, for instance, Sierra Leone had the lowest average life expectancy at birth (50.1 years), closely followed by Angola (52.4 years) and Central African Republic (52.5 years) (WHO, 2017, p. 55 [36]).

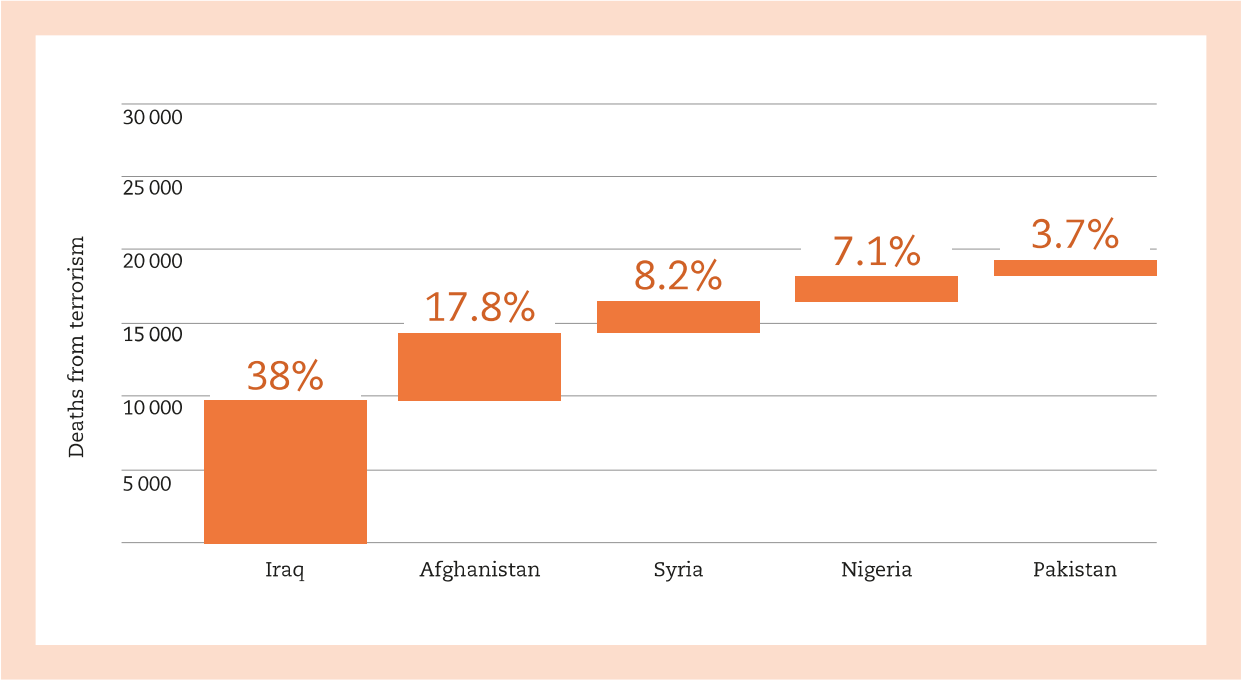
3.9. Violence

As *States of Fragility 2016* highlighted, violence in all its forms has a significant impact on fragility. It is one of the factors that can exacerbate fragility across its five dimensions and is both a driver and an outcome of fragility. Violence also has a large impact on the global economy and is a major drain of resources, particularly in fragile and conflict-affected contexts. One recent report puts the economic cost of violence at a staggering USD 14.3 trillion (purchasing power parity, or PPP), which is equivalent to 12.6 % of global GDP or USD 1 953 for every person in the world (Institute for Economics and Peace, 2017, p. 3[37]).

Lethal violence has increased in the past decade even as conflict death rates have continued to decline globally after peaking in 2014-15. Conflict deaths stood at 1.32 per 100 000 people in 2016, down from 1.61 per 100 000 people in 2015 (Mc Evoy and Hideg, 2017, p. 10[38]). Against the backdrop of this overall decline, the conflicts in just Afghanistan, Iraq and Syria accounted for about two-thirds of all conflict casualties worldwide in 2016 and have claimed the lives of more than 370 000 people since 2010 (Mc Evoy and Hideg, 2017, p. 21[38]). In these three countries, the economic cost of violence was particularly high, amounting to the equivalent of more than 50% of GDP on average in 2016 (Institute for Economics and Peace, 2017, p. 60[37]). In addition to the high economic costs of violent conflict, the cost in civilian lives lost also has increased. Recent evidence suggests civilian fatalities just in the period of January to November 2017 increased by 42% over the same period in 2016 (Action on Armed Violence, 2018[39]). Over this period in 2017, at least 15 399 civilian fatalities were registered, a number that has risen mainly due to an increase in airstrikes in Syria, Iraq and Yemen (Action on Armed Violence, 2018[39]).

The Global Terrorism Index 2017 presents a more positive trend, finding that the number of deaths resulting from terrorism (25 673 fatalities in 2016) decreased by 13% over 2015 (Institute for Economics and Peace, 2017, p. 14[7]). The decline was due mainly to fewer deaths from terrorism in Afghanistan, Nigeria, Pakistan and Syria, which, together with Iraq, are the top five countries most affected by terrorism (Institute for Economics and Peace, 2017, p. 14[7]). Iraq, by contrast, experienced a 40% increase in deaths from terrorism, due mainly to ongoing terrorist activities attributed to the so-called Islamic State in the country (Institute for Economics and Peace, 2017, p. 15[7]).

Figure 3.7. Top 5 countries with the highest number of deaths from terrorism, 2016



Source: Adapted from (Institute for Economics and Peace, 2017[7]), *Global Terrorism Index 2017*, http://visionofhumanity.org/app/uploads/2017/11/Global-Terrorism-Index-2017.pdf.

In 2016, global homicide rates increased for the first time since 2004 and accounted for 68% of all victims of lethal violence (Mc Evoy and Hideg, 2017, p. 11[38]). Around the world, the highest homicide rates (higher than 13 per 100 000 inhabitants) are concentrated in only 15 countries. Eleven of those are in Central America, South America and the Caribbean, indicating that violence is increasingly happening outside of conflict zones (Mc Evoy and Hideg, 2017, p. 14[38]). In 2015, El Salvador had the highest homicide rates (108.65 per 100 000 inhabitants) worldwide, followed by Honduras (63.75 per 100 000 inhabitants) and Venezuela (57.15 per 100 000 inhabitants). Both Honduras and Venezuela are considered fragile in the 2016 and 2018 fragility frameworks. The resurgence of high homicide rates highlights the need for greater attention to urban fragility and the unique challenges it poses to sustainable development, especially but certainly not limited to SDGs 11 and 16.

3.10. Disasters

Disasters are threat multipliers for fragility. They can reinforce pre-existing grievances, negatively impact resource availability and economic opportunities, and increase the likelihood of displacement and migration, all of which hamper a state's capacity to build resilience in the face of future crises (Rüttinger et al., 2015, p. 35[40]). Climate change is likely to affect the frequency and intensity of sudden-onset hydro-meteorological and climatological hazards and to increase the risk of displacement by disasters in subsequent years (Internal Displacement Monitoring Centre, 2017[41]). Available data seem to confirm this. While conflict led to the displacement of about 6.9 million people in 2016, disasters accounted for 24.2 million newly displaced people (Internal Displacement Monitoring Centre, 2017, p. 11[41]).[3]

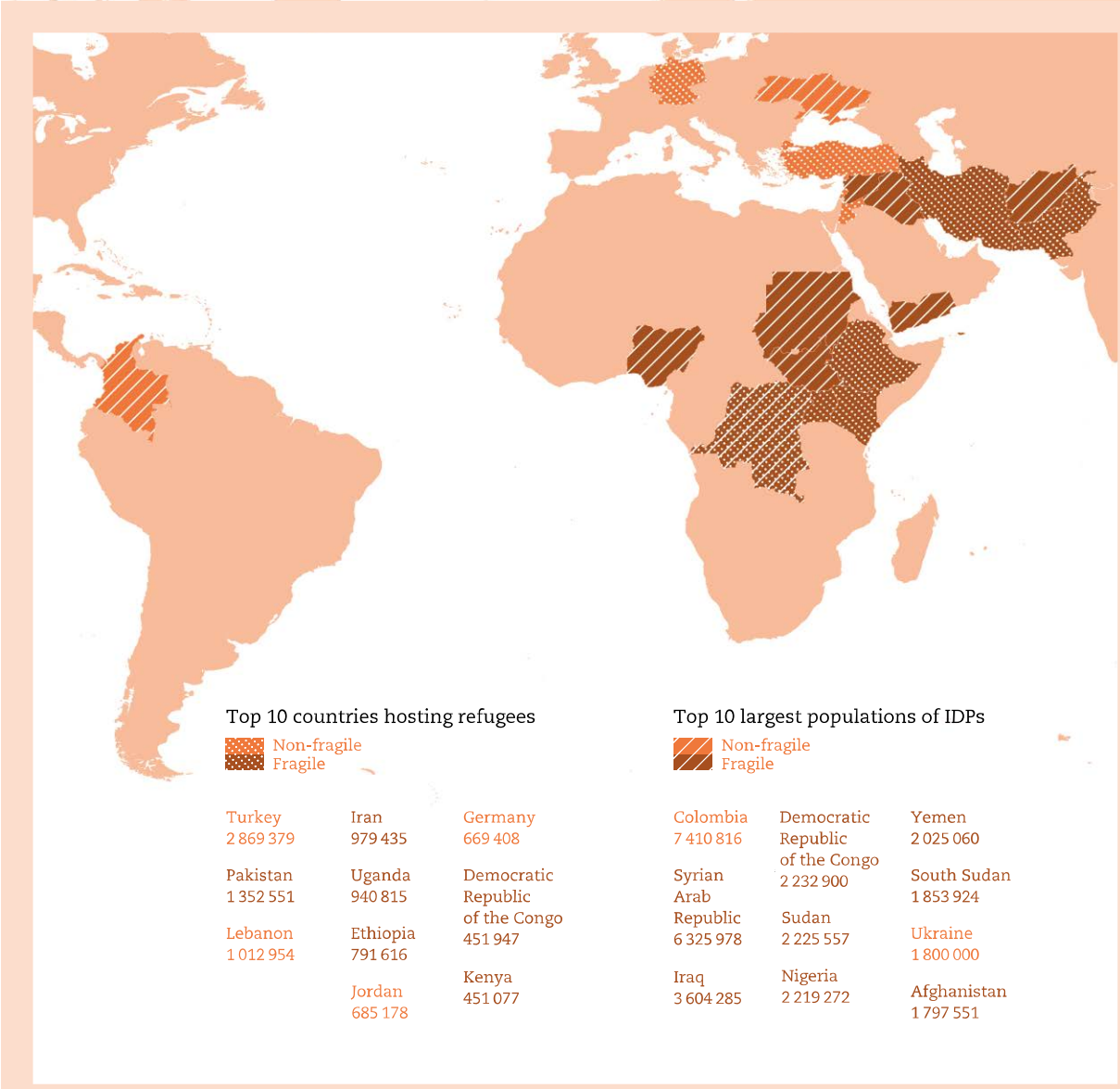
The recurrence of disasters also has increased disaster-related deaths worldwide, which rose to 69 800 between 2006 and 2015 from 64 900 for the period 1996-2005 (CRED/UNISDR, 2016, p. 7[42]). For the combined period 1996-2015, 6 of the top 10 countries for disaster-related deaths in absolute numbers also figure in the 2018 fragility framework: Afghanistan, Haiti, Honduras, Myanmar, Pakistan and Somalia (CRED/UNISDR, 2016, p. 15[42]). Disasters may strike anywhere but have particularly devastating effects in fragile contexts, which have heightened exposure to risk and insufficient coping capacity to manage, absorb or mitigate those risks. Low-income fragile contexts are especially vulnerable, tend to suffer the highest mortality rates and depend heavily on international assistance (Peters, 2017, p. 10[43]). A case in point is Haiti, which accounted for the highest proportion of disaster-related deaths worldwide over the last two decades, both in relative and absolute terms (CRED/UNISDR, 2016, p. 13[42]) The severity of the devastation that Haiti has experienced in part stemmed from its very low coping capacity (INFORM, 2018[44]).

3.11. Forced displacement

Like disasters, conflict and violence also forcibly displace people. In 2016, 1.4 million people became newly displaced refugees and about 5.5 million people were internally displaced by conflict and violence across the world (UNHCR, 2017, p. 19[45]). Globally, 65.6 million people are forcibly displaced (UNHCR, 2017, p. 2[45]). While many of the recent debates around refugees have centred on people arriving at Europe's borders, forced displacements mostly affect fragile contexts. They generate large numbers of forcibly displaced people and also are host to some of the largest shares of refugees worldwide, which severely strain the capacity of certain fragile contexts.

According to 2016 UNHCR data, 55% of all refugees worldwide originated just from Syria, Afghanistan and South Sudan (UNHCR, 2017, p. 3[45]). These three countries are classified as extremely fragile in the 2018 fragility framework. Similarly, six of the top-ten countries hosting refugees in 2016 (UNHCR, 2017, p. 15[45]) are considered fragile. They are the Democratic Republic of the Congo, Ethiopia, Iran, Kenya, Pakistan and Uganda. Fragile contexts are also disproportionately affected by internal displacements. Eight of the ten largest populations of internally displaced persons (IDPs) are in fragile contexts. The largest is in Syria, followed by Iraq, the Democratic Republic of the Congo, Sudan, Nigeria, Yemen, South Sudan and Afghanistan (UNHCR, 2017, p. 36[45]). Figure 3.8 gives a picture of forced displacement in the world.

Figure 3.8. Global impact of forced displacement, 2016



Source: (UNHCR, 2018[46]), "The United Nations High Commissioner for Refugees Population Statistics Database", http://popstats.unhcr.org/en/overview.

StatLink http://dx.doi.org/10.1787/888933786990

Forced displacements and refugee influxes also affect other fragile situations. Another example – although largely under-reported in 2017 – is the ongoing humanitarian crisis in Central African Republic, which provoked the internal displacement of about 688 700 people as of December 2017 and has since led to approximately 17 000 people seeking refuge in neighbouring Chad (UNHCR, 2018[47]). While Chad has hosted refugees from Central African Republic since the beginning of the crisis in 2013, current displacements mark the highest refugee influx since 2014 and are likely to act as an additional stressor in Chad, which already is an extremely fragile setting.

Notes

[1] The Paris21 Partner Report on Support to Statistics, or PRESS, uses different criteria than the OECD for defining fragility. It draws on the World Bank's Harmonized List of Fragile Situations to identify contexts and countries satisfying those criteria. See http://www.worldbank.org/en/topic/fragilityconflictviolence/brief/harmonized-list-of-fragile-situations.

[2] Total aid to statistical development is usually calculated on a three-year, rolling basis because commitments often span multiple years and fluctuations in annual figures are common.

[3] The global estimates of the Internal Displacement Monitoring Centre (IDMC) cover disasters triggered by sudden-onset hydro-meteorological and climatological hazards, such as floods, storms, wildfires and extreme winter conditions, and geophysical hazards, such as earthquakes, volcanic eruptions and landslides. The estimates do not include displacements associated with slow-onset disasters such as drought and environmental degradation. Nor do they cover disasters associated with technological and biological hazards, such as industrial accidents and epidemics, except when they are triggered by a natural hazard. See page 31 of (Internal Displacement Monitoring Centre, 2017[41]), at www.internal-displacement.org/global-report/grid2017/pdfs/2017-GRID.pdf.

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Chapter 4. What official development assistance went to fragile contexts?

by

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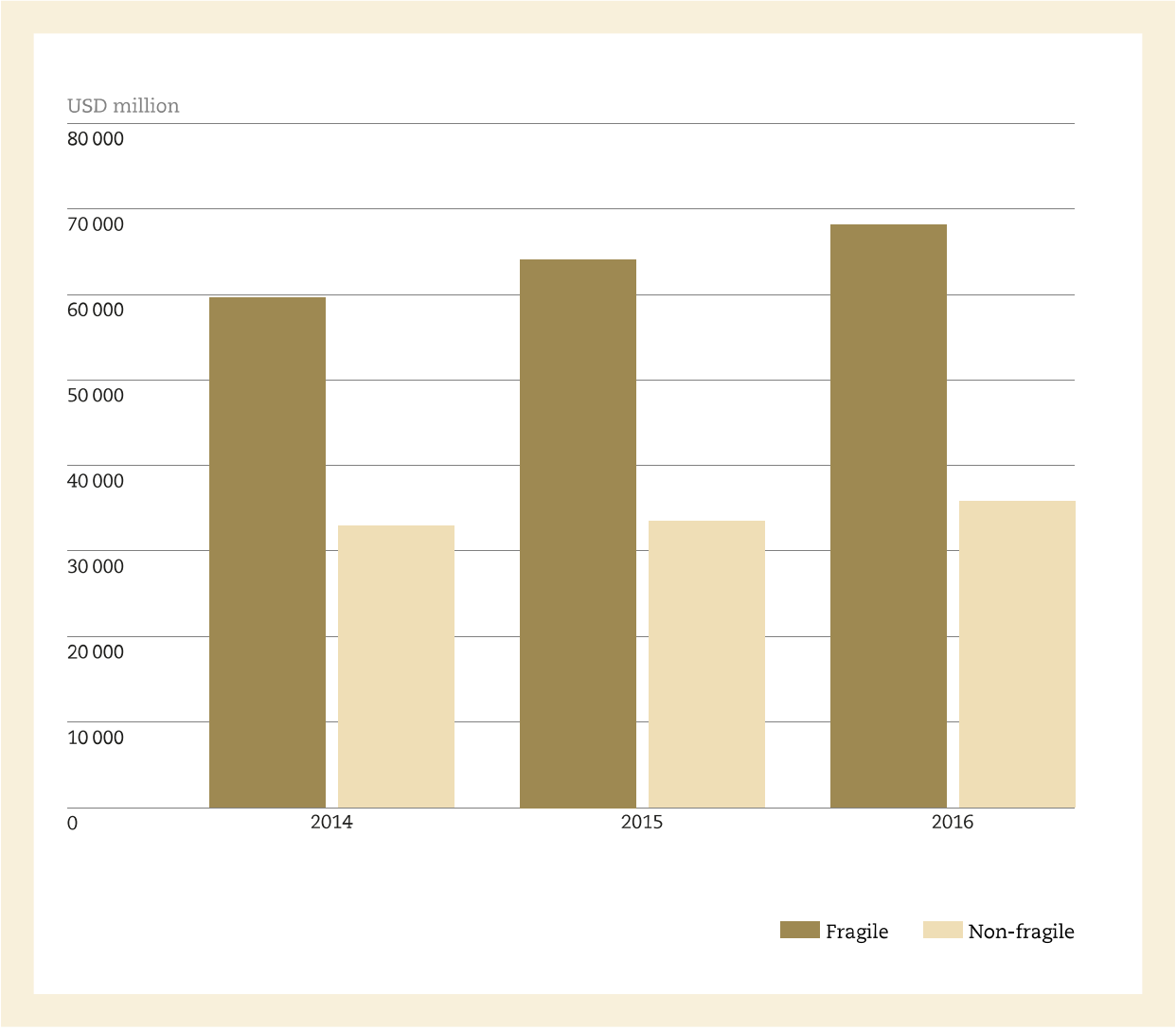
This chapter provides an overview of official development assistance (ODA) to fragile contexts, looks at who is providing it, where it is spent and how it is spent. It examines the mounting significance of humanitarian assistance in fragile contexts, especially extremely fragile contexts, and how it affects the development finance landscape. The chapter also looks at the distribution of aid among different fragile contexts and among sectors, highlighting the concentration of ODA in a limited number of aid darlings. It concludes with a review of donor engagement in fragile contexts by the Development Assistance Committee (DAC) and by non-DAC members and the channels of delivery for aid to fragile and extremely fragile contexts.

In figures in this chapter, official development assistance (ODA), or aid, comprises all aid reported to the OECD including ODA disbursed by Development Assistance Committee (DAC) members and by other donors. Unless otherwise noted, figures are calculated in terms of 2016 constant USD and based on net ODA disbursements.

In 2016, earmarked funding for fragile contexts was greater than earmarked funding for other developing countries. In that year, donors spent USD 68.2 billion, or 65.5% of total earmarked funding, in the 58 contexts identified in the OECD fragility framework compared to the USD 35.8 billion they spent in 67 other developing countries (Figure 4.1).

ODA growth is concentrated in fragile contexts. Overall, earmarked ODA increased by 12.2% between 2014 and 2016. As part of this, ODA to fragile contexts increased by 14.4%, or USD 8.6 billion, far outstripping growth in non-fragile contexts (Figure 4.1). Indeed, ODA to fragile contexts has been on the rise since the end of the global financial crisis, growing by 26% in real terms from 2009 to 2016.

Figure 4.1. ODA to fragile and non-fragile contexts, 2014-16



Source: (OECD, 2018[1]) "Detailed aid statistics: ODA official development assistance: disbursements", *OECD International Development Statistics* (database), http://dx.doi.org/10.1787/data-00069-en.

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This chapter examines how and where ODA was spent in 2016, a review of who is providing ODA, and the methods and channels of delivery.

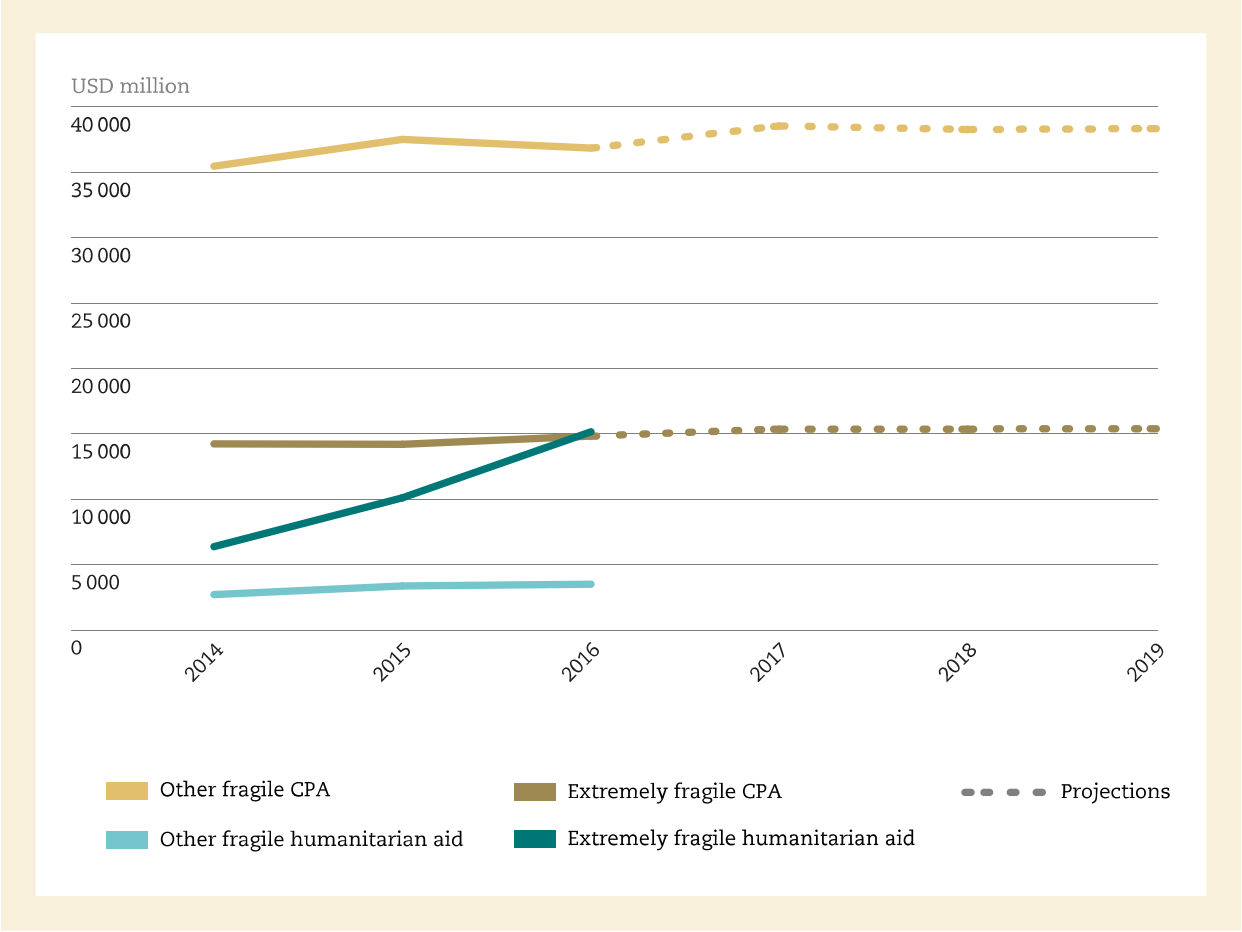
4.1. The role of humanitarian finance in extremely fragile and other fragile contexts

Most of the growth in ODA to fragile contexts has been in humanitarian assistance, which increased by 144% between 2009 and 2016. From 2015 to 2016 alone, humanitarian assistance for all fragile contexts increased by 38%, reaching a historical peak of USD 18.3 billion. Over the same period, country programmable aid (CPA), i.e. development aid available for programming, did not increase for fragile contexts.

This growth in humanitarian assistance has radically changed the financing landscape, especially in the 15 extremely fragile contexts. By 2016, CPA and humanitarian assistance to such challenging places were roughly the same, with CPA at USD 16 billion and humanitarian finance at USD 15 billion. CPA to these contexts is not projected to grow out to 2019 (Figure 4.2). In other fragile contexts, which feature fewer acute emergency situations, humanitarian assistance made up only 8.6% of the total ODA mix in 2016.

The shift supports the humanitarian community's assertion that humanitarian aid, especially in extremely fragile contexts, is often stretched beyond its original mandate to save lives and that this is due in part to insufficient development assistance to address the drivers of fragility. The shift also has prompted calls for greater development investment in fragile contexts, following the principle of development wherever possible and humanitarian aid only where necessary. Chapters 9 and 10 discuss this issue further.

Figure 4.2. Country programmable aid and humanitarian aid in fragile contexts, 2014-19



Notes: Dotted lines are projections for country programmable aid (CPA). CPA and humanitarian aid are each presented in 2015 USD constant prices.
Source: (OECD, 2018[1]), "Detailed aid statistics: ODA official development assistance: disbursements", *OECD International Development Statistics* (database), http://dx.doi.org/10.1787/data-00069-en; (OECD, 2018[2]) "Country programmable aid (CPA)", *OECD International Development Statistics* (database), http://dx.doi.org/10.1787/data-00585-en.

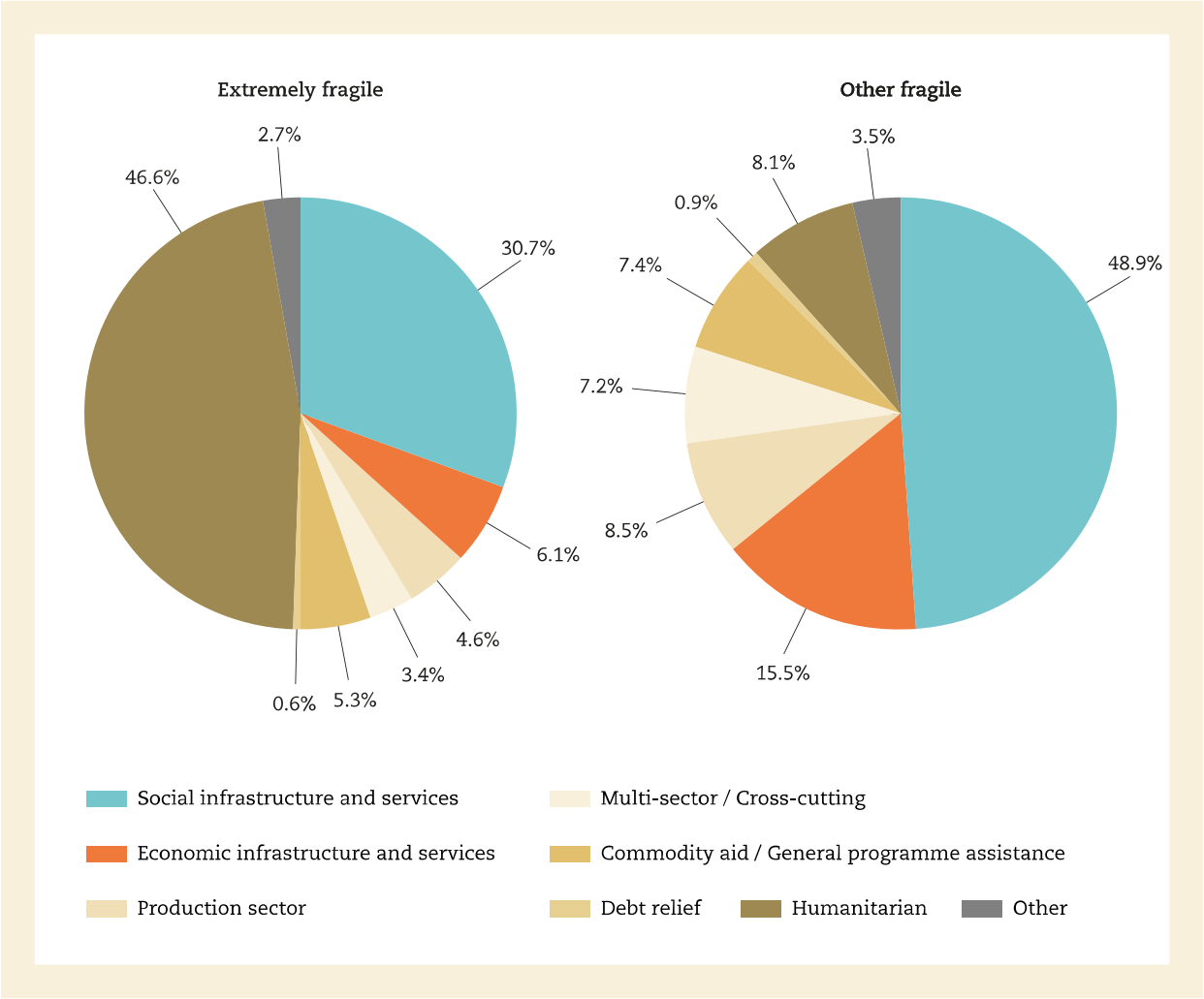
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4.2. Development aid for fragile contexts by sector

Social infrastructure and services receive more ODA than other programming in fragile contexts, as shown in Figure 4.3. In 2016, 31% of all ODA to extremely fragile contexts, or USD 9.8 billion, went to this sector. Other fragile contexts received 49% of their total ODA, or USD 20.9 billion, for this sector. Within social infrastructure and services, health received USD 2 billion in extremely fragile contexts and USD 4.6 billion in other fragile contexts, or 6.2 % and 10.5% of all ODA respectively; water and sanitation received USD 700 million in extremely fragile contexts and USD 2 billion in other fragile contexts, or 2.2% and 4.7% of total ODA; and education received USD 1.2 billion in extremely fragile contexts and USD 4 billion in other fragile contexts, or 3.8% and 8.9% of total ODA. Humanitarian assistance makes up the next largest portion of ODA to extremely fragile contexts at USD 14.8 billion, or 47% of the total, and much of this also contributes to social sectors. In other fragile contexts, humanitarian assistance was USD 3.4 billion, or 8.1% of total ODA. Additionally, ODA to production sectors amounted to USD 1.5 billion in extremely fragile contexts, or 4.5% of the total, and USD 3.6 billion in other fragile contexts, or 8.2% of total ODA. The economic infrastructure and services sector received USD 1.9 billion in extremely fragile contexts and USD 6.6 billion in other fragile contexts, or 6% and 15%, of their total ODA.

Chapter 8 continues the discussion of aid allocation by sectors and whether it targets the real drivers of fragility.

Figure 4.3. ODA by sectors in fragile contexts, 2016



Notes: Sectoral data available only in gross disbursement from the OECD Creditor Reporting System database.
Source: (OECD, 2018[1]), "Detailed aid statistics: ODA official development assistance: disbursements", *OECD International Development Statistics* (database), http://dx.doi.org/10.1787/data-00069-en.

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4.3. Aid orphans and aid darlings: Aid is neither consistent nor evenly distributed

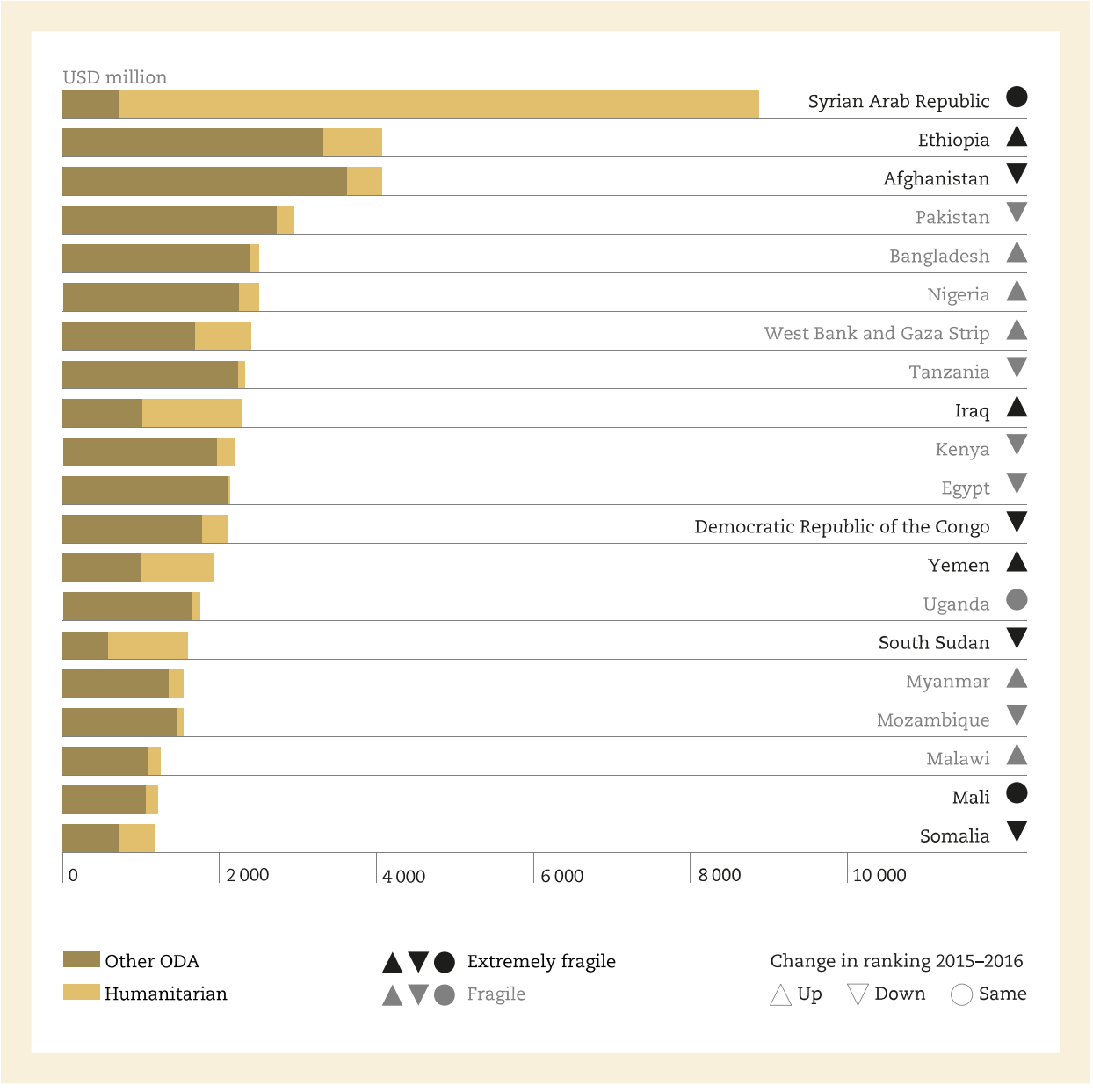
Aid is not equally distributed among fragile contexts and is heavily concentrated in a few of these places. In 2016, a total of USD 50 billion, or 74% of ODA spent in fragile contexts, was concentrated on 20 of the 58 fragile contexts. Further, just 10 of these contexts, which are often referred to as aid darlings, received 50% of all ODA to fragile contexts, or almost USD 35 billion. This concentration continues a trend. For instance, during the 11-year period from 2003 to 2012, Afghanistan and Iraq together accounted for fully 22% of all ODA to contexts then classified as fragile (OECD, 2015, p. 61[3]).

Syria is a notable special case. ODA to Syria increased by 87% from 2015 to 2016, making it the largest single recipient of aid. It overtook Afghanistan, which had received the most

aid of any single place every year since 2009 (with the exception of 2013 when Egypt topped the list). Most of the aid going to Syria is in the form of humanitarian assistance (USD 8.1 billion).

As shown in Figure 4.4, the distribution of aid to the top 20 most fragile contexts caused other shifts in 2016. Afghanistan remains the largest recipient of non-humanitarian ODA, despite a 4% decline over the previous year. ODA to Ethiopia increased by 28% from 2015 to 2016, moving it from the fourth-biggest to the second-biggest single recipient. ODA to Iraq increased 51% in the same period; Iraq is also the second-largest recipient of humanitarian aid. After large increases in 2015, ODA to both Pakistan and Bangladesh fell in 2016 by 20% and 3%, respectively. ODA to the Democratic Republic of the Congo (DRC) fell by 18%, pushing it out of the top ten list of largest ODA recipients despite the ongoing crisis in the country.[1]

Figure 4.4. Top 20 ODA recipients among fragile contexts, 2016



Source: (OECD, 2018[1]), "Detailed aid statistics: ODA official development assistance: disbursements", *OECD International Development Statistics* (database), http://dx.doi.org/10.1787/data-00069-en.

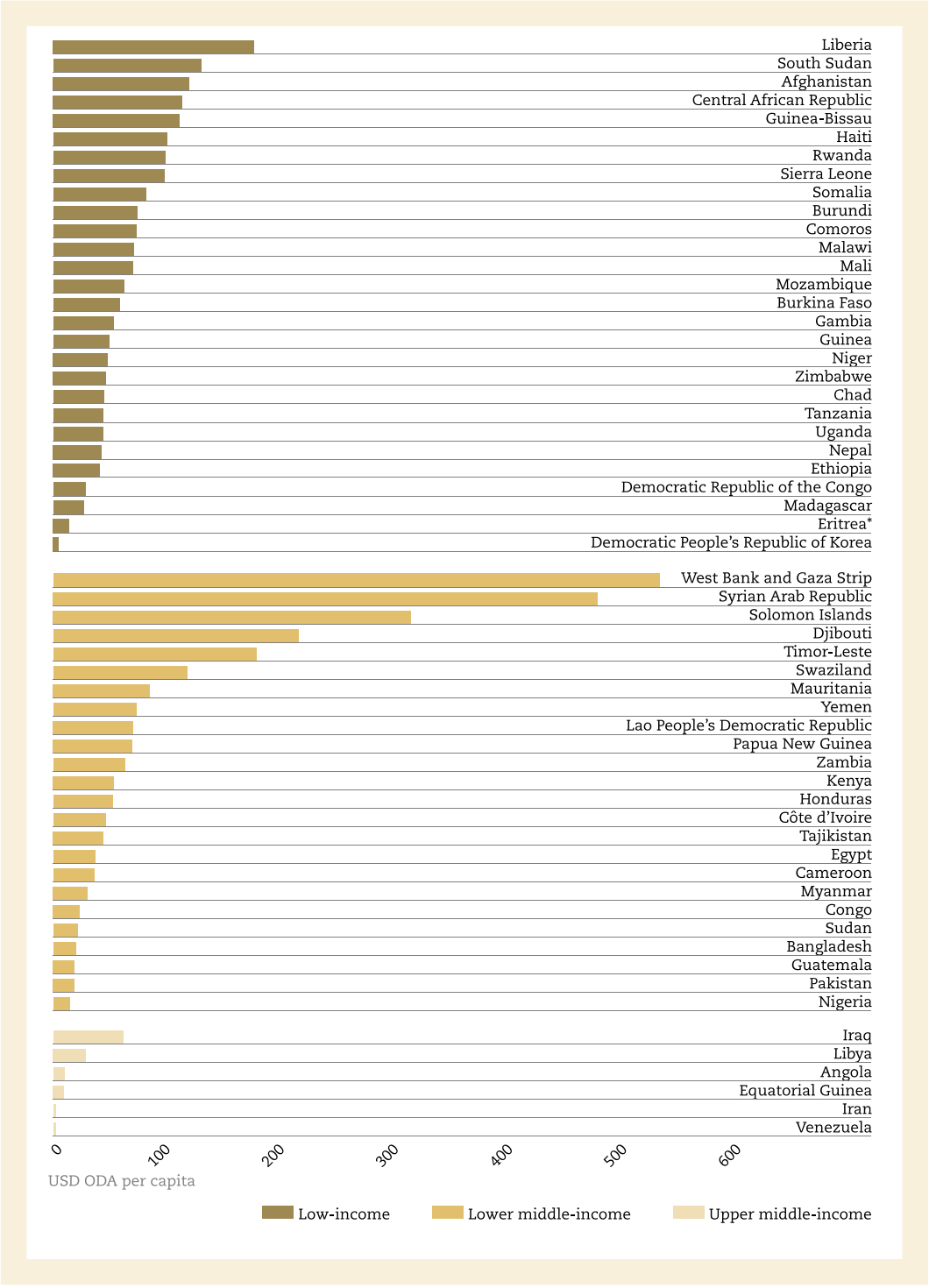
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The distribution of ODA among fragile contexts also varies significantly when measured as aid per capita (Figure 4.5). Average ODA per capita in fragile lower middle-income contexts is significantly higher (USD 110) than in fragile low-income contexts (USD 71). Two factors can explain this. First, as might be expected, island states with small populations such as the Solomon Islands (USD 317) and Timor-Leste (USD 180), both of which are lower middle-income, receive significantly higher than the average. Their relatively high per-capita ODA can be explained by the fact that service delivery is

inherently more expensive when the population is geographically dispersed. Another factor in the differences in ODA per capita is that major humanitarian crises are increasingly occurring in lower middle-income places where the cost of responding is more expensive. Examples of such contexts include the West Bank and Gaza Strip (USD 537) and Syria (USD 482).

Attention has been focused on the asymmetry in aid allocations since the 2008 Accra Agenda for Action. Yet, ten years later, this remains an issue that deserves greater attention and increased collective action from aid providers, particularly in light of the more recent commitment to leave no one behind (Ericsson and Steensen, 2014, p. 2[4]).

Figure 4.5. ODA per capita in fragile contexts by World Bank income classifications,[2] 2016



Notes: Countries are ranked from higher to lower ODA per capita within each income grouping. *Data on population for Eritrea only available for 2015 from UN DESA Population Division.*Source*: (OECD, 2018[1]), "Detailed aid statistics: ODA official development assistance: disbursements", *OECD International Development Statistics* (database), http://dx.doi.org/10.1787/data-00069-en; (World Bank, 2018[5]) *Population Total*, *World Development Indicators* (database), http://data.worldbank.org/indicator/.

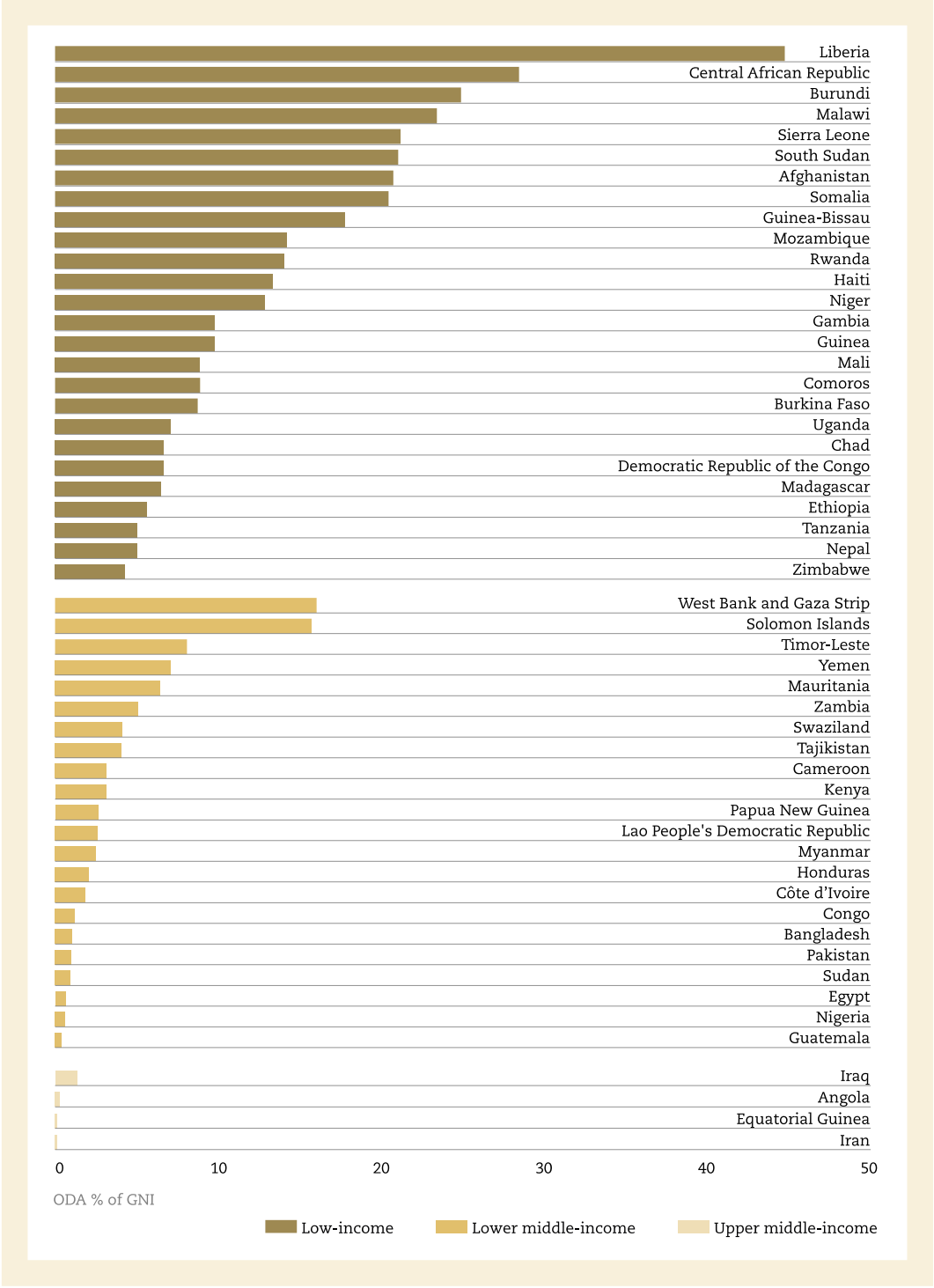
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4.4. Aid dependency

For many fragile contexts, ODA provides critical development finance that is simply not accessible through other means. These contexts can be called aid dependent. Aid dependency is higher in low-income fragile contexts than middle-income contexts. As shown in Figure 4.6, countries with the highest aid dependency, which include even those with higher levels of income, are largely concentrated in sub-Saharan Africa. Liberia is the most aid-dependent fragile context, followed by Central African Republic, Burundi and Malawi. Aid dependency is lowest in upper middle-income fragile contexts. This is because most of these places, such as Angola and Iraq, are rich in natural resources.

It is interesting to consider aid dependency alongside aid per capita. For instance, Liberia is highly aid dependant and in 2016 it also received the highest rate of ODA per capita (USD 178). Burundi is also aid dependant but received ODA per capita of only USD 74. These cases illustrate the usefulness of both considerations in determining whether a context is receiving the right amount of development finance. Chapter 9 discusses this question further.

Figure 4.6. Aid dependency in fragile contexts by World Bank income classifications, 2016



Notes: The Democratic People's Republic of Korea, Djibouti, Eritrea, Libya, Syria and Venezuela have not been included in the calculations because GNI estimates are not available for these contexts. Countries are ranked within income grouping by ODA as a percentage of GNI from higher to lower.

Source: (OECD, 2018[6]), "Detailed aid statistics: Aid (ODA) disbursements to countries and regions [DAC2a]: ODA as a percentage of GNI", *OECD International Development Statistics* (database), http://dx.doi.org/10.1787/data-00069-en.

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4.5. Main providers of ODA to fragile contexts by donor type

In 2016, fragile contexts received ODA in the amount of USD 68.2 billion. DAC donors spent USD 35.8 billion of this amount; other bilateral donors spent USD 9.9 billion; and the remaining USD 22.5 billion in ODA was channelled through multilateral actors including the development banks and United Nations (UN) agencies.

4.5.1. DAC donors

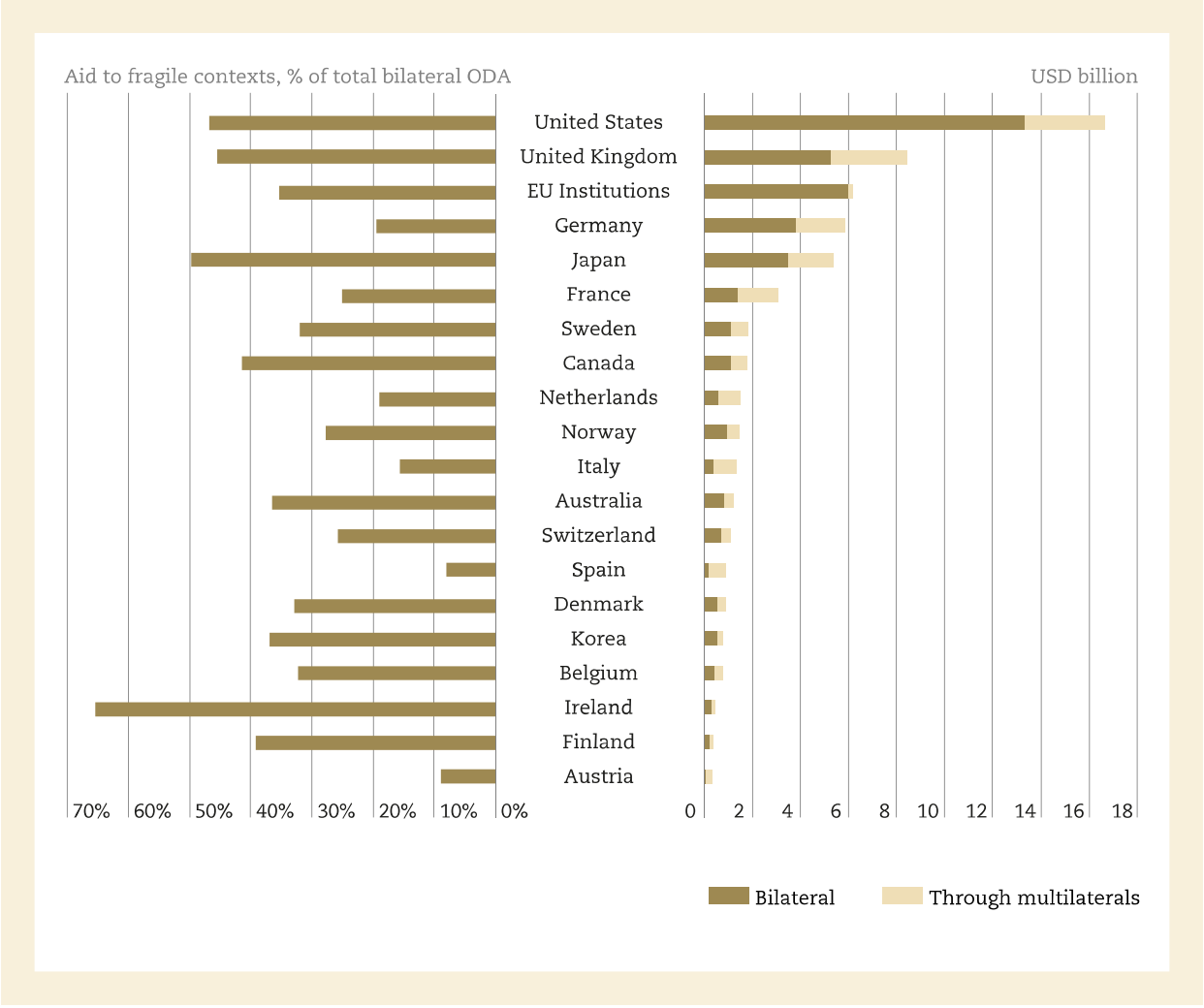
DAC donors[3] provide ODA to fragile contexts in two different ways – as bilateral aid spent directly for programmes in the fragile context and as multilateral aid through multilateral actors who use the funds in a fragile context.

In 2016, DAC member countries disbursed ODA in the amount of USD 55.2 billion for fragile contexts. This total includes USD 35.8 billion of net ODA as bilateral aid to fragile contexts. DAC members also channelled USD 19.4 billion to fragile contexts through their contributions in the multilateral system. In total, DAC countries spent 35% of their total aid portfolio in fragile contexts. Figure 4.7 shows the top 20 DAC donors to fragile contexts in 2016.

An increased percentage of DAC ODA was spent internally in donor countries in 2016, largely in response to an influx of refugees.[4] This spending boosted the overall total of ODA, which increased 8.9% over 2015, but even excluding refugee costs, total aid rose by 7.1%; however, bilateral aid to the least developed countries fell by 3.9% (OECD, 2017[7]). Many in-donor refugee costs are counted as ODA only for the first year after a refugee's arrival, so this trend is likely to fluctuate over time.

The largest donor to fragile contexts, through bilateral and multilateral channels, remains the United States, followed by the United Kingdom, European Union (EU) institutions, Germany and Japan. Ireland, Japan, the United States, the United Kingdom and Canada provide the largest percentage of their total bilateral aid to fragile contexts. Some countries such as Italy, the Netherlands and Spain provide more to fragile contexts through multilaterals than bilaterally. Luxemburg, Norway, Sweden and the United Kingdom rank as the largest donors in terms of bilateral disbursements to fragile contexts as a percentage of gross national income (GNI) (Figure 4.8).

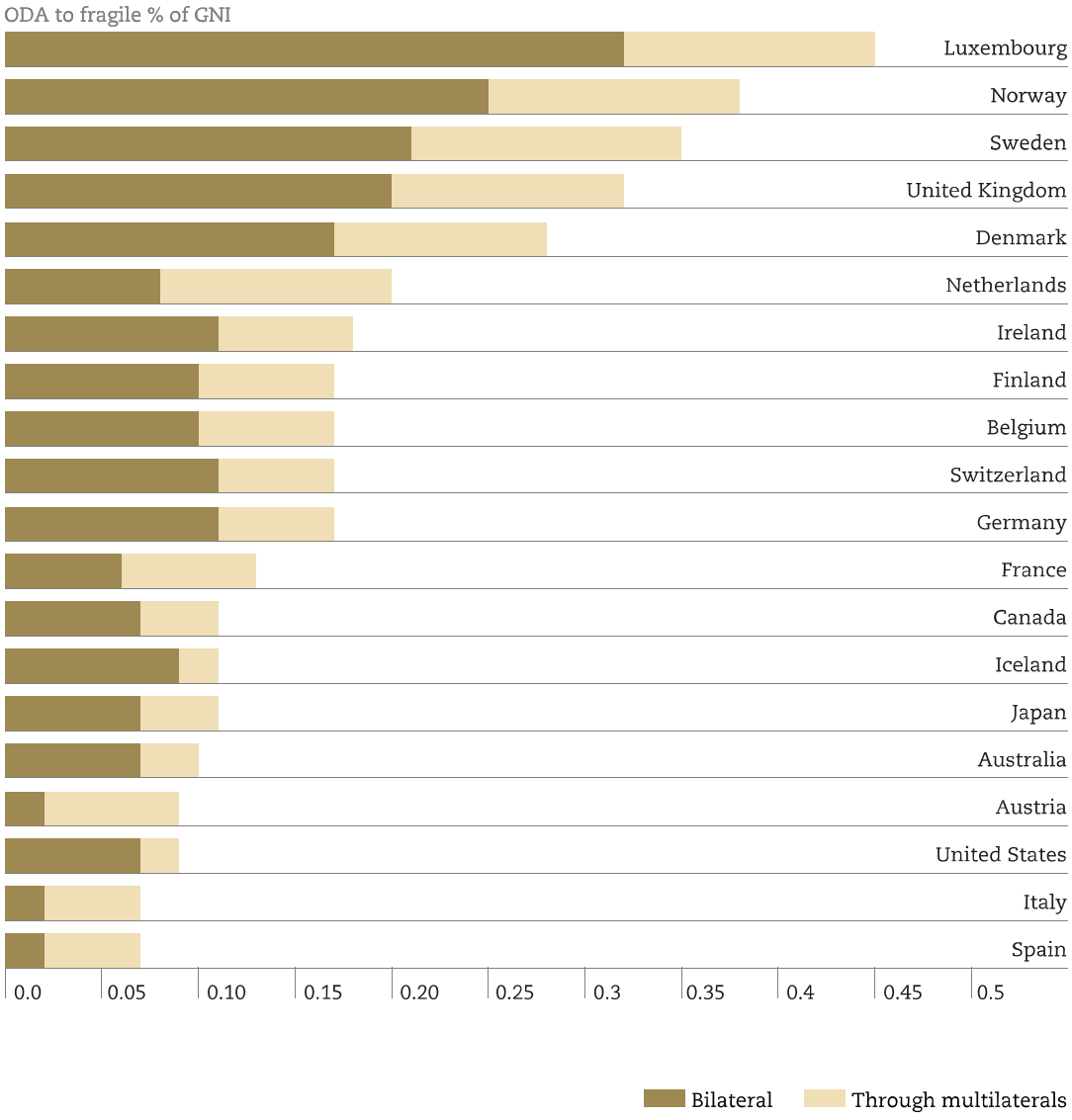
Figure 4.7. Top 20 DAC donors to fragile contexts, through bilateral and multilateral channels, 2016



Source: (OECD, 2018[1]), "Detailed aid statistics: ODA official development assistance: disbursements", *OECD International Development Statistics* (database), http://dx.doi.org/10.1787/data-00069-en.

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Figure 4.8. Top 20 DAC donors to fragile contexts as a percentage of GNI through bilateral and multilateral channels, 2016



Source: (OECD, 2018[1]), "Detailed aid statistics: ODA official development assistance: disbursements", *OECD International Development Statistics* (database), http://dx.doi.org/10.1787/data-00069-en; (OECD, 2018[8]), "Gross national income", *OECD International Development Statistics* (database), https://doi.org/10.1787/8a36773a-en.

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4.5.2. Non-DAC donors

In addition to ODA flows from DAC members, development co-operation and investments by providers beyond the DAC are becoming increasingly relevant in the development finance landscape, especially in fragile contexts. In 2016, non-DAC members[5] spent USD 13 billion in bilateral aid to all developing countries and USD 9.9 billion of that total was spent bilaterally in fragile contexts.[6] Non-DAC members, then, are spending an impressive 76% of their bilateral ODA in fragile contexts. Conversely, non-DAC members only channelled USD 246 million (2%) to fragile contexts through their contributions in the multilateral system.

Turkey, a DAC observer country, and the United Arab Emirates, a DAC participant since 2014, both ranked among the most generous non-DAC providers in terms of the percentage of their GNIs – 0.76% and 1.12%, respectively – that is allocated to fragile contexts. Among the top ten recipients of Turkey's gross bilateral ODA in 2015 were fragile contexts including Afghanistan, Somalia, Sudan, Syria, and the West Bank and Gaza Strip (OECD, 2017, p. 296[9]). In 2015, programmes related to the crisis in Syria received the lion's share, or 70%, of Turkey's ODA, up from 52% in 2013 (OECD, 2017, p. 295[9]).

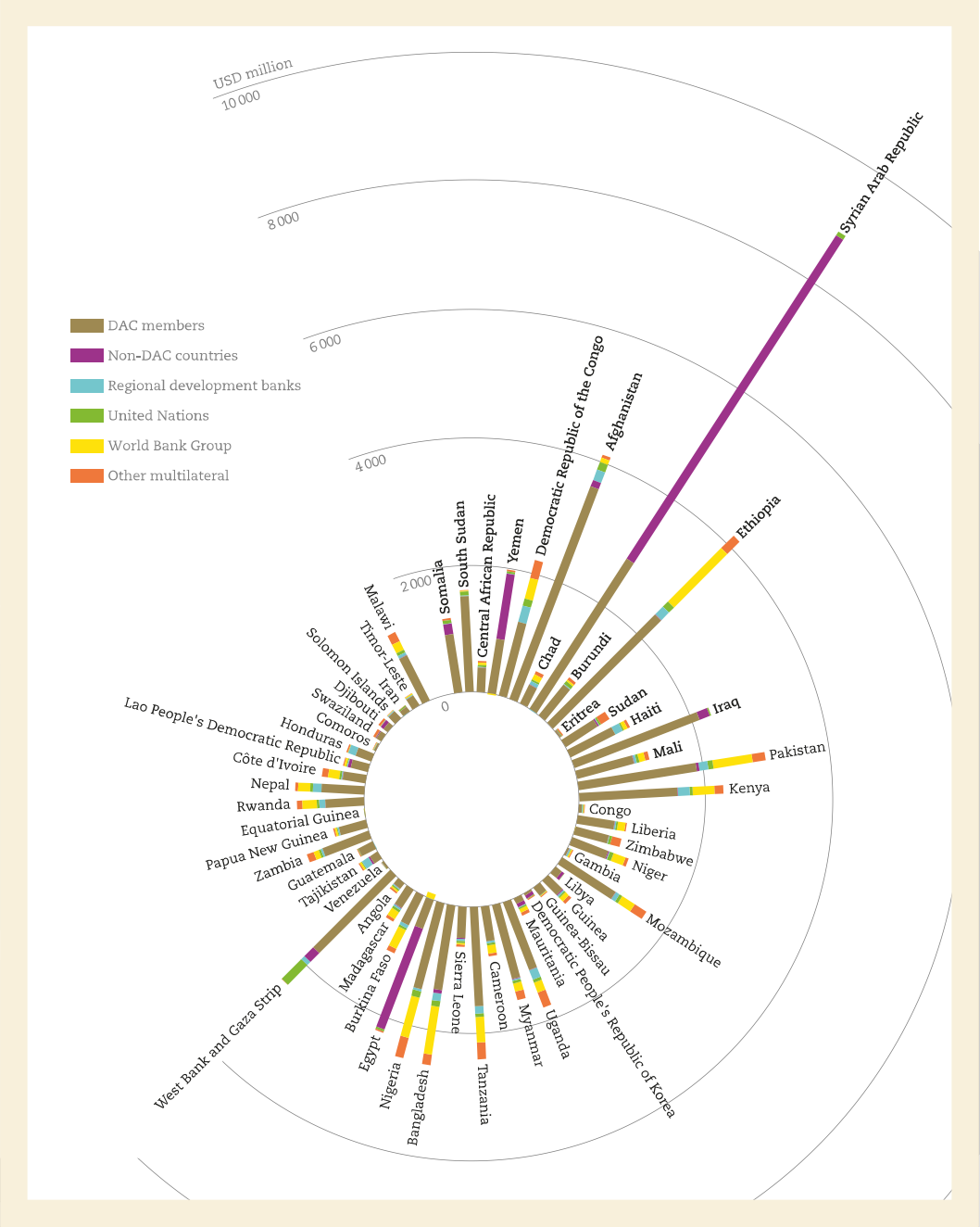
Arab donors spent 29% of their ODA between 2011 and 2015 on fragile contexts in the Middle East and North Africa region including Egypt, Iraq, Libya, Syria and Yemen.

China, another significant non-DAC donor, gives aid mainly to Africa. According to recent estimates, six of the top ten recipients of ODA from China between 2000 and 2014 also are fragile contexts. In order of the amounts received, these are Côte d'Ivoire (USD 4.0 billion), Ethiopia (USD 3.7 billion), Zimbabwe (USD 3.6 billion), Cameroon (USD 3.4 billion) and Nigeria (USD 3.1 billion) (AidData, n.d.[10]).

Saudi Arabia reports that it provided USD 32.8 billion in aid between 2007 and 2017, with a significant portion going to fragile contexts. Its neighbour, Yemen, received the largest amount of Saudi Arabia's aid (USD 13.4 billion), followed by Syria (USD 2.3 billion) and Egypt (USD 1.8 billion) (King Salman Humanitarian Aid and Relief Centre, 2018[11]).

As shown in Figure 4.9, ODA to fragile contexts is not uniform in terms of the amount of aid received or in the mix of donors in each place. DAC members provided the majority of the ODA received by fragile contexts in 2016, with Afghanistan receiving the most bilateral ODA from these donors. Non-DAC members, however, disbursed most of the ODA reaching Egypt and Syria in 2016. In Bangladesh, Ethiopia, Nigeria and Pakistan, bilateral aid from DAC donors is the largest source of ODA, closely followed by the aid from the World Bank Group. The UN is particularly active in the West Bank and Gaza Strip, mostly due to the presence of the UN Relief Work Agency for Palestinian Refugees in the Near East (UNRWA, 2015[12]). Of all ODA provided by government donors to UNRWA in 2015, 70% came from DAC member countries.

Figure 4.9. ODA to fragile contexts by donor type, 2016



Notes: Some contexts show negative values because of the repayments of principal in respect of earlier loans. Other multilateral organisations include, among others, Global Green Growth Institute (GGGI), Green Climate Fund (GCF), Montreal Protocol, Nordic Development Fund (NDF), OPEC Fund for International Development (OFID) and Organization for Security and Co-operation in Europe (OSCE).
Source: (OECD, 2018[1]), "Detailed aid statistics: ODA official development assistance: disbursements", *OECD International Development Statistics* (database), http://dx.doi.org/10.1787/data-00069-en.

StatLink http://dx.doi.org/10.1787/888933787161

4.6. Channels of delivery in fragile and extremely fragile contexts

Development assistance reported to the OECD is delivered in many different ways. These include through direct implementation (bilaterally), through funds provided to multilateral organisations including the UN and the international financial institutions (IFIs), and through funds channelled through non-governmental organisations (NGOs) or passed directly to partner governments. As shown in Figure 4.10, in extremely fragile contexts in 2016, 27% of ODA (USD 8.4 billion) was channelled through multilateral organisations, 27% (USD 8.3 billion) through donor governments and 20% (USD 6 billion) through partner governments. In other fragile contexts, 46% of all ODA (USD 16.3 billion) was channelled through partner governments, 11% (3.8 USD billion) through donor governments and 12% (USD 4.3 billion) through multilateral organisations (Figure 4.10).

Prominent multilateral organisations in aid delivery to extremely fragile contexts include the UN agencies that often deliver a relatively large proportion of humanitarian aid, the International Red Cross and Red Crescent Movement, and NGOs (OECD, 2013[13]). An example of funding through the multilateral channel is development assistance delivered through the African Development Bank, which was one of the first international financial institutions to create a special facility specifically tailored to the type of support needed by fragile contexts in Africa (Box 4.1).

Box 4.1. The African Development Bank: Providing additional financing support to countries in transition

The Transition Support Facility (TSF), formerly the Fragile States Facility, is an operationally autonomous financing facility under the African Development Fund (ADF) of the African Development Bank (AfDB). It is wholly dedicated to supporting transition countries to consolidate peace, build resilient institutions, stabilise their economies and lay the foundations for inclusive growth. The TSF was established as a response to the contradictions in the performance-based allocation of ADF resources, which tended to disadvantage transition countries relative to their needs and legitimate demands. Since its inception in 2008, the TSF has received UA 2.78 billion (USD 4.01 billion).[7] In the ADF-13 cycle alone, the TSF resource flow to transition states was UA 651.4 million (USD 941.85 million) and flows increased by 17% under ADF-14.

Fragile contexts tend to be under-resourced. Despite their greater resource needs, such places also struggle to access concessional resources due to performance and risk perceptions. The TSF therefore is particularly important for countries and contexts under sanctions. Such contexts under arrears find themselves in a vicious cycle of ever-dwindling access to financing and an inability to access international capital, which in turn constrains their ability to break out of the fragility trap. TSF Pillar II (Arrears Clearance Window) resources are set aside to assist in the re-engagement process with international creditors. Countries such as Côte d'Ivoire, the DRC, Liberia and Sierra Leone have benefitted from AfDB-mobilised resources to clear their arrears and resume normal interactions with the international community.

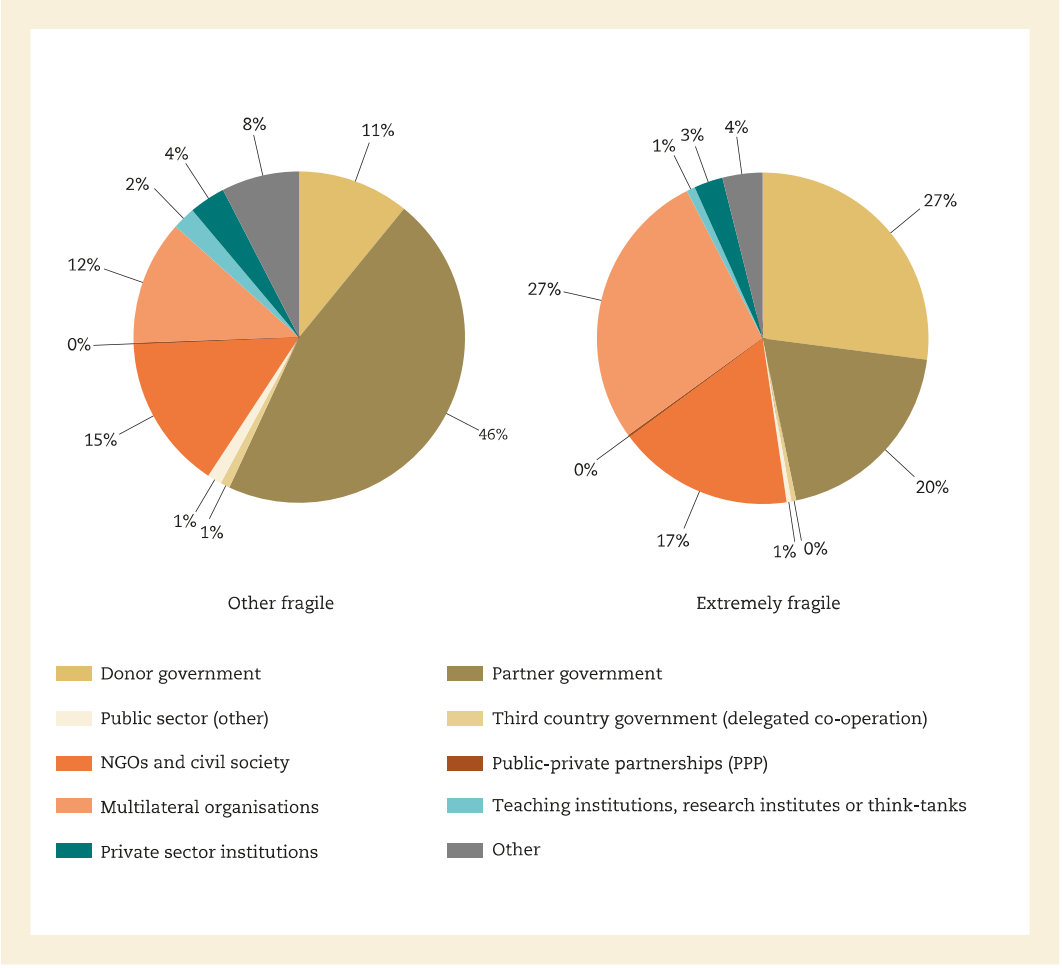
The African Development Bank has taken advantage of the flexibility of the TSF resources to leverage the regional envelope resources under ADF-13, approving 14 regional operations that include fragile situations in the amount of UA 478 million (USD 691 million). This amount represents 55% of all resources approved under the regional operations envelope. The operations include scaling up the existing ones to build drought resilience in the Horn of Africa; develop the transport corridor from the coast of Côte d'Ivoire (San Pedro) to the landlocked capital of Mali, Bamako; bring green energy to Burundi, the DRC and Rwanda (Ruzizi); and address the Ebola epidemic by enabling doctors from other African countries to deploy quickly to the affected zones. For instance, a total of USD 225 million was approved to address some of the deficits that had been exposed in national health systems. High-level engagement complemented this financial support.

The AfDB assigns a high premium to fragility-sensitive programming and interventions by identifying levers of resilience in transition states. Significant knowledge, experience and know-how have been generated over the last decade and these have shaped the AfDB's holistic approach in engaging in these contexts. Using the TSF resources, the AfDB has therefore been able to contribute to addressing fragility and building resilience in Africa. There also is increasing acknowledgment of the need for partners to focus on addressing fragility in order to better support those at the bottom of the pyramid in transition countries. These communities bear the brunt of the effects of fragility including limited access to and participation in the formal economy and socio-political areas, environmental and climate change shocks, and violent conflict. The AfDB is therefore exploring the potential for mobilising more resources and bringing greater attention to the principle of leave no one behind, as pledged in the Sustainable Development Goals.

Contributed by African Development Bank, Transition Support Department

A smaller proportion of ODA has been channelled through NGOs, although the proportion is higher in extremely fragile contexts (17%) than in other fragile contexts (15%). In 2016, aid channelled through private sector institutions accounted for 3% of total ODA (USD 867 million) in extremely fragile contexts and 4% (USD 1.26 billion) in other fragile contexts. This demonstrates that the private sector is not yet a preferred delivery option in fragile contexts. Like the low levels of ODA channelled through the private sector, the portion of ODA that is channelled through public-private partnerships is also very small, despite the recognition that this type of delivery could have great potential. Chapters 6 and 9 further explore this issue.

Figure 4.10. Channels of delivery in fragile contexts, 2016



Note: The public sector is divided between donor government (bilateral aid), partner government and third-country government, which includes delegated co-operation. ODA for which channels of delivery was not reported was excluded from the calculation. This amounts to USD 3 666 million in fragile contexts.
Source: (OECD, 2018[1]), "Detailed aid statistics: ODA official development assistance: disbursements", *OECD International Development Statistics* (database), http://dx.doi.org/10.1787/data-00069-en.

StatLink http://dx.doi.org/10.1787/888933787180

While it is a significant source of finance for fragile contexts, ODA nevertheless makes up less than one-third of all external finance available to these countries and economies (Chapter 6). However, ODA is essential in that it is used for purposes – for example, the

provision of basic services and general strengthening of the enabling environment – in which other sources of finance will not invest. ODA also can have a catalytic effect by leveraging future private investment and supporting improvements in domestic resource mobilisation and budget execution (Chapters 7 and 9).

ODA also is the only flow that donors can directly affect and thus channel towards helping fragile contexts to achieve the Sustainable Development Goals. How to enhance the potential of ODA, taking into account the full spectrum of development finance, is discussed in Chapter 9.

Notes

[1] In 2015, the top ten ODA recipients, in descending order of volume of aid, were Syria, Afghanistan, Pakistan, Ethiopia, the DRC, Tanzania, Bangladesh, Egypt, Kenya and Nigeria.

[2] Income groups are based on the following World Bank classifications, which use the Atlas method for calculating GNI. Low-income economies are those have a GNI per capita, calculated using the World Bank Atlas method, of USD 1 025 or less in 2015; lower middle-income economies have a GNI per capita between USD 1 026 and USD 4 035; upper middle-income economies are those with a GNI per capita between USD 4 036 and USD 12 475.

[3] DAC members are Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, the United Kingdom and the United States.

[4] A 1988 DAC rule allows donor countries to count certain refugee expenses as ODA for the first year after a refugee's arrival. Australia, Japan, Korea and Luxembourg did not count any refugee costs as ODA in 2016. Eleven donor countries spent over 10% of their ODA on refugees; of these, Austria, Germany, Greece and Italy used more than 20% of ODA for refugee costs.

[5] Non-DAC members that report to the OECD are Azerbaijan, Bulgaria, Croatia, Cyprus, Estonia, Israel, Kazakhstan, Kuwait, Latvia, Liechtenstein, Lithuania, Malta, Romania, Russia, Saudi Arabia, Chinese Taipei, Thailand, Timor-Leste, Turkey and United Arab Emirates.

[6] The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Note by Turkey. The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the "Cyprus issue".

Note by all the European Union Member States of the OECD and the European Union. The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

[7] The AfDB uses a unit of account (UA) as its reporting currency that is equivalent to the International Monetary Fund's Special Drawing Right. UA amounts have been converted to USD using the exchange rate, published by the AfDB in March 2018, of USD 1.44589 = UA 1.

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Chapter 5. What are different methods to measure aid flows for preventing fragility, conflict and violence and for sustaining peace?

by

Sara Batmanglich, Development Co-operation Directorate, OECD

Chapter 5 presents different ways to measure aid flows for preventing fragility, conflict and violence and for sustaining peace. Noting that no agreed international system for measuring and tracking peace and security spending exists, this chapter looks at aid to fragile contexts through the lenses of conflict prevention, peacebuilding, the New Deal Peacebuilding and Statebuilding Goals, and the arenas of contestation introduced in the 2018 UN-World Bank Pathways for Peace study. The approach in this chapter, then, helps to provide a baseline for translating policy commitments on prevention and sustaining peace into financial and programmatic action. It also identifies trends and gaps in financing since 2010, arguing overall for the urgent prioritisation of the financing of conflict prevention and peacebuilding.

States of Fragility 2016 spotlighted the worrying rise in violence – including but not limited to conflict violence – and it warned that, unchecked, violence puts at risk the historic, universal ambitions of the 2030 Agenda.

Since the report's release, the highest echelons of the international community have acknowledged that the rules-based international order established to prevent war is under "grave threat", as United Nations (UN) Secretary-General António Guterres told the UN Security Council (UN Security Council, 2017[1]). In this address, his first to the Security Council, the Secretary-General said preventing conflicts and sustaining peace "must be the priority of everything we do together" and called for a new approach to peace and security, one that would shift away from mainly responding to crises and conflicts, at unacceptably high financial and human costs, and to preventing them and sustaining peace (UN Security Council, 2017[1]).

In March 2018, the UN and World Bank published a seminal, joint study on violent conflict prevention, *Pathways for Peace*. It aimed to provide and stimulate ideas about using development more effectively to prevent conflict. The study also presented a compelling business case for the economic benefits of prevention. Even in the model's most pessimistic scenario, the average net global savings would reach almost USD 5 billion per year; savings would be USD 33 billion and close to USD 70 billion in the neutral and optimistic scenarios, respectively (UN/World Bank, 2018, p. 3[2]). The model is based on conservative estimates, which suggests that the true economic case for prevention is even more convincing than the already incontrovertible one presented. *Pathways for Peace* concludes with a call for action that acknowledges national and international actors will need to focus attention, efforts and resources on prevention to implement its recommendations.

These important recent developments join and reinforce other, pre-existing frameworks and initiatives – the New Deal for Engagement in Fragile States, UN Security Council Resolution 2282 on Sustaining Peace and the Sustainable Development Goals themselves, especially SDG 16 – in signposting areas for greater focus in order to achieve peaceful and prosperous societies. All these shifts have been important in highlighting the urgency of confronting persistent vulnerabilities in countries and regions prone to fragility, violence and conflict. But they will remain ambitious rhetoric unless they are supported by equally ambitious international efforts that include financial commitments.

It is important to note that ambitious financial commitments will not always mean larger commitments. In some cases, and as discussed in Chapters 9 and 10, they will mean smarter and more strategic use of existing funds. However, it is clear that the amount of funding being channelled towards issues such as prevention and peacebuilding has been inadequate, especially when compared to the USD 233 billion spent over the past ten years on crisis response.[1] What is less clear is what an ideal amount would be. Further discussion is required around the appropriate size of projects and programmes with a peace focus because, depending on the activity involved, these most likely will not be the largest interventions in a donor's portfolio. This is good news. Not only are peace and prevention good value for money. They are not even necessarily expensive.

As a contribution to translating these critical calls for action into practice, this chapter examines how aid is being directed towards addressing fragility, conflict and violence. This will help identify where resources may be insufficient, what might need to be adjusted, or, as raised later in the report, how different flows can be more complementary and coherent. It bears repeating that aid is one thing that is within donor control and that this form of financing is often seen as a signal (OECD, 2010, p. 23[3]). Signals matter a great deal. Moving on from these important policy proclamations, the best way that development

partners can signify that they mean business – and not business as usual – is to ensure the financing matches up with the words.

5.1. Calculating aid from different fragility and peace perspectives

Considering the issues described in Box 5.1, the methodology used to arrive at the figures in this section is an approximation at best and provides only rough estimates that are meant to stimulate further discussion and reflection among aid providers.[2] It is hoped that by presenting even this imperfect picture, the indicative spread of funding from multiple, different perspectives will inform a deeper debate about how the current financing priorities correspond to political priorities and to the unique needs of fragile contexts.

Box 5.1. Tracking aid to conflict prevention, peace and security activities

Any analysis of aid to address fragility, conflict and violence must begin with several important caveats. The first is the challenge of measuring such aid. Except in relation to UN peacekeeping, there is no agreed international system for measuring peace and security spending. The challenge extends from spending outside of official development assistance (ODA) to spending that is ODA-eligible, although the latter is better tracked (Box 5.2). Nevertheless, the sector codes of the OECD Creditor Reporting System (CRS) that have been attributed to the Peacebuilding and Statebuilding Goals (PSGs) and arenas of contestation (UN/World Bank, 2018[2]), for example, were manually assigned and based on human judgement, making them inherently subjective. The process of reporting is itself somewhat subjective, as donors choose how to interpret and thus codify their projects based on their own definitions and conceptual parameters of engagements in peacebuilding and conflict prevention.

A second caveat is that certain activities cost more than others. For instance, PSG 4 (economic foundations) and PSG 5 (revenues and services) most likely will always receive more support than PSG 1 (legitimate politics), by virtue of the type and number of activities they include. A third proviso is that OECD sector codes, to avoid double counting, are only matched to one area in each of various frameworks discussed in this section. This is a false distinction as there is overlap among many of the areas and some activities could accurately be categorised as contributing to more than one objective. Moreover, the structure of the CRS limits the way it can be used, in that not all activities that might contribute to conflict prevention or sustaining peace are included or labelled as such; likewise, from an accountability perspective, the existing codes are not nuanced enough to cover areas pertaining to violence prevention and for which data would be useful.[3]

5.2. Conflict prevention

Conflict prevention is currently, and deservedly, high on the international policy agenda. But resources to address it do not appear to have similar high priority. The OECD defines conflict prevention as “actions undertaken to reduce tensions and to prevent the outbreak or recurrence of violent conflict” and which include both short-term actions and longer-term engagement (OECD, 2012, p. 11[4]). The framing recognises that some conflict is “natural, inevitable and often a positive part of development and other change processes”

while also seeking to specifically support the "built-in capacities of societies to deal with conflicting interests without resort to violence" (OECD, 2008, p. 16[5]).

As noted above, the OECD Creditor Reporting System includes no specific sector code for conflict prevention. This is but one of the challenges that complicate the calculation of funding for conflict prevention. The CRS previously included a specific "conflict prevention and resolution, peace and security" code. As indicated in Table 5.1, this code is now renamed "conflict, peace and security" and includes the same six subcategories. However, to avoid double-counting in the CRS, projects can be allocated only to a single purpose code. This means that a project with a conflict prevention element might be categorised under a range of different purpose codes – for example, as employment, gender, human rights or even water provision, if that is its principal aim – even when the project has a conflict prevention intent or effect (Dalrymple, 2016, p. 13[6]). Multi-sectoral allocation will be a feature of CRS starting with the reporting for 2017 aid, so further nuance should be provided in the future (Box 5.2).

Similarly, analysis of aid for conflict prevention is somewhat complicated by the fact that a subcategory of the conflict, peace and security grouping amalgamates peacebuilding, conflict prevention and conflict resolution efforts. This makes it impossible to distinguish between aid channelled to interventions prior to a conflict and spending to resolve a conflict that has already become violent. Still, while the grouping may not provide a full or sufficiently nuanced picture of ODA spending on peace and security activities, it remains the best existing proxy within the reporting system and gives a good indication of donors' intent to support conflict prevention through their development engagements in fragile contexts.

Table 5.1. Conflict, peace and security grouping in the OECD Creditor Reporting System (Code 152)

15210	Security system management and reform
15220	Civilian peacebuilding, conflict prevention and resolution
15230	Participation in international peacekeeping operations
15240	Reintegration and *SALW control
15250	Removal of land mines and explosive remnants of war
15261	Child soldiers (prevention and demobilisation)

Note: * Small arms and light weapons.
Source: Creditor Reporting System, OECD.

Figure 5.1. ODA to fragile contexts: Conflict, peace and security activities, 2010-16

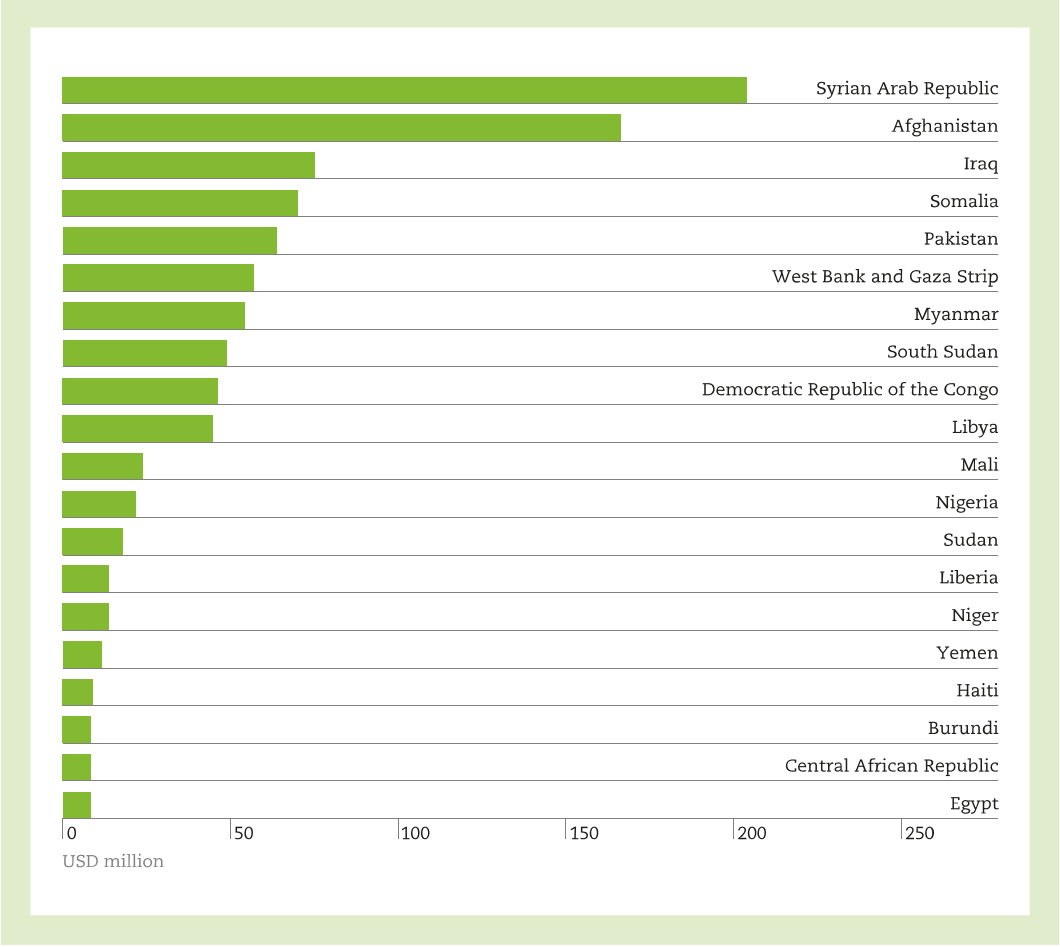


Notes: SALW = small arms and light weapons.
Sectoral data available only in gross disbursement from the OECD Creditor Reporting System database.
Source: (OECD, 2018[7]), "Detailed aid statistics: ODA official development assistance: disbursements", *OECD International Development* Statistics (database), http://dx.doi.org/10.1787/data-00069-en.

StatLink http://dx.doi.org/10.1787/888933787199

Even with these caveats, the data on conflict prevention development finance are revealing. In 2016, just 2% of the total gross ODA that went to fragile contexts, or about USD 1.7 billion, was directed to the conflict, peace and security category. While this was a relatively small portion, it still was a slight uptick in spending on these activities, which had declined after a peak in conflict prevention ODA in 2010 of USD 1.9 billion. Syria, now in active conflict, has surpassed Afghanistan and Iraq as the top recipient of this type of aid (Figure 5.2).

Figure 5.2. Top 20 fragile recipients of conflict, peace and security ODA, 2016

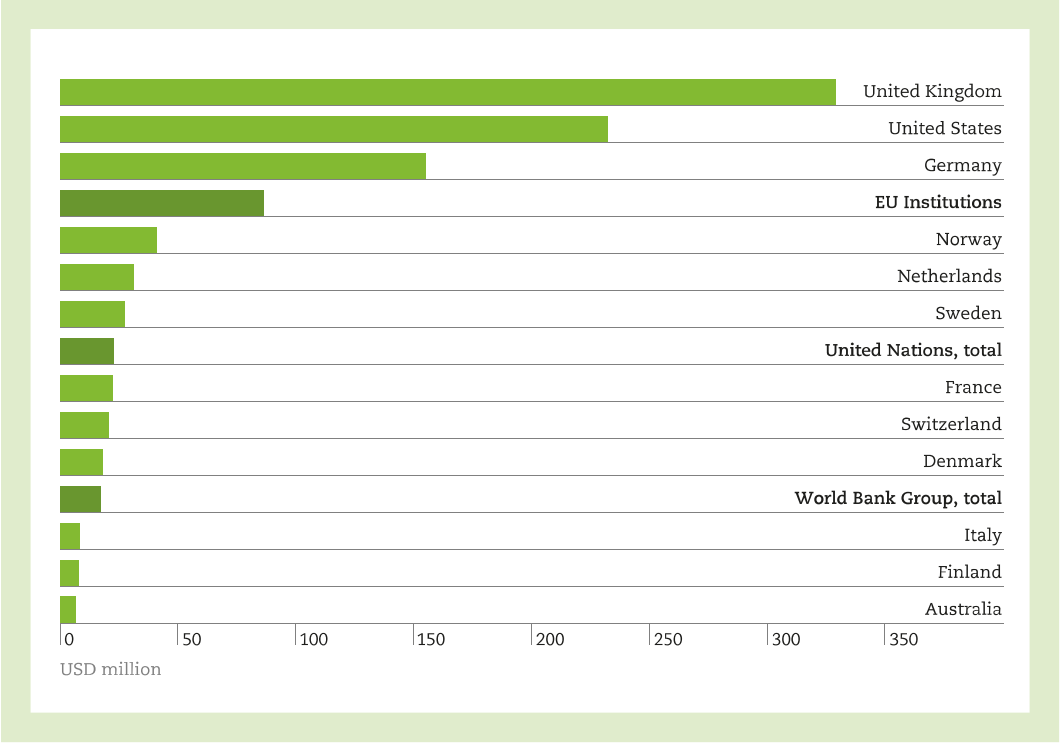


Note: Sectoral data available only in gross disbursement from the OECD Creditor Reporting System database.
Source: (OECD, 2018[7]), "Detailed aid statistics: ODA official development assistance: disbursements", *OECD International Development Statistics* (database), http://dx.doi.org/10.1787/data-00069-en.

StatLink http://dx.doi.org/10.1787/888933787218

The United Kingdom is the largest provider of conflict prevention ODA in absolute terms, providing just over USD 329 million in 2016, or about 6% of its total ODA, to prevention in fragile contexts (Figure 5.3).

Figure 5.3. Top 15 providers of conflict, peace and security ODA to fragile contexts by volume, 2016

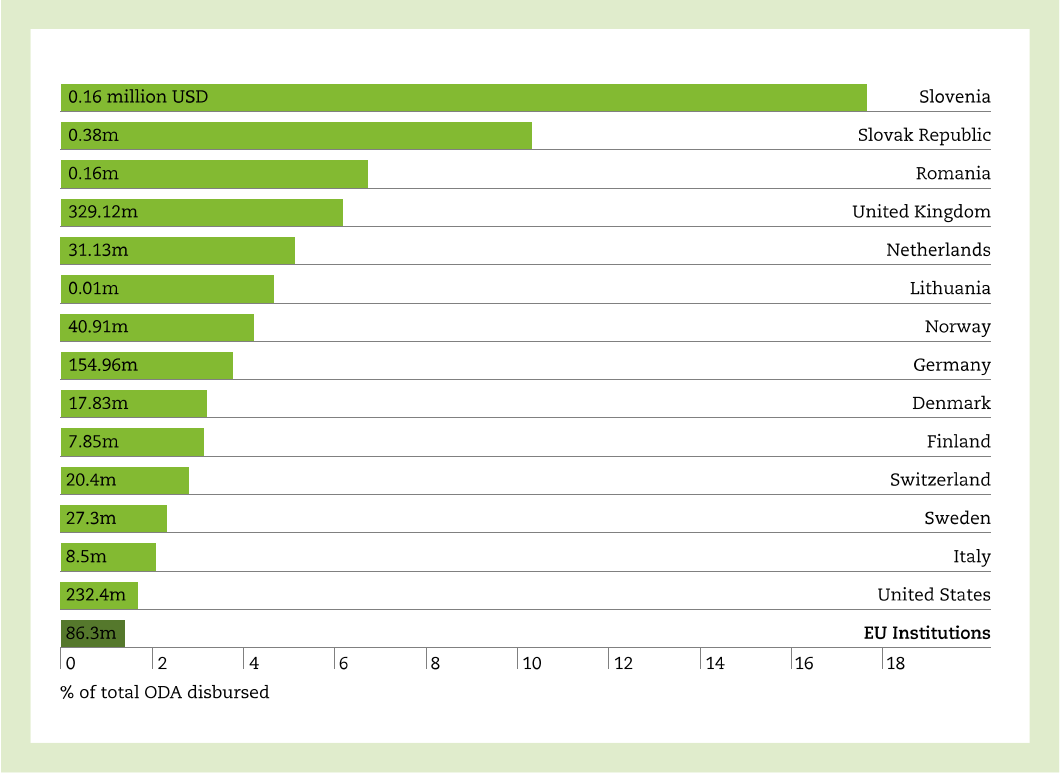


Note: Sectoral data available only in gross disbursement from the OECD Creditor Reporting System database.
Source: (OECD, 2018[7]), "Detailed aid statistics: ODA official development assistance: disbursements", *OECD International Development Statistics* (database), http://dx.doi.org/10.1787/data-00069-en.

StatLink http://dx.doi.org/10.1787/888933787237

Interestingly, Slovenia (18%), the Slovak Republic (10%) and Romania (7%) spent the largest proportion of their total aid portfolios on the conflict, peace and security grouping in fragile contexts (Figure 5.4). Their spending amounted to about USD 700 000 in absolute terms, with the priority context for Slovenia being the West Bank and Gaza Strip; for the Slovak Republic, Haiti; and for Romania, Afghanistan. Overall, of the six different subcategories under this code, the subcategory of civilian peacebuilding, conflict prevention and resolution received the largest amount of ODA in 2016 and, together with security system management and reform, accounts for most of the aid in this grouping (Figure 5.1).

Figure 5.4. Top 15 providers of conflict, peace and security ODA as a proportion of total aid to fragile contexts, 2016



Note: Sectoral data available only in gross disbursement from the OECD Creditor Reporting System database.
Source: (OECD, 2018[7]), "Detailed aid statistics: ODA official development assistance: disbursements", *OECD International Development Statistics* (database), http://dx.doi.org/10.1787/data-00069-en.

StatLink http://dx.doi.org/10.1787/888933787256

Box 5.2. Measuring development flows in the post-2015 era

The OECD Development Assistance Committee (DAC) has long discussed the security-development nexus and how to account for contributions to security in ODA. While recognising that lack of development creates insecurity and that lack of security impedes development, ODA rules have remained strict and conservative in this area. To protect the integrity of the ODA concept, the boundary between security and development expenditures has been kept clear. Broader security expenditures are not entirely reflected in any system at present, which creates a real gap.

An international task force is currently developing a new statistical measure called total official support for sustainable development (TOSSD) to promote greater transparency about the full array of officially supported financing in support of the 2030 Agenda. This includes resources provided through South-South co-operation, triangular co-operation, multilateral institutions, and emerging and traditional donors. The TOSSD measure will

cover support for sustainable development beyond ODA and it will recognise that some of the challenges faced by development co-operation are global. TOSSD will comprise activities that support the implementation of the SDGs by generating sustainable economic growth and ensuring social inclusion without compromising the environment.

Examples of activities currently excluded from ODA that could be considered under TOSSD include:

- *Some counter-terrorism activities beyond preventing violent extremism*, which now is the only such activity included in ODA. "Combatting terrorism" is explicitly covered under SDG target 16a and could thus be considered under TOSSD.
- *Peacekeeping expenditures beyond the 15% ODA coefficient* currently applied so that the development activities embedded within these operations are captured. Now, ODA support for the Arms Trade Treaty and other disarmament activities is limited to small arms and light weapons (SALW) and to demining, while it excludes disarmament activities related to such items as chemical and nuclear weapons.

The TOSSD international task force will study these questions in an open, inclusive and transparent manner over the course of 2018.

One key eligibility criterion for TOSSD will be the contribution to a specific SDG target. An activity is deemed to support sustainable development if it directly contributes to at least one of the SDG targets. Currently, the statistical system does not record this characteristic, although some DAC members and other development actors have started to assess the goals and targets to which past activities contributed and to develop tracking systems to report to their constituencies. At the same time, some developing countries have started to track both national and international resources for SDG goals and targets in order to better allocate their domestic resources and to improve co-ordination and effectiveness.

Work is ongoing to adapt the OECD CRS database for reporting on the SDG focus of development co-operation activities. A proposal to include an SDG field in the ODA reporting to the OECD DAC will be discussed in June 2018 during the Working Party on Development Finance Statistics. If adopted, reporting entities could flag their development activities with one or more of the SDG targets. The resulting data would allow a more precise analysis of the contribution of development finance to various aspects of the 2030 Agenda, potentially improving aid effectiveness. Reporting the SDG field information will be voluntary in the CRS, but a mandatory eligibility criterion for TOSSD.

Contributed by the Financing for Sustainable Development Division, DCD, OECD

5.3. Peacebuilding

A subcategory of the conflict, peace and security code is civilian peacebuilding. Given the breadth of peacebuilding activities and their inclusion as elements of other sectoral programming, however, it is quite likely that this code only captures a portion of the total activities. The OECD considers that peacebuilding covers four broad areas of intervention: equitable socio-economic development, good governance, reform of security and justice institutions, and truth and reconciliation processes.[4]

The challenges in measuring peacebuilding activities, however, were made clear in a consultation exercise undertaken in 2016 by the Institute for Economics and Peace (IEP) that aimed to categorise peacebuilding areas based on the OECD CRS (Institute for Economics and Peace, 2017[8]). Figure 5.5 is based on this exercise and the IEP work has been utilised in the analysis of aid for peacebuilding conducted for this report. The IEP underscored the difficulty of distinguishing peacebuilding activities from statebuilding activities and from development more generally, noting that "those categories with more conceptual overlap with statebuilding and development tend on average to be more likely to receive higher levels of funding" (Institute for Economics and Peace, 2017, p. 30[8]).

In acknowledgement of some of the conceptual challenges associated with the lack of a commonly agreed definition of peacebuilding, the IEP initially used as a starting point the five priority areas identified by the UN Secretary-General in 2009 (UN, 2009[9]). Ultimately, though, the IEP decided to limit its focus to just three of those priority areas – basic safety and security, inclusive political processes, and core government functions – matching them with the appropriate purpose codes and separating them into what it termed "core" and "secondary" peacebuilding activities (Institute for Economics and Peace, 2017, p. 10[8]). The priority areas that were not included relate to provision of basic services and economic revitalisation.

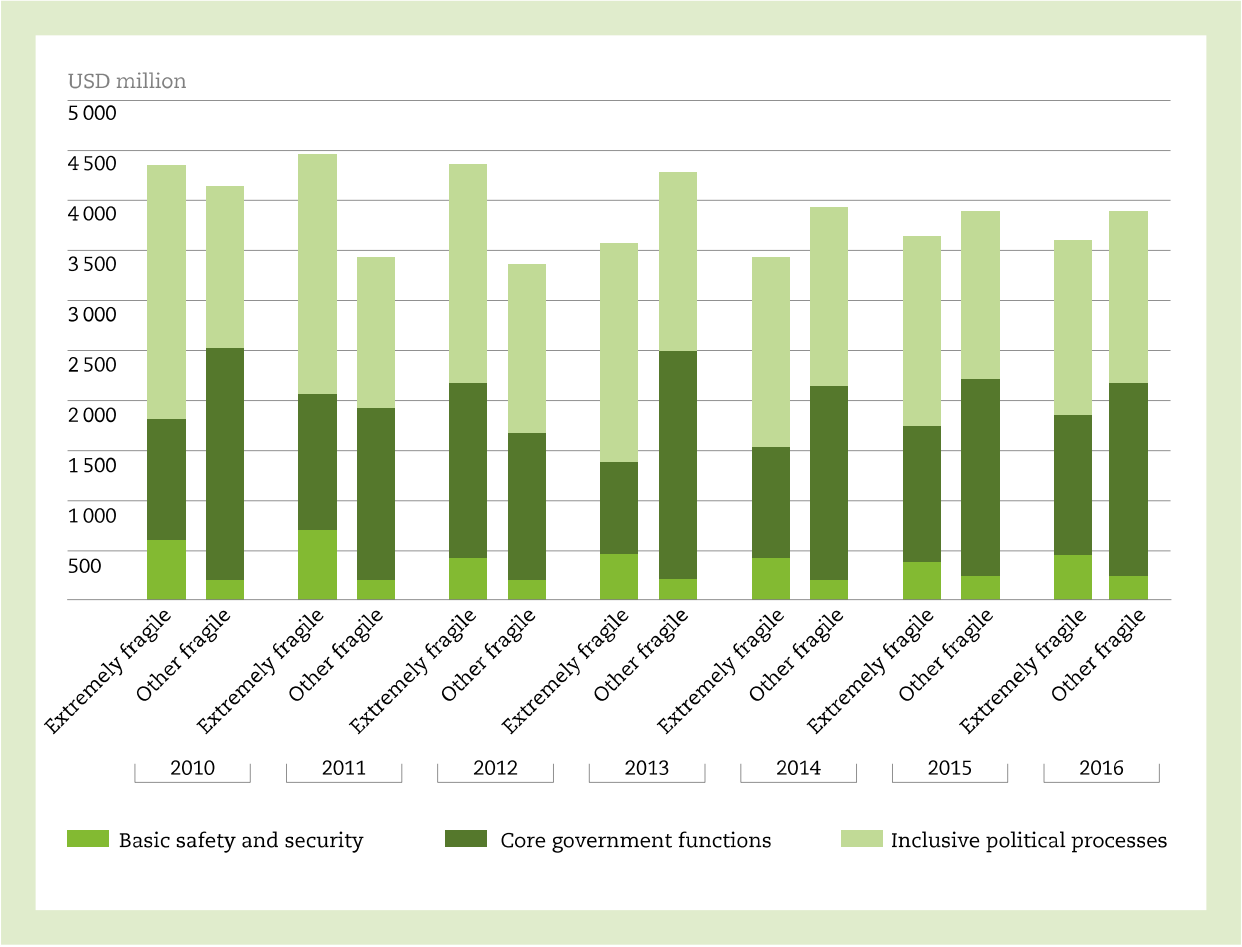
Figure 5.5. Categories of peacebuilding expenditures

	DOMAIN	NUMBER	CATEGORY DESCRIPTION	CRS CODE
CORE PEACE-BUILDING	1. Basic safety and security	1.1	Security system management and reform	15210
		1.2	Reintegration and SALW control	15240
		1.3	Removal of land mines and explosive remnants of war	15250
		1.4	Child soldiers (prevention and demobilization)	15261
		1.5	Participation in international peacekeeping operations	15230
	Other		Other specific peace-related expenses	
		2.8	Civilian peacebuilding, conflict prevention and resolution	15220
SECONDARY PEACE-BUILDING	2. Inclusive political processes	2.1	Legal and judicial development	15130
		2.2	Legislatures and political parties	15152
		2.3	Anti-corruption organisations and institutions	15113
		2.4	Democratic participation and civil society	15113
		2.5	Media and free flow of information	15153
		2.6	Human rights	15160
		2.7	Women's equality organisations and institutions	15170
	3. Core government functions	3.1	Public sector policy and administrative management	15110
		3.2	Public finance management	15111
		3.3	Decentralisation and support to subnational government	15112

Source: Adapted from (Institute for Economics and Peace, 2017[8]), *Measuring Peacebuilding Cost-Effectiveness*, http://visionofhumanity.org/app/uploads/2017/03/Measuring-Peacebuilding_WEB.pdf.

OECD analysis undertaken for this report used the 16 categories of the IEP's methodology listed in Figure 5.5. It finds that in 2016, donors spent USD 7.5 billion, about 10% of total gross ODA, on peacebuilding in all fragile contexts. Spending has remained fairly constant at around this amount since peaking in 2010 at USD 8.5 billion (Figure 5.6). As shown in Figure 5.7, this peacebuilding spending represents a small portion of total ODA going to fragile contexts, i.e. 11% of the total to extremely fragile contexts and 9.5% of the total ODA to other fragile contexts. Basic safety and security receives the least amount of aid at approximately USD 689 million to all fragile contexts.

Figure 5.6. Peacebuilding expenditures to fragile contexts, 2010-16

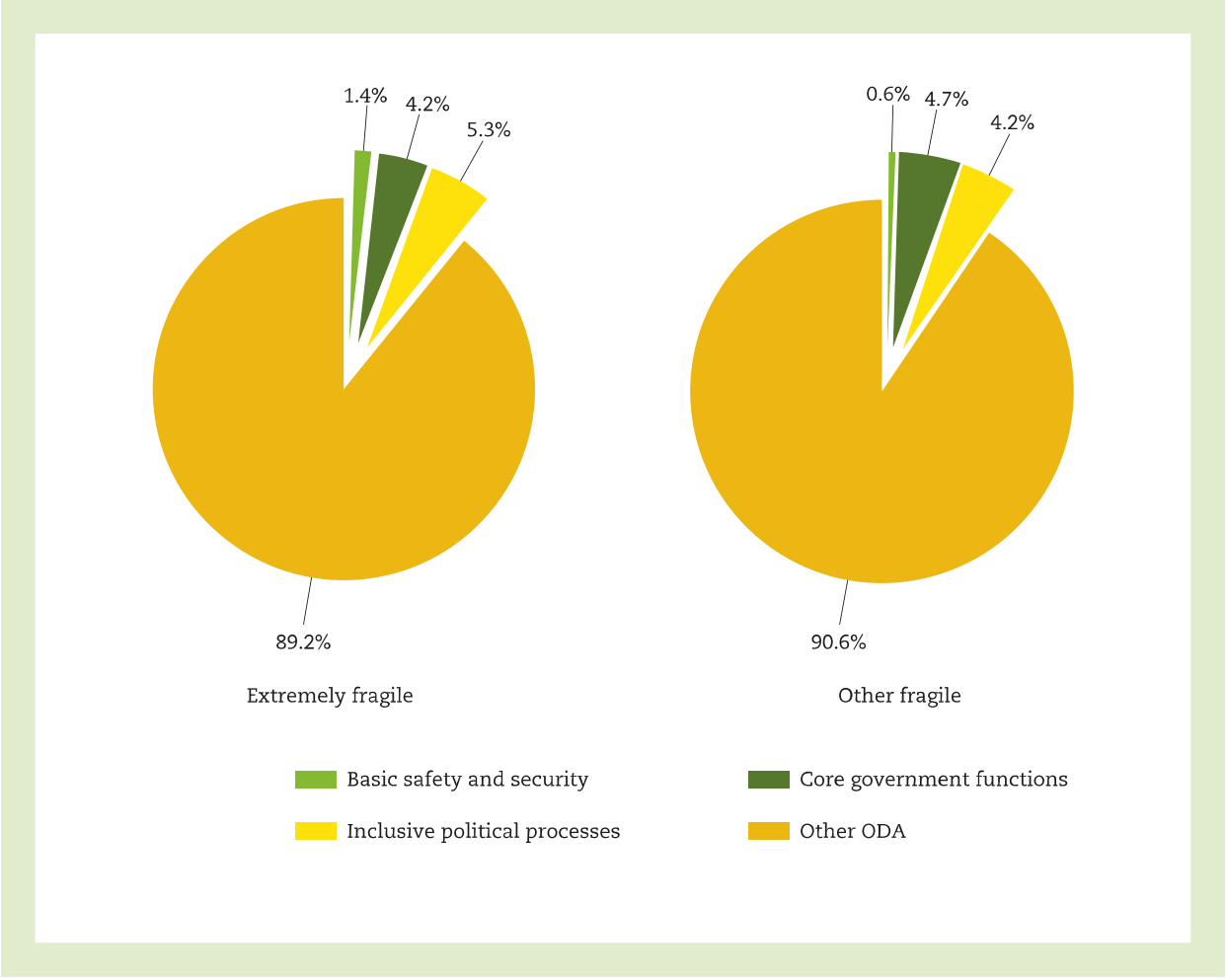


Note: Sectoral data available only in gross disbursement from the OECD Creditor Reporting System database.
Source: (OECD, 2018[7]), "Detailed aid statistics: ODA official development assistance: disbursements", *OECD International Development Statistics* (database), http://dx.doi.org/10.1787/data-00069-en.

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The OECD analysis shows that since 2010, the 15 contexts considered extremely fragile have consistently received close to half of all peacebuilding aid. Considering that 9 of these 15 contexts are experiencing some form of conflict, it is surprising that they do not receive an even larger share of aid for basic safety and security. Although less support overall was provided for secondary peacebuilding activities in extremely fragile contexts, these contexts received a still-considerable portion of spending for inclusive political processes (USD 1.7 billion) and core government functions (almost USD 1.4 billion). These figures indicate that donors give priority to building these capacities. However, they also raise questions about absorption capacity and the effectiveness of focusing on these areas in extremely fragile contexts rather than in other fragile contexts.

Figure 5.7. Peacebuilding expenditures as a comparison of total ODA to fragile contexts, 2016

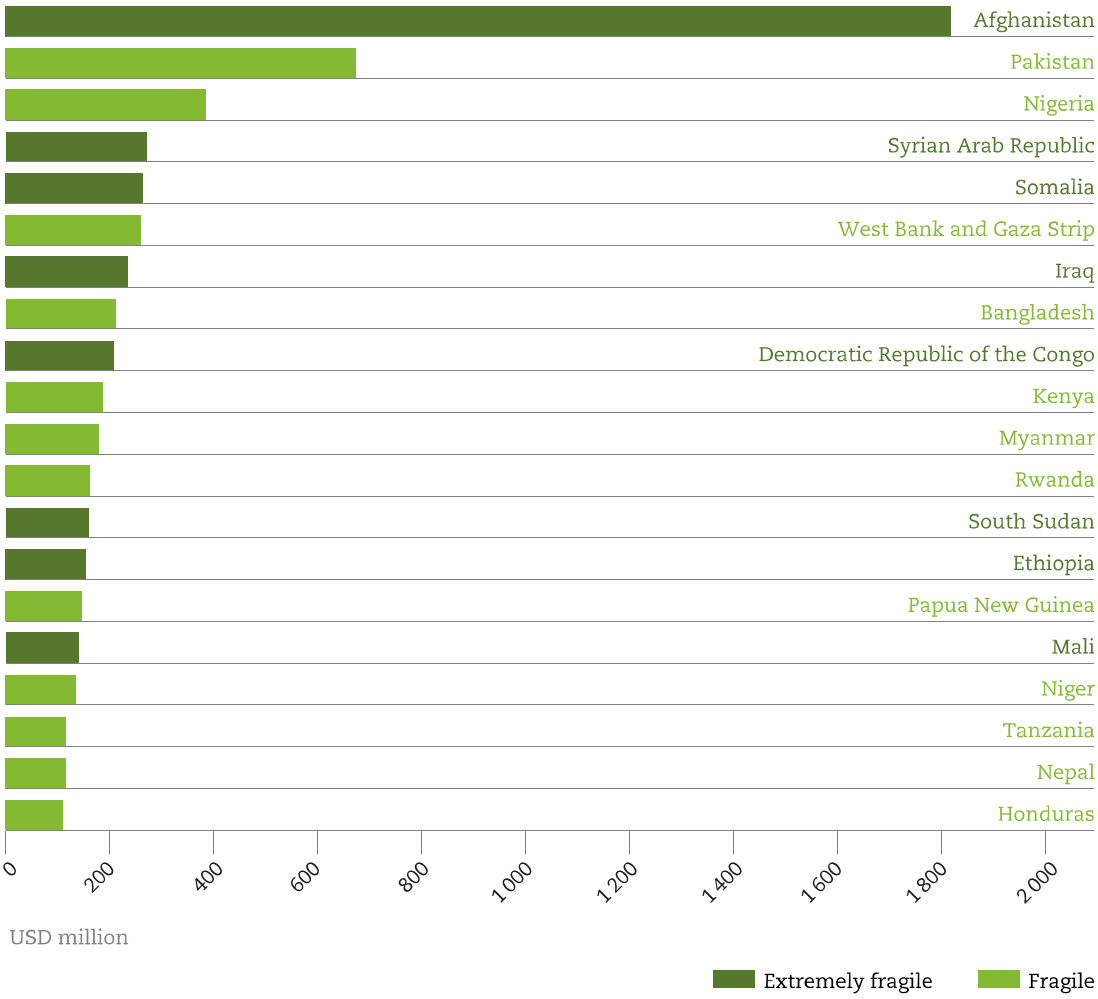


Note: Sectoral data available only in gross disbursement from the OECD Creditor Reporting System database.
Source: (OECD, 2018[7]), "Detailed aid statistics: ODA official development assistance: disbursements", *OECD International Development Statistics* (database), http://dx.doi.org/10.1787/data-00069-en.

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It is especially interesting to compare the top 20 recipients of peacebuilding ODA with the top 20 recipients of conflict, peace and security ODA. Burundi, Central African Republic, Egypt, Haiti, Liberia, Libya, Sudan and Yemen are among the top conflict prevention aid recipients. But they are not in the top 20 of peacebuilding aid recipients. Similarly, Bangladesh, Ethiopia, Honduras, Kenya, Nepal, Rwanda and the United Republic of Tanzania ("Tanzania") are among the top peacebuilding aid recipients but do not feature among the top recipients of aid for conflict prevention.

Figure 5.8. Top 20 fragile recipients of peacebuilding ODA, 2016

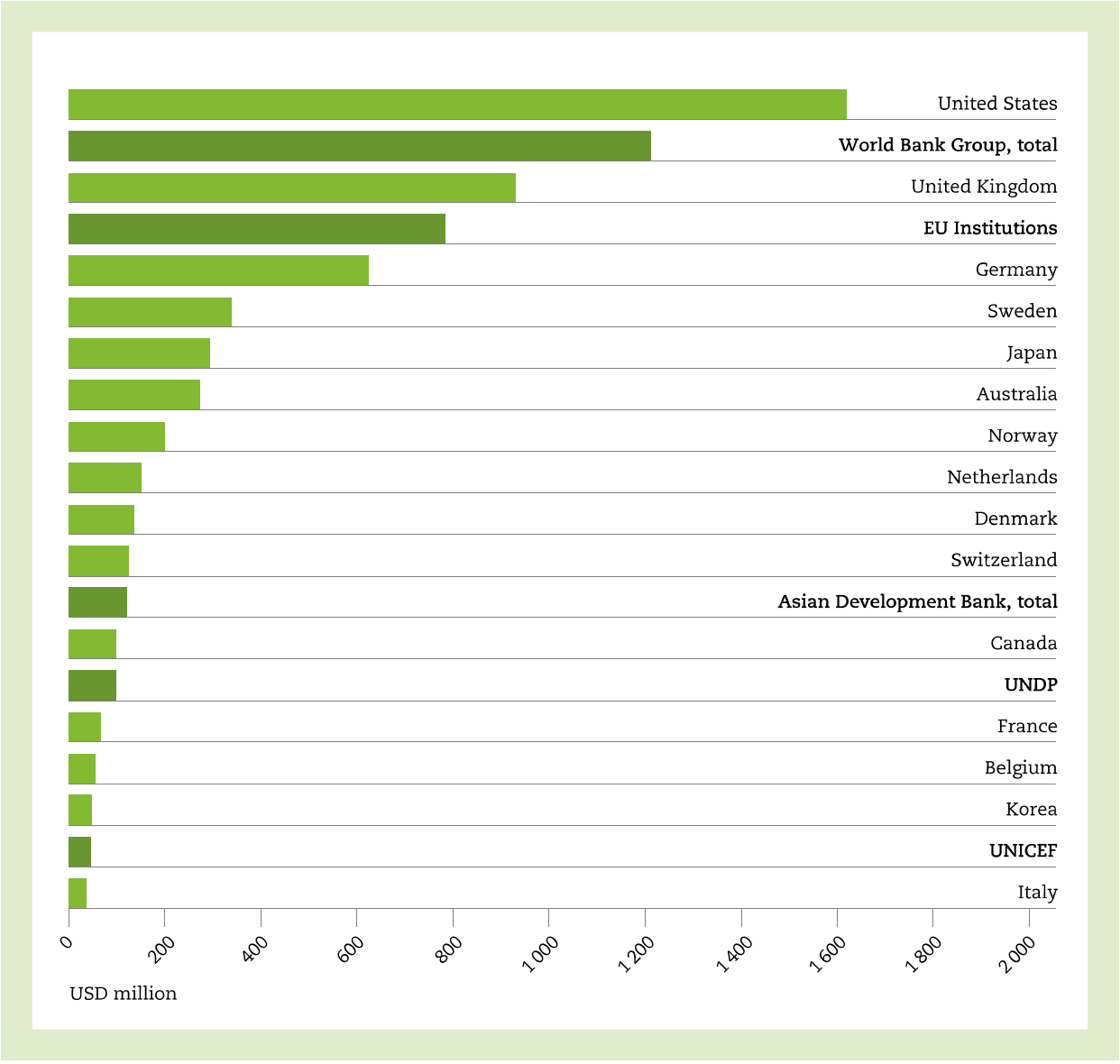


Note: Sectoral data available only in gross disbursement from the OECD Creditor Reporting System database.
Source: (OECD, 2018[7]), "Detailed aid statistics: ODA official development assistance: disbursements", *OECD International Development Statistics* (database), http://dx.doi.org/10.1787/data-00069-en.

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As Figure 5.9 shows, there is also some variation in the top 20 providers of peacebuilding aid, with the World Bank Group, Japan and Australia, in particular, spending proportionately more on aid for peacebuilding compared to conflict prevention aid.

Figure 5.9. Top 20 providers of peacebuilding ODA, 2016



Note: Sectoral data available only in gross disbursement from the OECD Creditor Reporting System database.
Source: (OECD, 2018[7]), "Detailed aid statistics: ODA official development assistance: disbursements", *OECD International Development Statistics* (database), http://dx.doi.org/10.1787/data-00069-en.

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Box 5.3. United Nations Peacebuilding Fund

The UN Peacebuilding Fund (PBF) was established in October 2006, to provide timely, risk-tolerant and catalytic funding to meet the particular needs of countries and situations at risk of or affected by violent conflict. At the time, the PBF also took into consideration the lack of funding to some of the contexts on their roster as well as the fact that most were not considered priority countries by more than one development partner (OECD, 2010[10]). The PBF is one of the pillars of the UN's peacebuilding architecture, along with the Peacebuilding Commission and the Peacebuilding Support Office, which manages the PBF.

Since its inception, the PBF has grown in size and scope. As of December 2016, it has approved USD 647 million in funding to 36 countries. Its four main priority areas are supporting the implementation of peace agreements and political dialogue; promoting co-existence and peaceful resolution of conflict; economic revitalisation and generation of peace dividends; and rebuilding essential administrative services and capacities (UN PBSO, n.d.[11]). The PBF has two response windows that are structured around accumulated good practice with respect to the financing needs of volatile contexts. The immediate response facility swiftly responds to changes in these contexts and does not require the context to undergo a formal eligibility process. The peacebuilding and recovery facility provides medium-term financing based on a Peacebuilding Priority Plan that is articulated at the country level and intended to maximise national ownership.

The majority of PBF funding has gone to projects that address national reconciliation, which the 2016 *States of Fragility* report identified as an important area that lacks funding (OECD, 2016, p. 141[12]). Of the 34 contexts currently receiving PBF funding, 27 are in the OECDs 2018 fragility framework. In a 2018 report on the PBF, the UN Secretary-General warned that the health of the fund was in question, noting that demand had outstripped supply; the PBF approved USD 157 million in 2017 but received only USD 93 million in contributions, which nevertheless was an increase from 2016 when it received USD 58.6 million in contributions (UN General Assembly, 2017[13]). A pledging conference held in September 2016 requested USD 300 million as the minimum amount to sustain operations for three years.

In January 2018, the Secretary-General released his much-anticipated report on peacebuilding and sustaining peace, which referred to the PBF as a critical vehicle through which the UN can step up efforts to build resilience and focus on prevention (UN General Assembly/UN Security Council, 2018[14]). He called for a "quantum leap" in contributions to the PBF, citing forecasting based on country-driven needs across several areas that estimates the need for USD 500 million annually, and suggested several options for achieving greater and more predictable financing. Regardless of which combination of options is chosen by UN member states to provide the PBF more funding, the Fund is likely to be an essential tool in the next generation of financing for sustaining peace.

5.4. The New Deal Peacebuilding and Statebuilding Goals

After extensive global consultations, the New Deal and its Peacebuilding and Statebuilding Goals (PSGs) were agreed in 2011 as a foundation to guide thinking and funding decisions around priority areas (Box 5.4), with further delineation of the goals to take place at country level (New Deal, 2014[15]). But implementation of the New Deal at the country level has been problematic. The most recent independent review found no evidence that international actors had increased their aid allocations towards the PSGs and that only in the case of Somalia were the PSGs used to define national priorities and align budgets (Hearn, 2016, p. 11[16]). It should be noted, though, that the PSGs were agreed at the end of the Millennium Development Goals era, when peace did not feature as prominently on the international agenda as it now does with the 2030 Agenda for Sustainable Development.

Nonetheless, in terms of substantive areas of focus that have particular relevance in fragile and conflict-affected contexts, the PSGs have stood the test of time. This is exemplified by their similarity to the deeply researched arenas of contestation discussed in the recent, joint UN/World Bank study, which are described as the critical spaces where grievances and risks can accumulate or intensify and where opportunities may open to pursue peaceful outcomes (2018, p. 141[2]).

Box 5.4. The New Deal's Peacebuilding and Statebuilding Goals (PSGs)

PSG 1: Legitimate politics: Foster inclusive political settlements and conflict resolution

PSG 2: Security: Establish and strengthen people's security

PSG 3: Justice: Address injustices and increase people's access to justice

PSG 4: Economic foundations: Generate employment and improve livelihoods

PSG 5: Revenues and services: Manage revenue and build capacity for accountable and fair service delivery

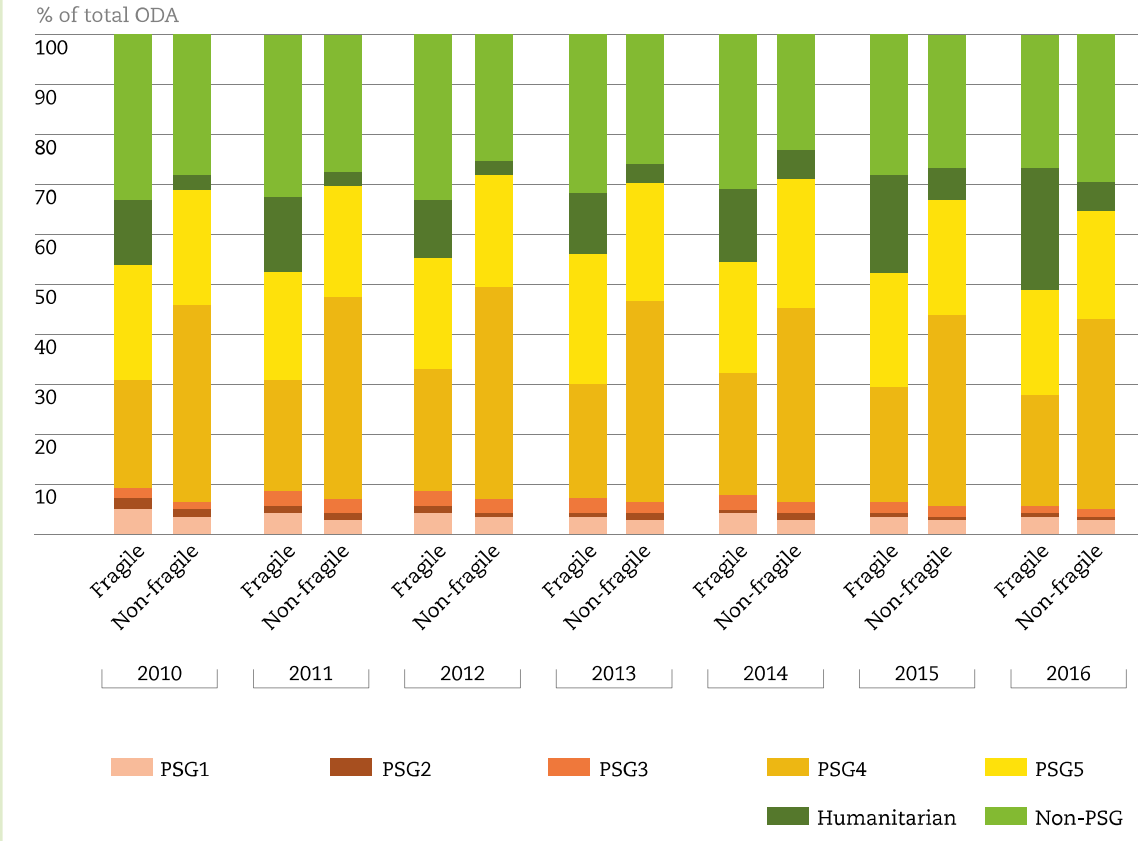
Source: (New Deal, 2014[15]), *Peacebuilding and Statebuilding Goals*, https://www.newdeal4peace.org/peacebuilding-and-statebuilding-goals/

Analysis undertaken for the 2015 *States of Fragility* report found that investments in some PSGs were very low, amounting to 4% of ODA to that year's fragile contexts grouping for PSG 1, 2% for PSG 2 and 3% for PSG 3 (OECD, 2015, p. 68[17]). To some extent, these figures could reflect that activities under the other PSGs are more expensive. But it is also possible that aid is directed towards PSGs 4 and 5 (45%) because they are perceived to be easier and more straightforward interventions than the politically sensitive, complex and yet critical PSGs 1, 2 and 3. Notably, the pattern of spending towards the PSGs in fragile contexts did not differ significantly from spending towards these goals in non-fragile developing countries (OECD, 2015[17]) (OECD, 2015[17]).

Current OECD analysis using the most recent data finds that nearly half of ODA (48.7%) going to fragile contexts in 2016 was channelled towards the five PSGs. The portion of ODA going to PSGs 1, 2 and 3 remains low and has even fallen since the 2015 report to 3.5%, 1.1% and 1.5%, respectively (Figure 5.11). The relative distribution of aid among the five PSGs, however, has remained fairly consistent over time, as has the total amount

of ODA directed towards the PSGs in fragile contexts. In addition, the percentage of ODA going to some PSGs is consistently higher in non-fragile contexts than in fragile contexts (Figure 5.10). One reason may be that PSGs 4 and 5 cover many areas of standard development practice around economic growth. Presumably as regards these PSGs, it also is easier to implement more and larger-scale projects where fragility is absent. Nonetheless, it is worth repeating that the politically sensitive and arguably purely peacebuilding aspects of the New Deal that are embodied in PSGs 1, 2 and 3 receive almost the exact same support proportionally in non-fragile and in fragile contexts. This raises important questions regarding how much donors are tailoring their development approaches for the special needs of fragile contexts.

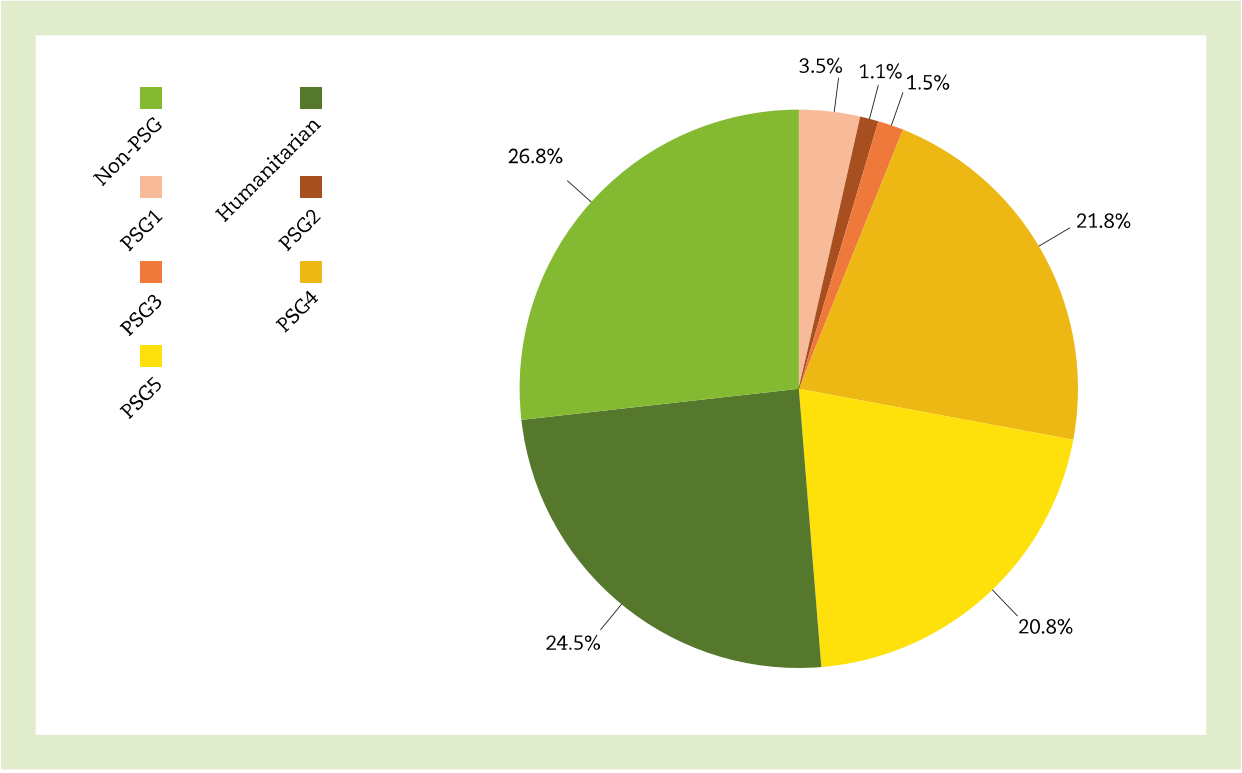
Figure 5.10. ODA to the Peacebuilding and Statebuilding Goals (PSGs) in fragile and non-fragile contexts, 2010-16



Notes: Non-PSG ODA includes donors' debt relief and administrative costs, refugees in donor countries, and unallocated/unspecified ODA. It also covers other purpose codes such as medical education/training, medical research, medical services, basic health care, basic health infrastructure, basic nutrition and infectious disease control. Sectoral data available only in gross disbursement from the OECD Creditor Reporting System database.
Source: (OECD, 2018[7]), "Detailed aid statistics: ODA official development assistance: disbursements", *OECD International Development Statistics* (database), http://dx.doi.org/10.1787/data-00069-en.

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Figure 5.11. ODA to PSGs in fragile contexts (as a percentage of total ODA), 2016



Note: Sectoral data available only in gross disbursement from the OECD Creditor Reporting System database.
Source: (OECD, 2018[7]), "Detailed aid statistics: ODA official development assistance: disbursements", *OECD International Development Statistics* (database), http://dx.doi.org/10.1787/data-00069-en.

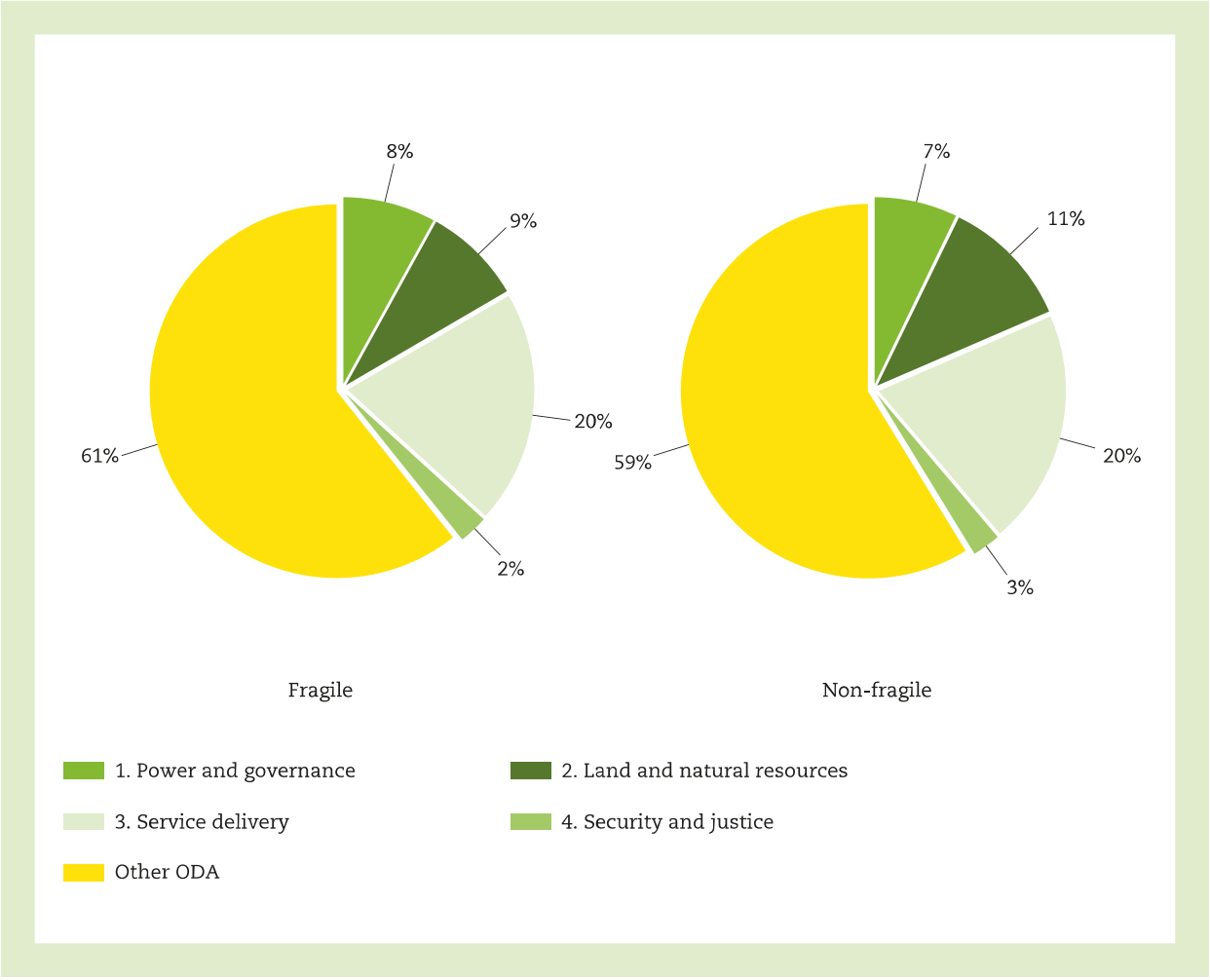
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5.5. The *Pathways for Peace* study's arenas of contestation

The joint UN and World Bank *Pathways for Peace* study is the most recent and thorough collection of accumulated research on the drivers and prevention of violent conflict. It introduces the concept of arenas of contestation, the broad areas where conflict naturally arises among groups and between society and the state. The four arenas revolve around power and governance; land and natural resources; service delivery; and security and justice. These are spaces where "people or groups bargain for access to the basic means of livelihoods and well-being" and therefore where both the stakes and risks of violence are high (UN/World Bank, 2018, p. 142[2]).

Preliminary interpretation of the arenas through the purpose codes offered in the CRS shows that in 2016 almost USD 29 billion, or close to 40% of total ODA, was spent on these arenas of contestation in fragile contexts (Figure 5.12). However, security and justice received a much smaller share of the ODA channelled to these four arenas and service delivery received by far the most. The arenas of power and governance and of land and natural resources each received about the same level of aid attention. Even more so than with the PSGs, only minor differences appeared in allocations to arenas across fragile and non-fragile contexts. This again raises the question of differentiation in development engagements and prioritisation in contexts where the risks described in the *Pathways for Peace* study manifest, as opposed to traditional development contexts where the risk of violent conflict is lower.

Figure 5.12. ODA to *Pathways for Peace* arenas in fragile and non-fragile contexts, 2016



Note: Sectoral data available only in gross disbursement from the OECD Creditor Reporting System database.
Source: (OECD, 2018[7]), "Detailed aid statistics: ODA official development assistance: disbursements", *OECD International Development Statistics* (database), http://dx.doi.org/10.1787/data-00069-en.

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5.6. United Nations peacekeeping

The lack of systematic monitoring of bilateral security expenditures makes it difficult to gauge levels of global investment in security as a global public good versus investments in security in the national interest (OECD, 2015, p. 73[17]) (OECD, 2015, p. 73[17]). The expanding array of global public bads – for example, terrorism and transnational organised crime – also is affecting the equation. What is in the national interest and what contributes to the global public good are no longer necessarily mutually exclusive. Nevertheless, UN peacekeeping remains the largest multilateral investment in global security. It is also an investment that can be measured and tracked. Therefore, understanding the status of peacekeeping is important because the challenges that peacekeeping faces in many ways reflect the challenges that are facing the pursuit of peace as a global public good.

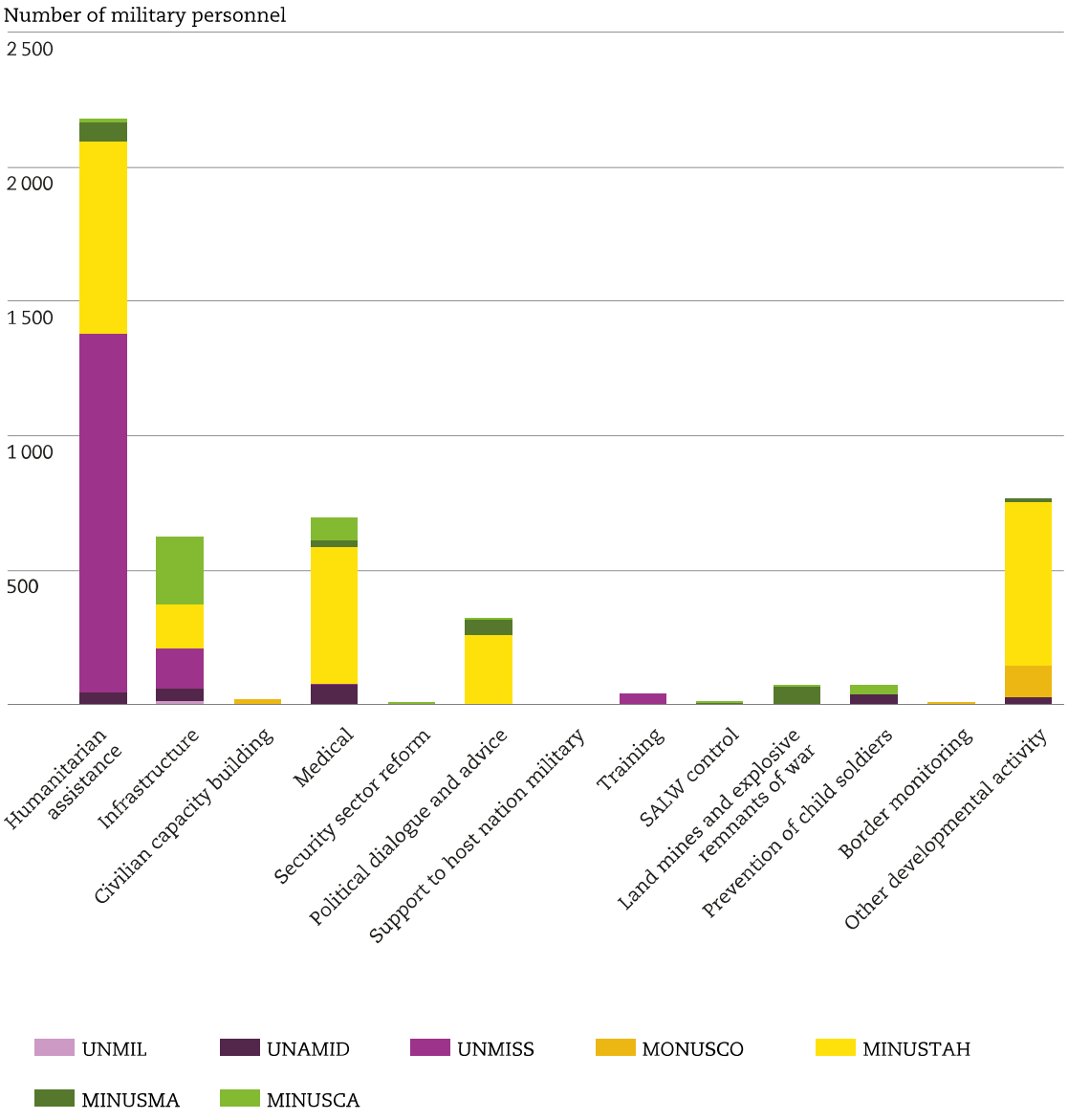
The 2015 report of the High-Level Independent Panel on Peace Operations (HIPPO) noted the changing landscape within which peace operations are deployed and voiced concern that "changes in conflict may be outpacing the ability of UN peace operations to respond" (High-Level Independent Panel on Peace Operations, 2015, p. ii[18]). The context in which peacekeeping missions operate is also shifting. The majority of military and police under UN command are now concentrated in just five missions that are characterised by "persistent violence, including threats to their personnel; large-scale violence-induced humanitarian crises; and severe limits on their ability to pursue clear political conflict resolution strategies, either due to a lack of credible national partners or poor relations with their host states" (Gowan, 2018[19]).[5] The five years from 2013 to 2017 saw an unprecedented spike in casualties, with 195 UN peacekeepers killed in the line of duty (dos Santos Cruz, Phillips and Cusimano, 2017[20]). Of the 14 current peacekeeping operations, 8 are deployed in countries and contexts in the 2018 fragility framework.[6] Seven of these are in extremely fragile contexts.

The approved UN peacekeeping budget for fiscal year 2017/18 is USD 6.8 billion, which finances 13 peacekeeping missions and also supports logistics for the African Union Mission in Somalia (UN General Assembly, 2017[21]). This budget is approximately 7.5% lower than the approved budget for the previous fiscal year (UN DPKO, 2018[22]). The budget reduction is due in part to drawdowns in Côte d'Ivoire, Haiti and Liberia. However, UN officials also warn that it should not be mistaken for a reduction in need and consistently are describing missions as overstretched, under-resourced and, in the words of UN Secretary-General Guterres, "under siege" (UN, 2017[23]) (UN, 2017[23]). To put the UN peacekeeping budget in perspective, it represents only about 0.4% of global military expenditure, which in 2016 was estimated at USD 1.686 trillion, or 2.2% of global GDP (Tian et al., 2017[24]). Compared to development expenditures, however, the peacekeeping budget represents 10% of net ODA in 2016 going to fragile contexts.

In 2016, the largest peacekeeping budgets were for the Democratic Republic of the Congo (USD 1.2 billion), South Sudan (USD 1.1 billion), Darfur (USD 1 billion), Mali (USD 933 million) and Central African Republic (USD 921 million) (Center on International Cooperation, 2017[25]). As of 2017, the United States, China, Japan and Germany together provided over half of the assessed contributions to peacekeeping operations (UN DPKO, 2018[22]). Six out of the top ten troop and police contributing countries are themselves considered fragile, with the largest of these, Ethiopia, considered extremely fragile in the OECD fragility framework (UN DPKO, 2018[26]).

In the absence of other actors, peacekeepers often deliver more than security, such as stabilisation, counter-terrorism, statebuilding and atrocity prevention where governments are unable or unwilling to protect their own civilians (Hunt, 14 June 2017[27]). They are also delivering development, in a broad sense. This became evident in a technical review carried out by the OECD, in collaboration with the UN Department of Field Support (UN DFS), of ODA-eligible development activities being undertaken by uniformed personnel in seven missions (OECD, 2017[28]). As shown in Figure 5.13, the review finds that peacekeepers support a range of activities including delivery of humanitarian assistance and medical assistance, infrastructure engineering, smaller quick-impact projects with local communities, and even political dialogue and advice.

Figure 5.13. Breakdown of ODA-eligible activities conducted by military personnel in the surveyed mission[7]



Note: SALW = small arms and light weapons.
Source: Adapted from (OECD, 2017[28]), "DAC Working Party on Development Finance Statistics: Technical review of the ODA coefficient for United Nations peacekeeping operations", p. 9.

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This breadth of activities was acknowledged during a recent UN Security Council meeting devoted to improving UN peacekeeping operations. At the meeting, the Secretary-General noted that "peace operations cannot succeed if they are deployed instead of a political solution rather than in support of one". He went on to say: "A peacekeeping operation is not an army or a counter-terrorism force or a humanitarian agency. It is a tool for creating the space for a nationally owned political solution" (UN Security Council, 2018[29]).

Yet, many demands are placed on peacekeeping missions precisely because many of today's deployments are in places where, as the HIPPO report said, "there is little or no peace to keep" (High-Level Independent Panel on Peace Operations, 2015, p. 28[18]). This can lead to confusion about mandates, especially when those mandates are overloaded, unfeasible and include multiple elements far beyond traditional peacekeeping. The UN Secretary-General has called this "mandate inflation", telling the Security Council during its meeting on peacekeeping operations that as an example, the UN Mission in South Sudan cannot possibly implement its 209 mandated tasks (UN Security Council, 2018[29]). Box 5.5 argues that UN special political missions, for instance, also have important roles to play.

Reflection therefore is needed not only on the role of UN peacekeeping within the larger architecture for sustaining peace, but also on all international behaviour that affects peace, especially in light of the shift towards prevention as a primary goal (Figure 5.14). This can help recalibrate, if necessary, the balance among different elements of the international approach.

Box 5.5. United Nations special political missions

The UN Department of Political Affairs manages 13 field-based, special political missions (SPMs). Three of them are regional missions serving multiple countries. As the most operational component of the UN's political work, the missions have varying mandates and undertake a range of activities with a strong preventive thrust, from traditional diplomacy, human rights monitoring, development work and peacebuilding to other tasks that help to support complex political transitions. As such, they work in concert with national actors and other development and humanitarian actors (UN DPA, 2014[30]).

Despite different specific mandates, SPMs share a focus on political origins, political means and political goals (Gowan, 2010, p. 3[31]). They operate at different geographic levels and at different phases of the conflict cycle, a feature that is one of their strengths but also raises questions as to whether they should be considered alternatives or adjuncts to larger and more expensive peace operations (Gowan, 2010, pp. 4-15[31]). However, the false dichotomy of political versus peacekeeping missions is based more on budgetary categories than any other factor and can distract from the central decision as to the most appropriate UN instrument for a given context (Gowan, 2010, p. 114[31]).

International calls to action for a greater focus on prevention, and in particular the Secretary-General's vision on prevention, set out four ways in which the UN can better support progress in this area including a "surge in preventive diplomacy", strengthening partnerships and long-term prevention (Guterres, 2017[32]). It is worth noting that these are all areas for which special political missions have the field

presence and expertise to provide cost-effective support, if resourced and prioritised appropriately.

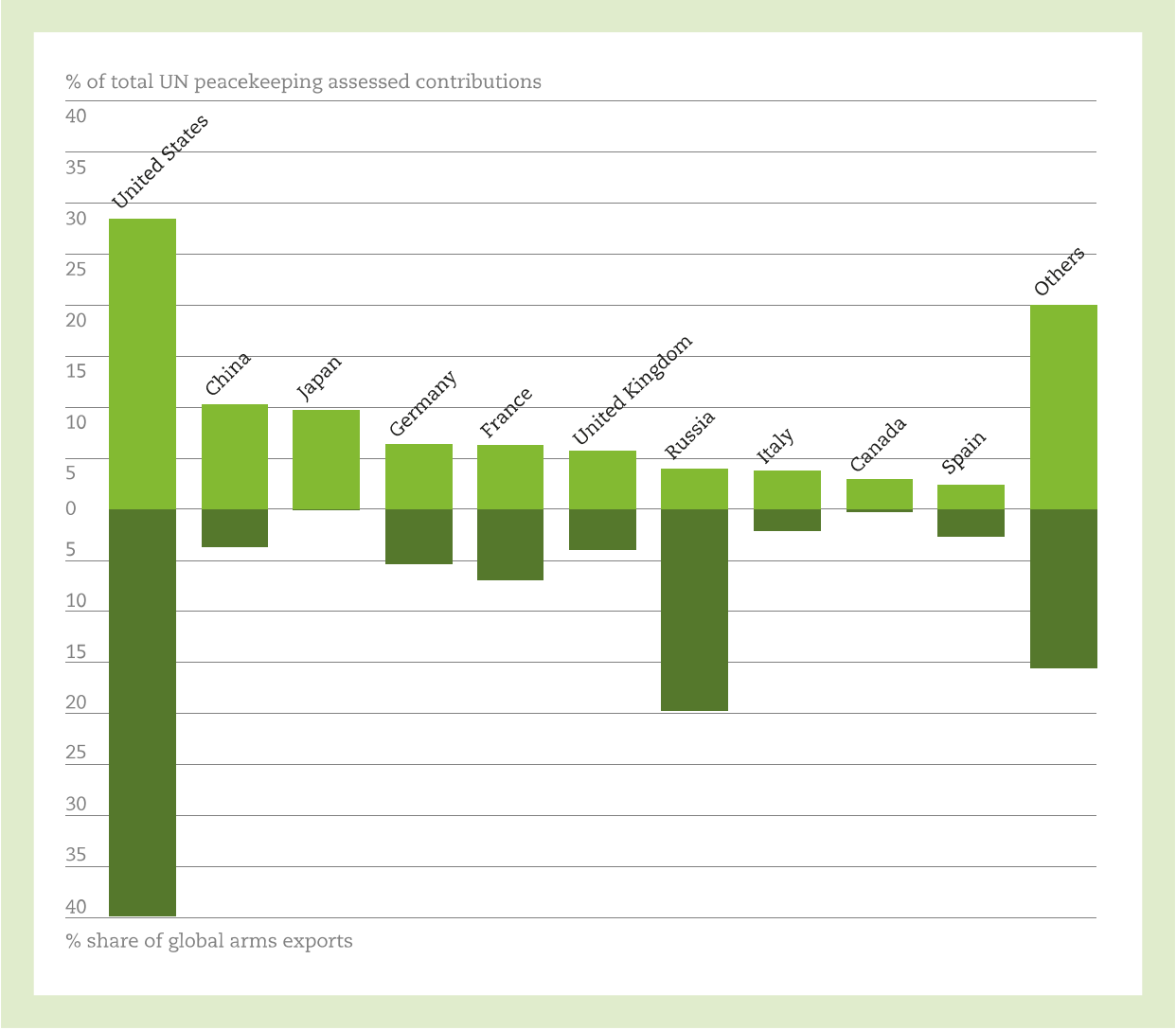
For the 2018/19 biennium, the Secretary-General requested a budget of USD 636.6 million to cover 34 SPMs and, in addition to the larger field-based missions, to also cover offices of special envoys, advisors and representatives, and panels of experts (UN General Assembly, 2017[33]; UN, 2017[34]). For comparative purposes, the total proposed budget for SPMs is about half the annual budget for the peacekeeping mission in the Democratic Republic of the Congo (MONUSCO).[8] Without falling into the trap of seeing a dichotomy between political and peacekeeping missions, decisions about resources can provide an effective entry point for a more strategic reflection on the best deployment and optimum balance of the full range of UN instruments to prevent the outbreak, escalation, continuation or recurrence of conflict.

Addressing fragility, preventing conflict, and building and sustaining peace are not easy or short-term endeavours. They require consistent commitment at both the policy and programmatic level. But they are not necessarily expensive endeavours, especially compared to peacekeeping and other forms of crisis response. The frameworks and constructs described in this chapter, while all similar, still have slightly different theories of change with respect to the programmatic interventions they espouse. Those that include broader development activities – especially those related to delivery of basic services such as the PSGs and the arenas of contestation – will inevitably look like they are receiving more money. This underscores the importance of also looking through the more focused lenses of conflict prevention and peacebuilding to get a more accurate sense of how well development aid is specifically supporting peace. With about 2% of total gross ODA to fragile contexts in 2016 going to conflict prevention and 10% to peacebuilding, the international community so far appears more rhetorically than financially committed to the prevention and sustaining peace agendas.

The analysis in this chapter also suggests there is stronger preference for the types of activities that do not touch upon the most sensitive and complex aspects of development, such as politics, security and justice. These are the most challenging areas precisely because they go to the core of how fragility shapes the most vital aspects of the social contract. This is not to imply that each of the various components of these frameworks or each arena of contestation, for instance, should receive the same investment. Nor should it imply that aid alone will solve conflict and fragility. But it is important to consider what opportunities are being missed if these priorities are continually under-resourced in fragile contexts.

The intent of this chapter is to provide a baseline for thinking, from alternative perspectives, about translating policy commitments into financial and programmatic action and to identify trends and gaps in financing. After a high point in 2010, financial commitments to conflict prevention and peacebuilding appear to have levelled off and have yet to regain popularity. This is an issue that will have to be addressed with some urgency if critical political commitments to peace, as embodied in multiple global agendas, are to retain their legitimacy.

Figure 5.14. Top 10 providers of assessed contributions to UN peacekeeping and top 10 exporters of arms, 2017



Sources: (UN DPKO, 2018[22]), "How we are funded", https://peacekeeping.un.org/en/how-we-are-funded; (SIPRI, n.d.[35]), *SIPRI Arms Transfers* (database), https://www.sipri.org/databases/armstransfers.

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Notes

[1] This figure includes what the international community has spent on humanitarian response, peacekeeping and hosting refugees. See www.un.org/press/en/2018/sgsm18923.doc.htm.

[2] A list of codes of the OECD Creditor Reporting System used under each category is available at www.oecd.org/dac/conflict-fragility-resilience/listofstateoffragilityreports.htm.

[3] In particular, codes around violence prevention are lacking. There is only one code for violence against women and girls and none for preventing violence against children, preventing violent extremism, or activities that centre on other forms of political or social violence such as homicide reduction. In general, the lack of code specificity in these associated areas will make it challenging to map the existing structure with all of the targets under SDG 16.

[4] For examples of activities under each of these four areas, see https://www.oecd.org/dac/evaluation/dcdndep/39289596.pdf.

[5] These five missions are in Central African Republic (MINUSCA), Darfur (UNAMID), the Democratic Republic of the Congo (MONUSCO), Mali (MINUSMA) and South Sudan (UNMISS). See http://peaceoperationsreview.org/thematic-essays/the-end-of-a-peacekeeping-era/.

[6] These are Abyei, Central African Republic, Darfur, the Democratic Republic of the Congo, Haiti, Mali, Pakistan as part of the UN Military Observer Group in India and Pakistan (UNMOGIP), and South Sudan.

[7] The seven missions surveyed were: UN-AU Mission in Darfur (UNAMID), UN Mission in South Sudan (UNMISS), UN Mission in Liberia (UNMIL), UN Organization Stabilization Mission in the Democratic Republic of the Congo (MONUSCO), UN Stabilization Mission in Haiti (MINUSTAH), UN Multidimensional Integrated Stabilization Mission in Mali (MINUSMA) and UN Multidimensional Integrated

[8] The budget for fiscal year 2016/17 for MONUSCO was USD 1.2 billion. See http://peaceoperationsreview.org/featured-data#peaceops_contrib.

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Chapter 6. What sources of external development finance are available to fragile contexts?

by

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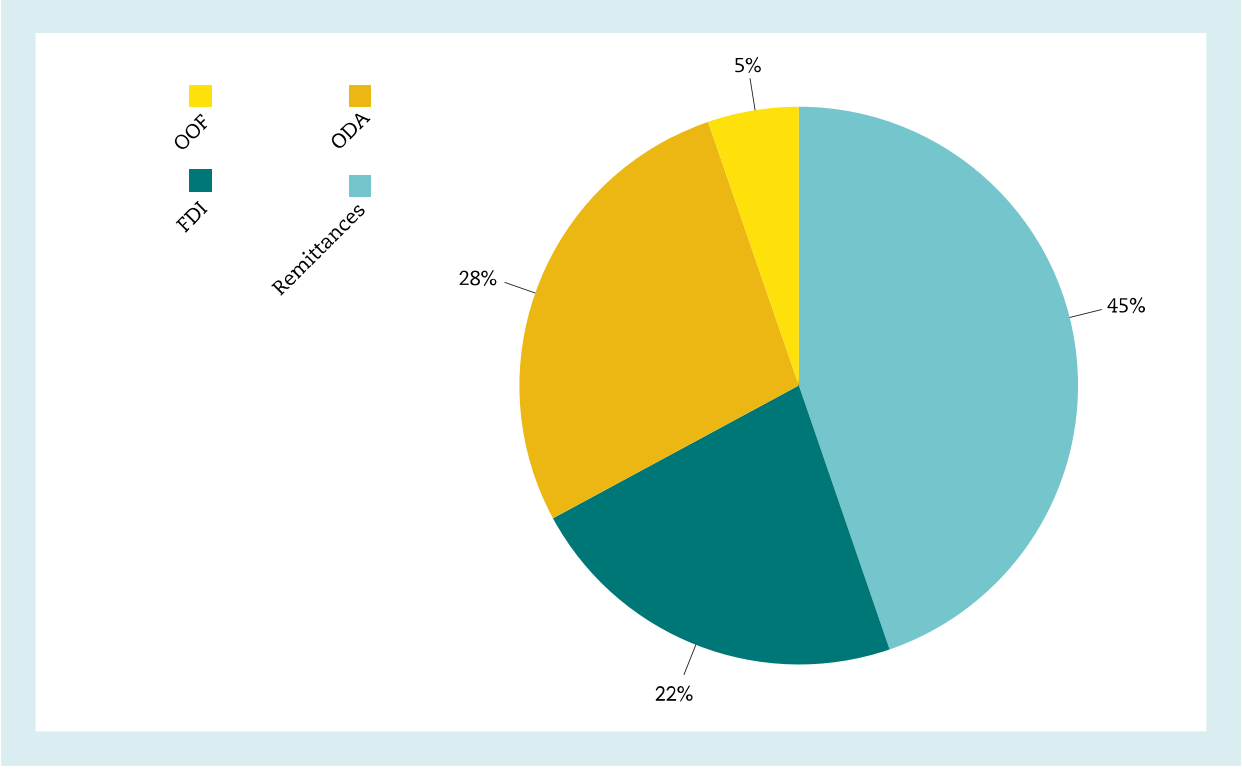
Chapter 6 summarises sources of external development finance available to fragile contexts other than official development assistance, such as remittances and foreign direct investment. It also looks at the reach and potential of private philanthropy within these flows and provides an updated overview of what the relatively new instruments of blended finance may mean for increasing development finance in fragile contexts. The chapter looks at the breakdown of the different flows to fragile contexts and how each can most effectively address fragility.

It is important to better understand the full range of international financial flows, their effect on fragility and how to harness them for optimal impact in fragile contexts. As a recent OECD working paper by Poole (2018[1]) notes: "The aspirations of the Addis Ababa Action Agenda (AAAA) require an updated approach to bringing together financial flows from public and private, and domestic and international sources. Nowhere is this more so than in fragile contexts with the greatest potential risks, and the greatest potential returns."

6.1. The overall external development financing landscape

In 2016, external financial flows to fragile contexts totalled more than USD 240 billion, up from USD 220 billion in 2014. These flows include remittances, official development assistance (ODA), other official flows (OOF) and foreign direct investment (FDI). Remittances were the largest type of external financial flows to fragile contexts, amounting to 45% of the total. The shares of other types of flows were 22% for FDI, 5% for OOF and 28% for ODA (Figure 6.1).

Figure 6.1. External financial flows to fragile contexts, 2016



Sources: FDI and remittances data from (World Bank, 2018[2]) "Foreign direct investment, net inflows (BoP, current USD)", *World Development Indicators* (database), https://data.worldbank.org/; (World Bank, 2018[3]), "Personal remittances, received (current USD)", *World Development Indicators* (database), https://data.worldbank.org/. ODA data from (OECD, 2018[4]), "Aggregate DAC Statistics Table DAC2a: ODA official development assistance: 2016 Net disbursements", *OECD International Development Statistics* (database), http://dx.doi.org/10.1787/data-00069-en.

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This picture of external flows is similar to that presented in *States of Fragility 2016*. Remittances are still the largest flow to fragile contexts, as they have been since 2008, and their share of the total has continued to grow, reaching USD 111 billion in 2016 (Figure 6.2). FDI has been more volatile over the years, reaching a peak of almost USD 65 billion in 2015 and dipping to USD 56 billion in 2016. Other external financial flows such as philanthropic funds and blended finance also are gaining in importance but remain at much lower levels than other financial flows.

This chapter discusses all of these external sources of financial flows, devotes particular attention to the fragile contexts that benefit the most from them and examines why that might be the case.

Figure 6.2. External financial flows to fragile contexts, 2007-16



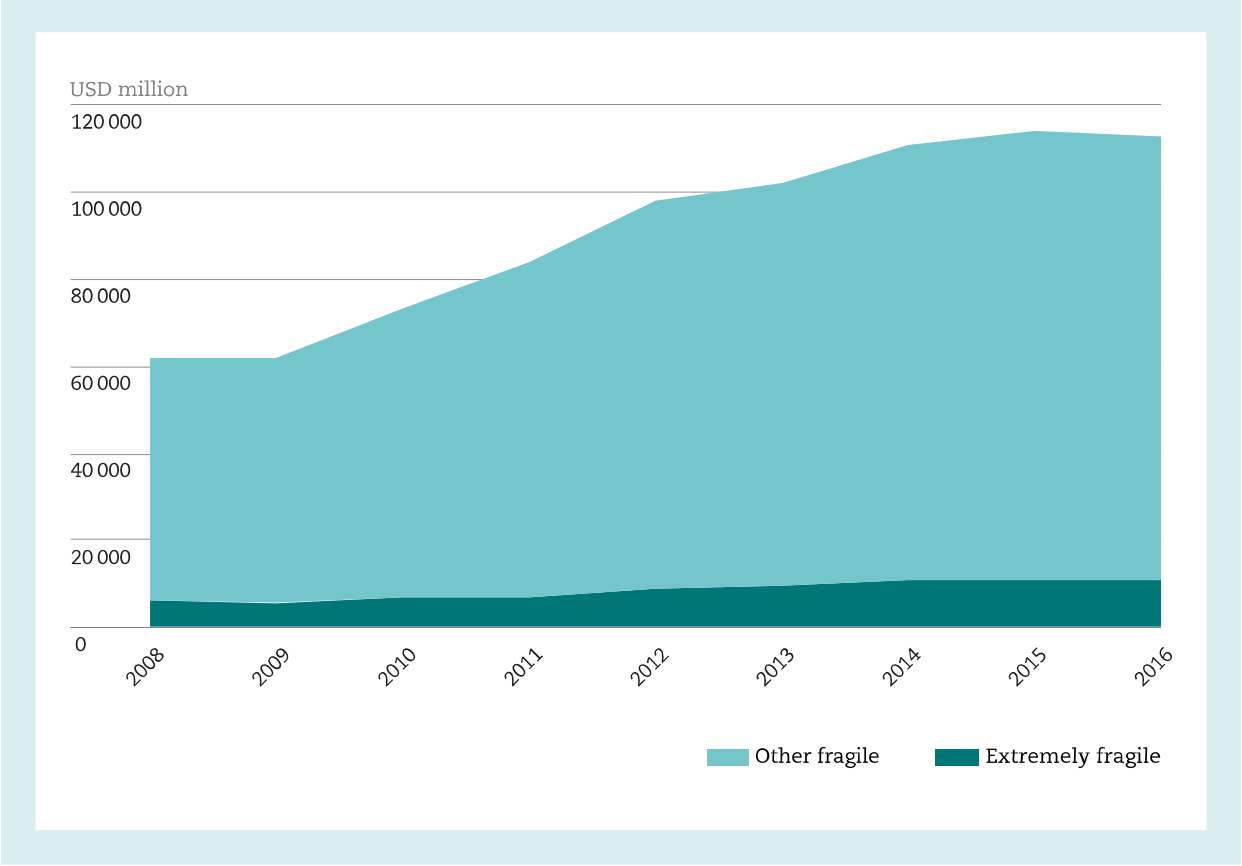
Sources: FDI and remittances data from (World Bank, 2018[2]), "Foreign direct investment, net inflows (BoP, current USD)", *World Development Indicators* (database), http://data.worldbank.org, converted to USD, 2015 constant prices; (World Bank, 2018[3]), "Personal remittances received (current USD)", *World Development Indicators* (database), http://data.worldbank.org, converted to USD, 2015 constant prices. ODA data and OOF data from (OECD, 2018[4]), "Aggregate DAC Statistics Table DAC2a: ODA official development assistance: net disbursements", *OECD International Development Statistics* (database), http://dx.doi.org/10.1787/data-00069-en; (OECD, 2018[5]), "Table DAC1; OOF Other Official Flows: net disbursements", *OECD International Development Statistics* (database), http://dx.doi.org/10.1787/data-00069-en. Authors' calculations.

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6.2. Remittances

In 2016, as noted above, USD 111 billion in remittances were sent home to the 58 fragile contexts. Only a small share of this total, or USD 10.4 billion, went to the 15 extremely fragile contexts. Extremely fragile contexts have not experienced significant growth in remittance inflows even though some of them also have large diasporas. The reasons for this vary from one fragile context to another. For some extremely fragile contexts, among them Sudan, sanctions have affected remittances; likewise, efforts to choke off potential terrorist financing via alternative remittance systems have affected remittance flows to some contexts, for example to Somalia (Vaccani, 2010[6]). While they have some of the world's largest diasporas, neither Syria (with more than 5 million citizens outside the country) nor Afghanistan (with 4.8 million outside) benefits from a significant inflow of remittances.[1] In the case of Syria, this can be attributed to the obstacles faced by Syrian refugees. Those living in neighbouring countries have only recently had the right to work; refugees reaching Europe are concentrating on re-establishing their lives; and people who have fled the conflict may have few if any relatives still in Syria to whom they can send remittances.

Figure 6.3. Remittances to fragile contexts, 2008-16

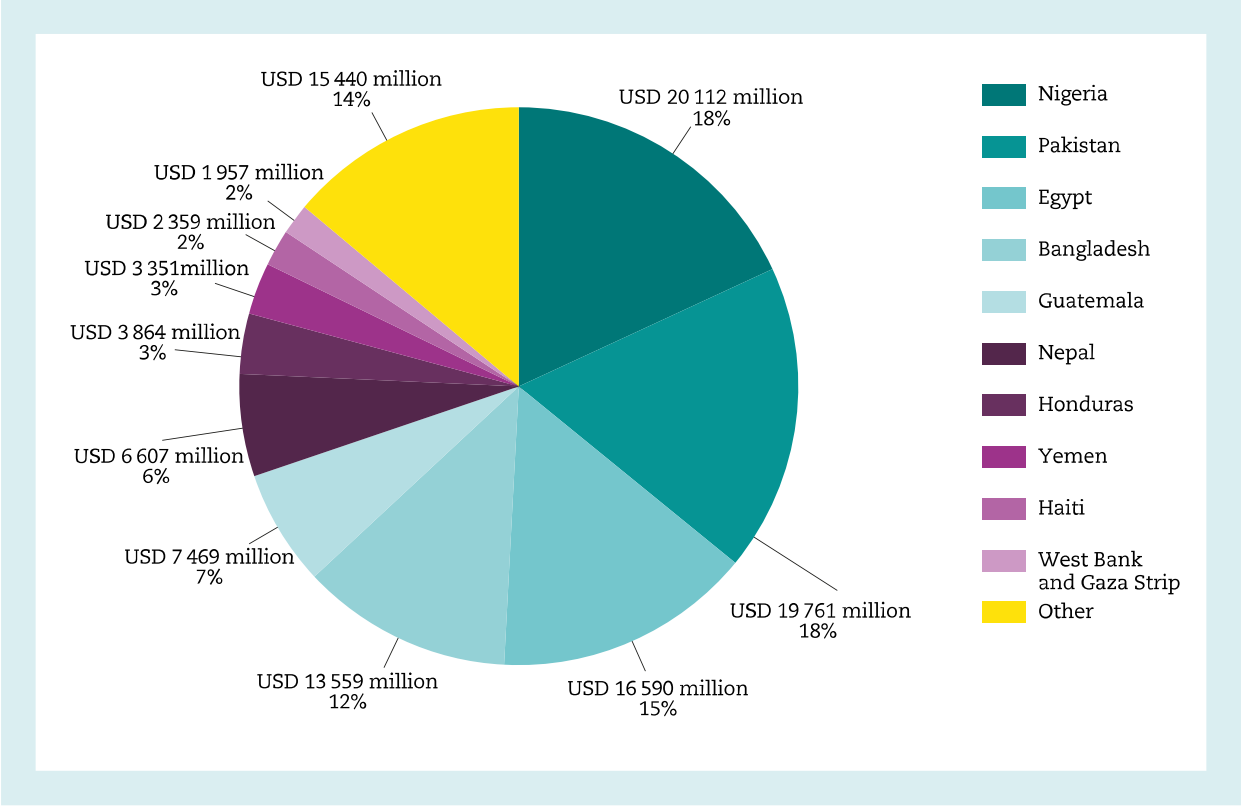


Source: (World Bank, 2018[3]), "Personal remittances, received (current USD)", *World Development Indicators* (database), https://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT?view=chart, converted to USD, 2015 constant prices.

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However, the largest portion of remittances to fragile contexts in 2016, USD 100.6 billion, went to the 43 other fragile contexts (Figure 6.3). Most of these flows are highly concentrated in a small number of lower middle-income countries and territories that have large diaspora communities, with 70% of all remittances going to just five fragile countries: Bangladesh, Egypt, Guatemala, Nigeria and Pakistan (Figure 6.4). Ultimately, levels of remittance inflows depend on the earning potential of people in the diasporas. This is mostly a function of where they have resettled. People who live principally in Europe or the United States, for instance, are able to send more home than people who have resettled in other developing countries.

Figure 6.4. Top 10 fragile recipients of remittances, 2016



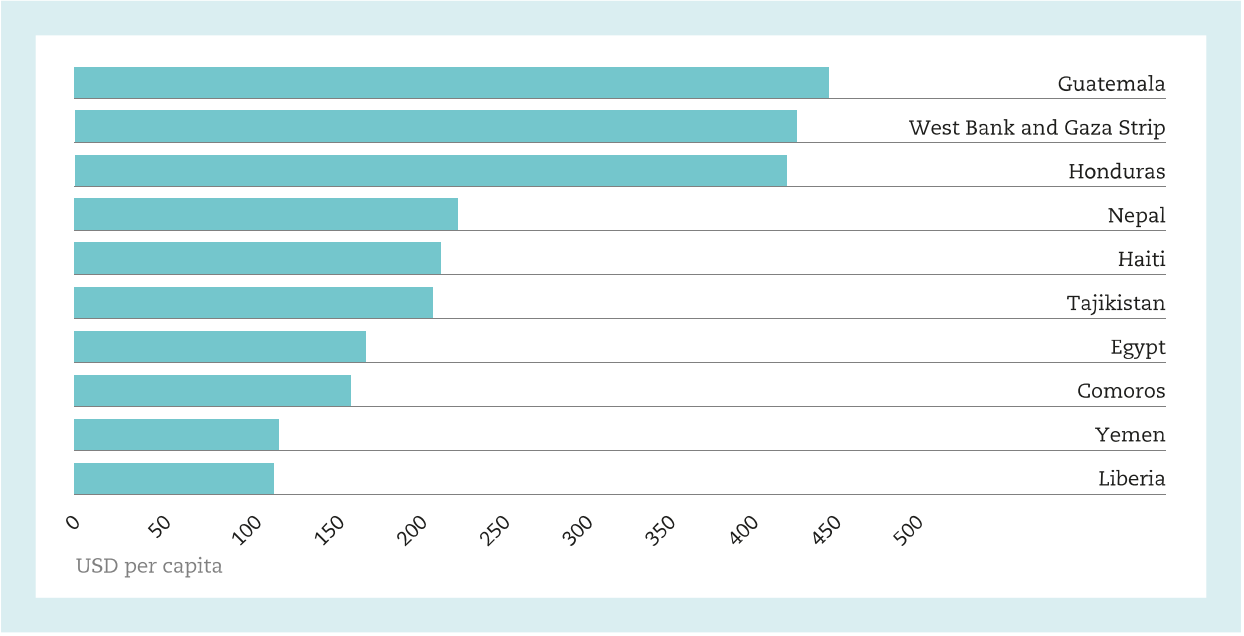
Source: (World Bank, 2018[3]), "Personal remittances, received (current USD)", *World Development Indicators* (database), https://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT?view=chart,

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The top three fragility-affected recipients of remittances per capita, in descending order of magnitude, are Guatemala, the West Bank and Gaza Strip, and Honduras (Figure 6.5). The extent of dependence on remittance inflows varies by context. Liberia and Haiti are the most economically dependent on remittances among the fragile contexts, with remittances accounting for 17% of gross national income (GNI) in Liberia and 12% in Haiti (Figure 6.6).

Remittances are a vital flow to fragile contexts. They go directly to households and, unlike other financial flows, tend to increase during periods of crisis and after disasters as migrants send more money to help families at home through hard times (UNDP, 2011[7]).

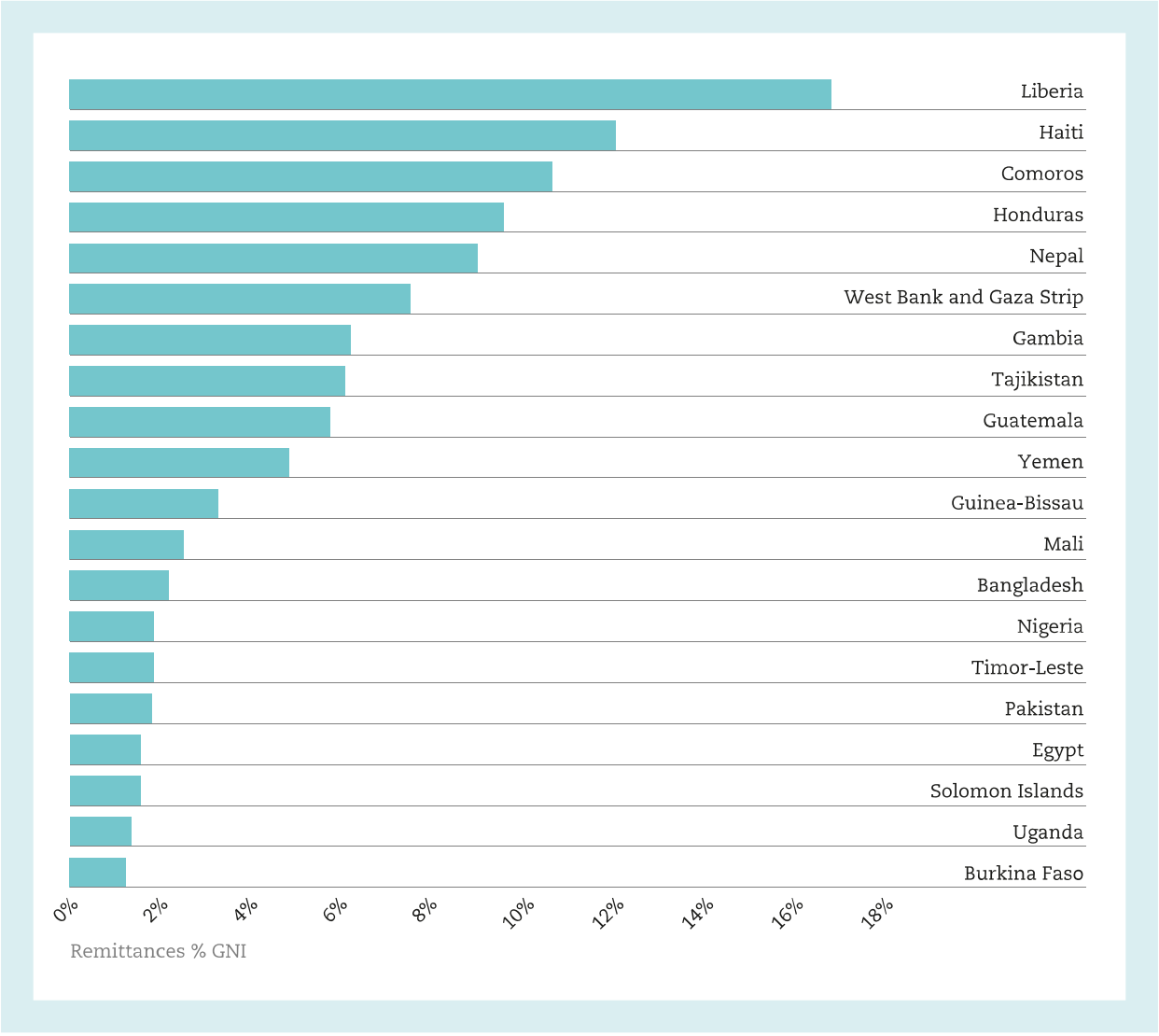
Figure 6.5. Top 10 fragile recipients of remittances per capita, 2016



Sources: (UN, 2017[8]), *Trends in International Migrant Stock*: The 2017 Revision (database), http://www.un.org/en/development/desa/population/migration/data/estimates2/estimates17.shtml.; (World Bank, 2018[3]), "Personal remittances, received (current USD)", *World Development Indicators* (database), https://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT?view=chart.

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Figure 6.6. Top 20 fragile recipients of remittances as a percentage of GNI, 2016



Source: (World Bank, 2018[3]), "Personal remittances, received (current USD)", *World Development Indicators* (database), https://data.worldbank.org.

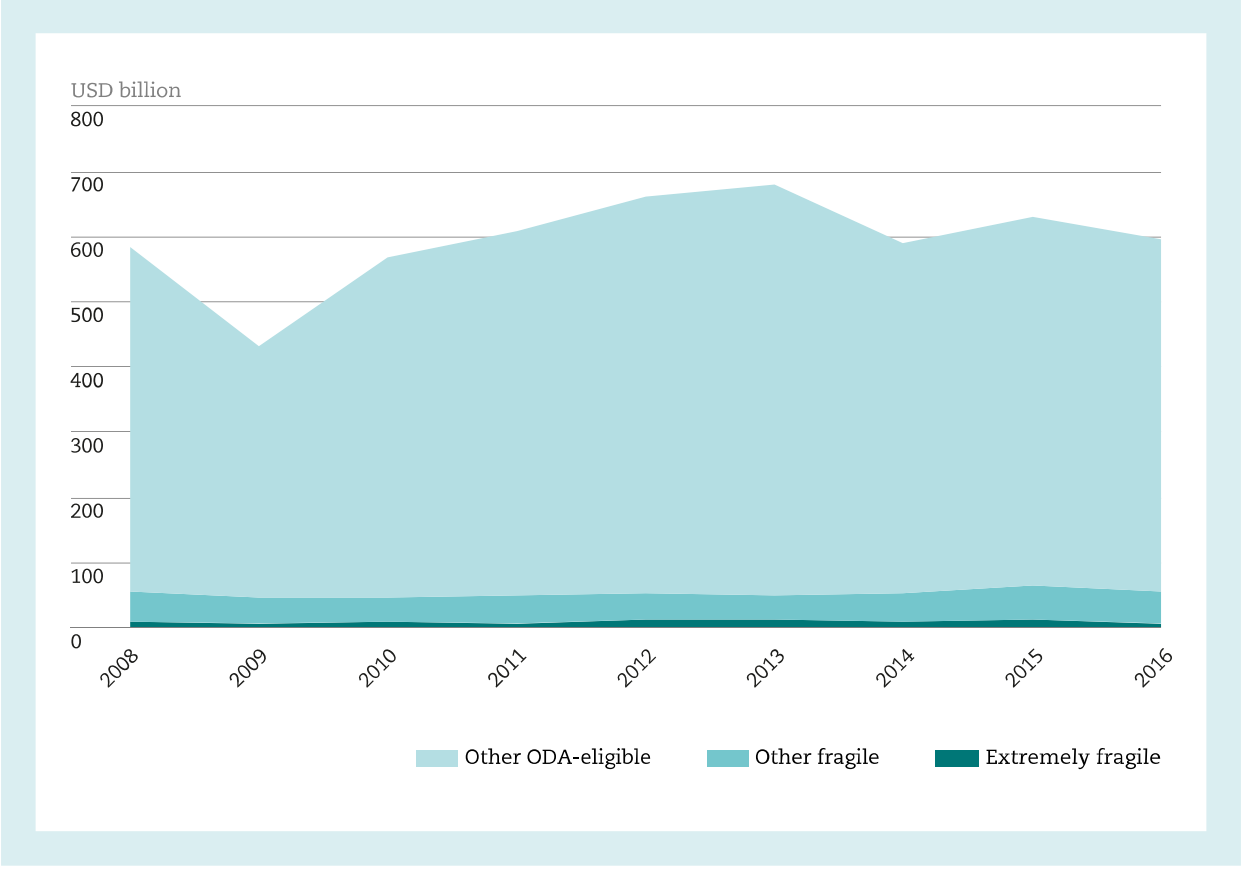
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6.3. Foreign direct investment

Fragile contexts still receive only a small proportion of the total FDI that flows into developing economies overall. In 2016, USD 55.5 billion in net FDI (inflows minus outflows) went to the 58 fragile contexts identified in the OECD fragility framework. This contrasts starkly with the amount of FDI that went to other ODA-eligible countries, which in 2016 amounted to USD 539.6 billion. Only 9.3% of all FDI to ODA-eligible countries, therefore, has reached fragile contexts. Of the FDI to such contexts, USD 7 billion went to extremely fragile contexts and USD 48.4 billion went to other fragile contexts – demonstrating that a certain degree of stability is required before the private sector will

engage in fragile situations. Figure 6.7 presents the FDI picture over time. Since the 2008 financial crisis, the amount of net FDI to extremely fragile contexts has been relatively stable at about USD 10 billion per year, but levels were more volatile in other fragile contexts, fluctuating from USD 37.7 billion in 2009 to USD 53.8 billion in 2015.

Figure 6.7. FDI to ODA-eligible, other fragile and extremely fragile contexts, 2008-16

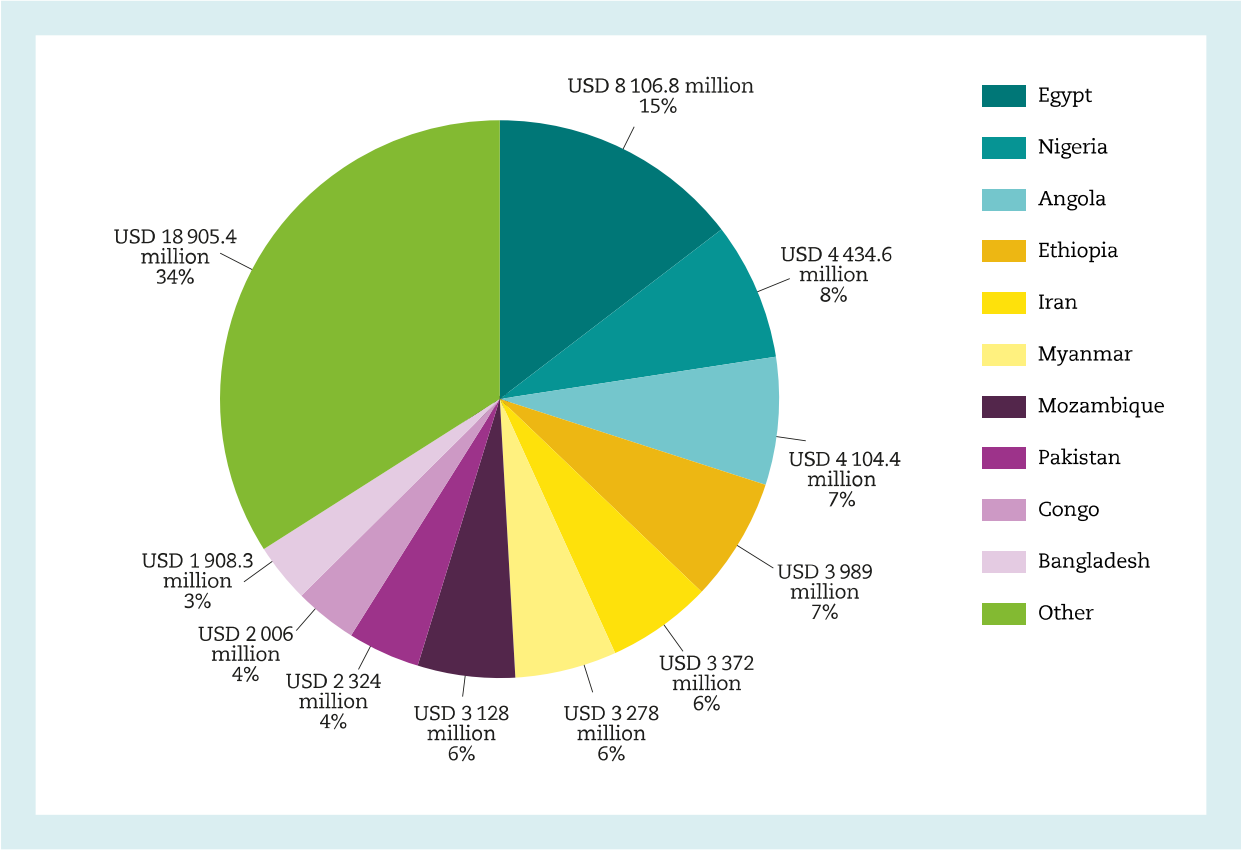


Source: (World Bank, 2018[2]), "Foreign direct investment, net inflows (BoP, current USD)", converted to USD, 2015 constant prices, *World Development Indicators* (database), http://data.worldbank.org.

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As is the case with other external finance flows to fragile contexts, FDI is not evenly distributed among different places. Two-thirds of all FDI (66%) to fragile contexts in 2016 went to just ten countries. In descending order, they were Egypt, Nigeria, Angola, Ethiopia, Iran, Myanmar, Mozambique, Pakistan, the Republic of the Congo and Bangladesh (Figure 6.8). This relative concentration of FDI may be explained by the fact that five of these ten countries are considered resource-rich.[2] However, FDI also flows to contexts that are not necessarily natural resource-rich such as Bangladesh, where such investment is largely centred on the garment industry; Ethiopia, where it flows to infrastructure and manufacturing; Myanmar, whose economic opening is attracting such flows; and Mozambique and Pakistan, which receive inflows mainly from China.

Figure 6.8. Top 10 fragile recipients of FDI, 2016



Source: (World Bank, 2018[2]), "Foreign direct investment, net inflows (BoP, current USD)", *World Development Indicators* (database), http://data.worldbank.org.

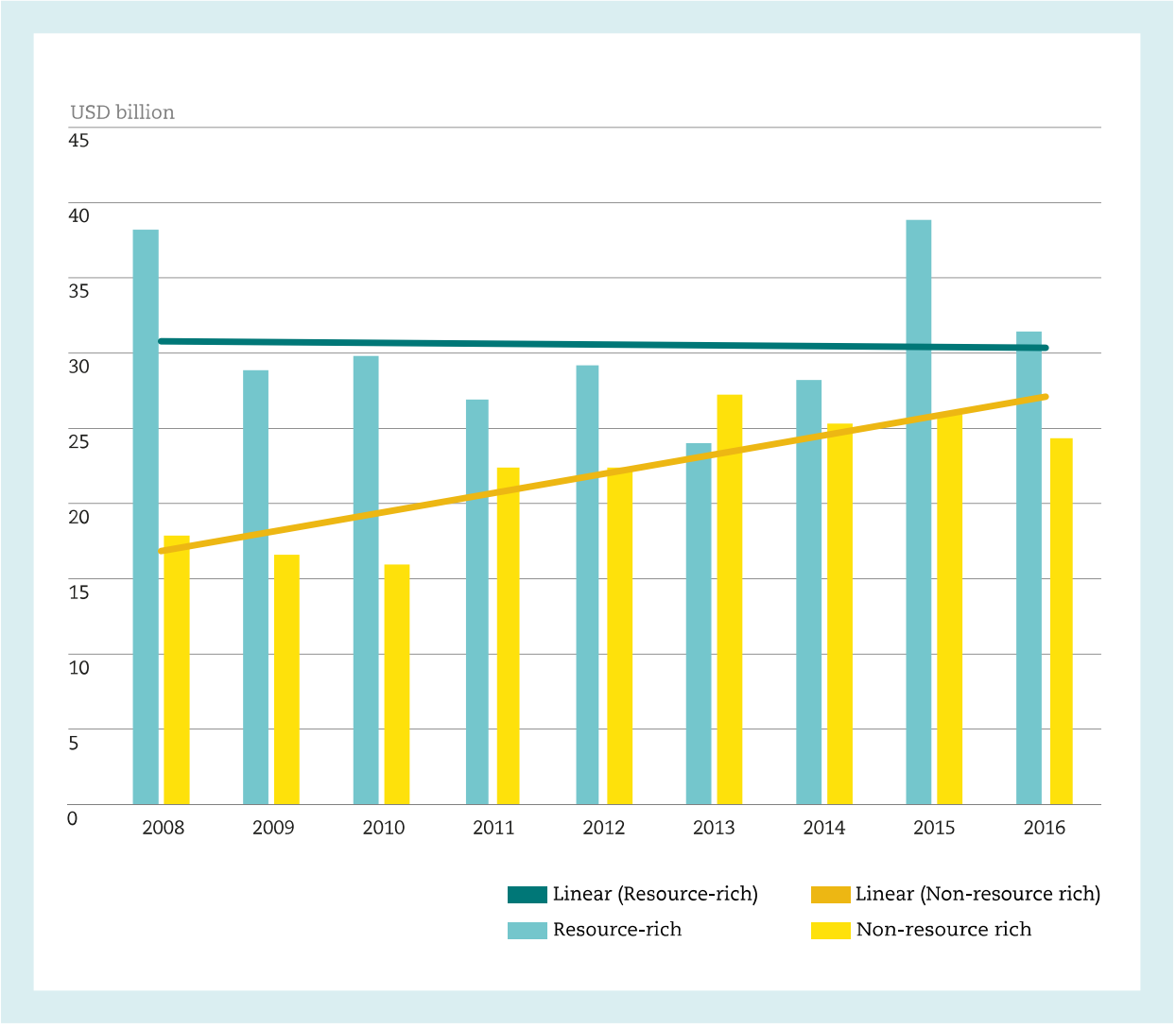
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6.3.1. Foreign direct investment to contexts that are resource-rich and not resource-rich

To a large extent, investment in natural resource sectors remains the main driver of FDI in fragile contexts, but it is not the only one. Fragile economies that are not resource-rich received an estimated 44% of total FDI to fragile contexts in 2016.[3] As alluded to above in the discussion of how FDI is allocated across fragile contexts, five of the top ten FDI recipients are resource-rich and all are oil-producing countries: Angola, Iran, Nigeria, Congo and Egypt. As shown in Figure 6.9, while FDI in countries that are not resource-rich was trending steadily upward between 2008 and 2016, FDI in resource-rich countries was stable. Research also shows that countries with better doing business rankings are likely to attract more FDI (Bayraktar, 2013[9]).

This positive trend in FDI across fragile settings may reflect some willingness on the part of investors to diversify beyond investments in natural resources, even in the risky environments that fragile contexts present. Fragile contexts that lack significant natural resources are benefitting from a shift in foreign investment towards consumer goods, with Kenya, Tanzania and Uganda, among others, attracting investors (African Development Bank/OECD/UNDP, 2016[10]). Kenya, for instance, is becoming a business hub for manufacturing, transport, and information and communications technology (African Development Bank/OECD/UNDP, 2016[10]).

Figure 6.9. FDI to resource-rich vs. non-resource rich fragile contexts, 2008-16



Note: Determination of resource-rich contexts relied on the methodology used for the *African Economic Outlook*, http://dx.doi.org/10.1787/aeo-2016-en.
Source: (World Bank, 2018[2]), "Foreign direct investment, net inflows (BoP, current USD", *World Development Indicators* (database), converted to USD, 2015 constant prices.

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The positive trend should not minimise the many challenges that private investments confront in fragile contexts, which can include poor infrastructure, unreliable electricity supply, low education levels, a difficult business climate, and limited access to credit and sophisticated financial services. Investments in such settings, if not made in a principled manner, can also do harm. For example, they may add to fragility risks by exploiting political patronage, increasing incentives for corruption, operating in a non-sustainable way and distorting local markets (Poole, 2018[1]).

ODA in fragile contexts can serve as a catalytic instrument for FDI. ODA can be used for technical assistance to increase domestic human and institutional capacity in fragile

contexts, support infrastructure investment, and improve the business climate, for instance. Aid can also help reduce some of the risk that private investments may do harm, for instance when aid providers ensure that private investments are made in a way that is fragility-sensitive.

As discussed further in Chapter 7, countries that mainly export natural resources often have undiversified economies that also are heavily exposed to price volatility in international markets for natural resources.

6.4. Blended finance

A recent OECD survey on blended finance finds that 22% of the total private finance mobilised in 2015, or USD 5.8 billion, was mobilised through blending in fragile contexts.[4] Nigeria, for example, recorded over USD 1.5 billion in private capital mobilised with blended finance tools. Other top recipients were Kenya, Egypt, Pakistan, and Honduras where at least USD 500 million in private finance was leveraged for each. Mozambique, Angola, Zambia and Bangladesh also each mobilised over USD 100 million. Box 6.1 outlines the potential offered by blended finance to enhance development financing in fragile contexts.

Box 6.1. The promise and challenge of blended finance for development in fragile contexts

The Sustainable Development Goals (SDGs), the Addis Ababa Action Agenda and the Paris Agreement require innovative solutions to finance development results. Private finance plays an increasingly important role in bringing innovation, expertise and additional resources to help developing countries achieve the SDGs. Good development support in fragile, at-risk and crisis-affected contexts must consider and use the full range of tools available (OECD, 2016[11]). The growing volume of private capital flows offers opportunities that cannot be overlooked.

Blended finance is the strategic use of development finance for the mobilisation of additional finance towards the SDGs in developing countries, where such additional finance primarily refers to commercial finance (OECD, 2018[12]). This practice is rapidly gaining traction among development finance providers: 17 of the 30 members of the OECD Development Assistance Committee (DAC) already carry out blended finance activities and more donors are looking to enter this field.

Private investment, whether cross-border or domestic, can increase access to capital, jobs, skills, technology and links to global value chains. A flourishing financial market may also support reconstruction financing, boost public revenue and improve foreign exchange. However, private investors in fragile contexts and low-income countries face particularly high risks and costs. These relate to a broad spectrum of conditions that include poor market information and uninformed buyers, a limited supply base, inadequate hard and soft infrastructure (such as credit registries), weak financial institutions with limited long-term financing available, inexperienced local sponsors or contractors, weak regulatory environment, unreliable or unproven off-takers or buyers, and reputational risks. From the perspective of developing countries and fragile economies, there may also be concerns about FDI, which is often associated in the public mind with extractive projects and major infrastructure concessions. Governments in fragile contexts may lack the institutional capacity to negotiate

fair contracts and proper oversight, while companies engage in activities with potential environmental and social risks.

More needs to be done to engage private actors in leaving no one behind, as most private sector mobilisation (77%) is now occurring in middle-income countries (Benn, Sangaré and Hos, 2017[13]). But interest in blended finance to support and expand development financing is quickening. Between 2000 and 2016, 167 facilities that engage in blending were launched, with a combined size (as measured by commitments) of approximately USD 31 billion. An additional 189 funds engage in some form of blended finance, typically at the fund level but also at the project level. Among these is the Conflict-Affected and Fragile Economies Facility established by the World Bank Group's Multilateral Investment Guarantee Agency in 2013.

While existing blended finance initiatives aim to bring in much-needed private finance, their strategies, objectives and approaches vary greatly. Finding agreement among all stakeholders on what constitutes good practice and aligns with the SDGs has become critical. Acknowledging this, the DAC High Level Meeting approved the OECD DAC Principles for Unlocking Commercial Finance for the SDGs on 31 October 2017 (OECD, 2017[14]). The implementation of these policy-level principles is further supported by the Development Finance Institutions (DFI) Working Group's enhanced guidelines on blended concessional finance for private sector projects (African Development Bank et al., 2017[15]). The group found that support to small and medium-sized enterprises, in particular banking, and local currency lending show high levels of expected development impact in fragile and conflict-affected situations.

Still more work is needed to understand which blended finance instruments and structures may work best in specific contexts. Places transitioning from conflict may be best served with an approach that may be less appropriate for another context, for instance one experiencing fragility. Important outstanding questions concern how blended finance can be used to attract commercial capital into difficult markets, how it can be aligned with national priorities, and what safeguards are needed to ensure that it does not have a negative impact on the environment or vulnerable communities.

Contributed by the Financing for Sustainable Development Division, DCD, OECD

The private finance mobilised through blended finance tools in fragile contexts is concentrated geographically and by sector. More than 60% of this private finance in 2015 went to sub-Saharan Africa, compared to 17% directed to Asia. These flows were also concentrated in a few sectors, with more than 80% of the total reported finance mobilised going to energy, industry, mining, construction, and banking and financial services.

Most of the private finance in fragile contexts in 2015, or 60% of the total USD value, was mobilised through a multilateral channel. Through its Multilateral Investment Guarantee Agency, the International Finance Corporation and the International Development Association, the World Bank Group mobilised over USD 2.5 billion during that year. The OECD survey on blended finance found that the United States and France are the most active donor countries in private finance mobilisation, with the Overseas Private Investment Corporation and the French development agency (AFD) ranking as the most active among bilateral agencies (OECD, forthcoming[16]).

On average, each blended operation reported in fragile contexts in 2015 mobilised over USD 18 million from private sources – just half of the amount mobilised in other, non-fragile developing countries. This difference shows that more careful engineering is

required to assemble blended finance deals in fragile contexts as well as the challenges of mobilising large amounts in these places.

Over 45% of the private capital mobilised through blending in fragile contexts in 2015 came from OECD member countries and other high-income countries. However, some also originated from inside the fragile context, with local private partners raising almost 15% of the financing. An additional 14% was mobilised by private actors from other developing countries (OECD, forthcoming[16]).[5]

6.5. Private philanthropy

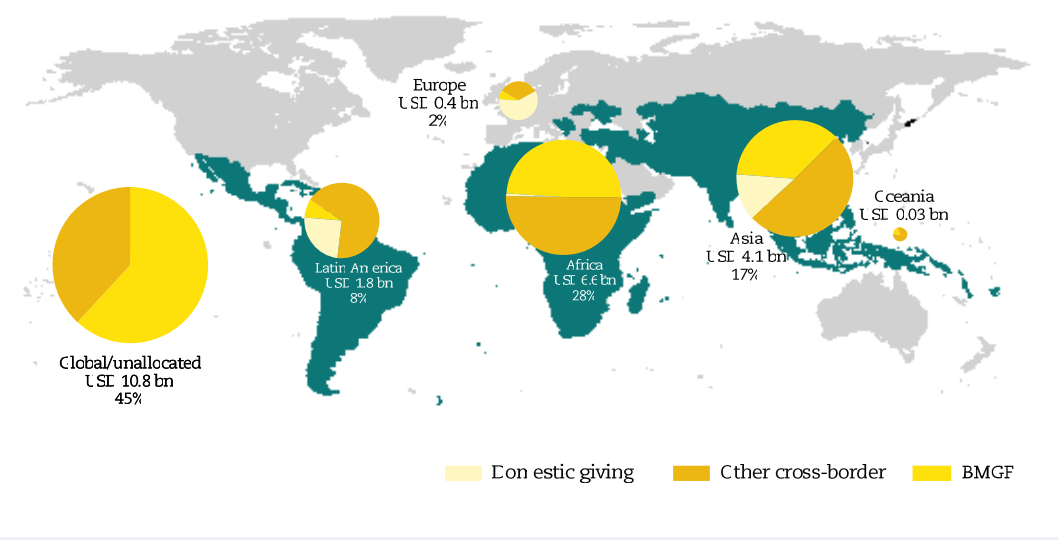
Private philanthropic funds also contribute to development finance in fragile contexts and are playing an increasingly significant role. Box 6.2. Survey on global private philanthropy for development provides some details.

Box 6.2. Survey on global private philanthropy for development

The Addis Ababa Action Agenda clearly demonstrated the important role of private foundations in development co-operation. Limited statistical evidence, however, has resulted in different interpretations of the modalities and magnitude of foundations' giving.

To help address this knowledge gap, the OECD recently carried out its first Survey on Global Private Philanthropy for Development. This survey collected comparable, activity-level information on developmental activities of more than 140 foundations from all over the world, providing unique insights about the sectoral and geographic focus and the modalities of philanthropic giving. The survey found that Africa was the main beneficiary region (28% of the three-year total), followed by Asia (17%) and Latin America (8%).

Figure 6.10. Philanthropic foundation giving by region, 2013-15



Source: (OECD, 2018[17]), *Private Philanthropy for Development*, http://dx.doi.org/10.1787/9789264085190-en.

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The *Private Philanthropy for Development* report and the survey on which it is based also offer fresh perspectives and action-oriented recommendations to optimise philanthropy's role in support of sustainable development at a global level. Knowing who does what, where, how and with whom invites informed dialogue and new partnerships and eventually leads to philanthropy serving the most in need more effectively.

This work is part of the broader efforts to enhance the coverage and quality of the OECD statistics beyond official development assistance with the aim to get a better understanding of the big picture of all resource flows to developing countries.

Contributed by the Financing for Sustainable Development Division, DCD, OECD

Out of total private philanthropy in 2015, the latest year for which data is available, USD 1.7 billion was allocated to fragile contexts (OECD, 2018[17]). This was 19% of all philanthropic funding for all developing countries.[6] Nigeria received the highest amount at USD 356 million (OECD, 2018[17]). Other top recipients were Ethiopia with USD 266 million and Kenya with USD 139 million (OECD, 2018[17]).

The Bill and Melinda Gates Foundation is one of the most generous of the main philanthropic foundations in fragile contexts, accounting for 49% of the total in 2015 alone. Other foundations engaged in these contexts include the Children's Investment Fund Foundation and the Susan Thompson Buffett Foundation.

In 2015, the largest share of philanthropic giving in fragile contexts targeted health (36.6%) and reproductive health and population policies (15.4%). Other sectors included agriculture (19.8%), education (4.5%), and government and civil society (5.5%). The latter includes funding to civilian peacebuilding and conflict prevention and resolution, although this funding accounted for just 0.4% of the total.

In 2015, 336 foundations made 2 908 grants totalling USD 351 million for projects related to peace and security, according to Peace and Security Funders Group, which tracks private contributions to such projects (Foundation Center/Peace and Security Funders Group, 2018[18]).[7] These grants constituted less than 1% of the total foundation giving that year[8] (Foundation Center/Peace and Security Funders Group, 2018[18]). However, because private foundations do not have to answer to taxpayers, they can often support projects that might, for various reasons, be deemed inappropriate for ODA. This means their full potential to help address or reduce fragility has yet to be realised.

International financial flows to fragile contexts include a mix of remittances (the largest share and one that is growing), ODA and private FDI flows, some of which have been catalysed by blended finance. Philanthropy is part of the finance jigsaw. The mix varies from context to context and significantly between extremely fragile and fragile contexts. ODA, for example, plays a major role in extremely fragile contexts, but a lesser role in some other fragile situations. Going forward, it will be interesting to look at the value that each type of flow provides in terms of impact – negative and positive – on stability and people's lives.

Notes

[1] In 2016, the highest number of recorded refugees (including people in refugee-like situations) came from Syria (5.5 million) and Afghanistan (2.5 million), according to UNHCR data. See UNHCR, population statistics, available at: http://popstats.unhcr.org.

[2] For this section, the methodology developed by the OECD for the *African Economic Outlook* was followed. Natural resource-rich countries are defined as those whose resource rents minus forest rents exceeded 10% of GDP for at least five of the ten years from 2006 to 2015. Applying this methodology results in 20 fragile contexts that are considered resource-rich: Angola, Chad, Congo, the Democratic Republic of the Congo, Egypt, Equatorial Guinea, Guinea, Iran, Iraq, the Lao People's Democratic Republic, Liberia, Libya, Mauritania, Nigeria, Papua New Guinea, South Sudan, Sudan, Venezuela, Yemen, and Zambia. Solomon Islands is not included because its natural resource rents derive mostly from forest revenues. Neither Timor-Leste nor Syria was included since they did not pass the data threshold.

[3] Whether a context was or was not resource-rich was determined using the methodology developed by the OECD for the *African Economic Outlook*, described in Note 2 to this chapter.

[4] These calculations are based on (Benn, Sangaré and Hos, 2017[9]). The analysis will be further developed in a forthcoming report (OECD[14]), tentatively titled *Opportunities and Risks for Blended Finance in Fragile Contexts*. More information on the methodology is available at http://www.oecd.org/dac/stats/mobilisation.htm.

[5] The source of the remaining 26% was unspecified or came from multiple origins.

[6] This figure excludes regional allocations.

[7] The dataset covers grant making by institutional funders including private foundations, public charities and community foundations. It covers grants from 336 foundations worldwide that made at least one grant in 2015 consistent with the Peace and Security Funders Group Index definition of peace and security funding.

[8] This 1% figure is calculated using flows from all foundations including those active solely domestically in high-income countries.

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Chapter 7. What sources of internal resources are available to fragile contexts?

by

Sara Batmanglich *and* Cora Berner, Development Co-operation Directorate, OECD

This chapter considers internal financial resources available to the 58 contexts considered fragile in the 2018 fragility framework, in recognition that the Addis Ababa Action Agenda identifies domestic resources as a critical source of financing for development. It discusses the particular challenges facing fragile contexts in mobilising domestic revenues, particularly tax revenues, and in budgeting for addressing fragility across sectors. This chapter reviews opportunities and challenges presented by natural resource wealth, and the informal economy in fragile contexts, including the latter's implications for strengthening small and medium-sized enterprises. It concludes by emphasising ways in which the donor community can better support mobilisation of domestic revenue in fragile economies.

While data on domestic resources are improving, significant gaps remain in the information available, especially for fragile contexts. This makes it difficult to build a complete picture of the financing landscape in most fragile contexts. It also makes it hard to evaluate how the collective impact of all flows could be harnessed to address fragility and build resilience. Nevertheless, domestic resources are recognised as one of the largest and most significant types of financing. The Addis Ababa Action Agenda (UN, 2015, p. 11[1]) underscored the critical role these resources must play in financing sustainable development. The Addis Tax Initiative (ATI) was established in recognition of the need to strengthen one key aspect of this role (International Tax Compact, 2017[2]).

7.1. Domestic resource mobilisation

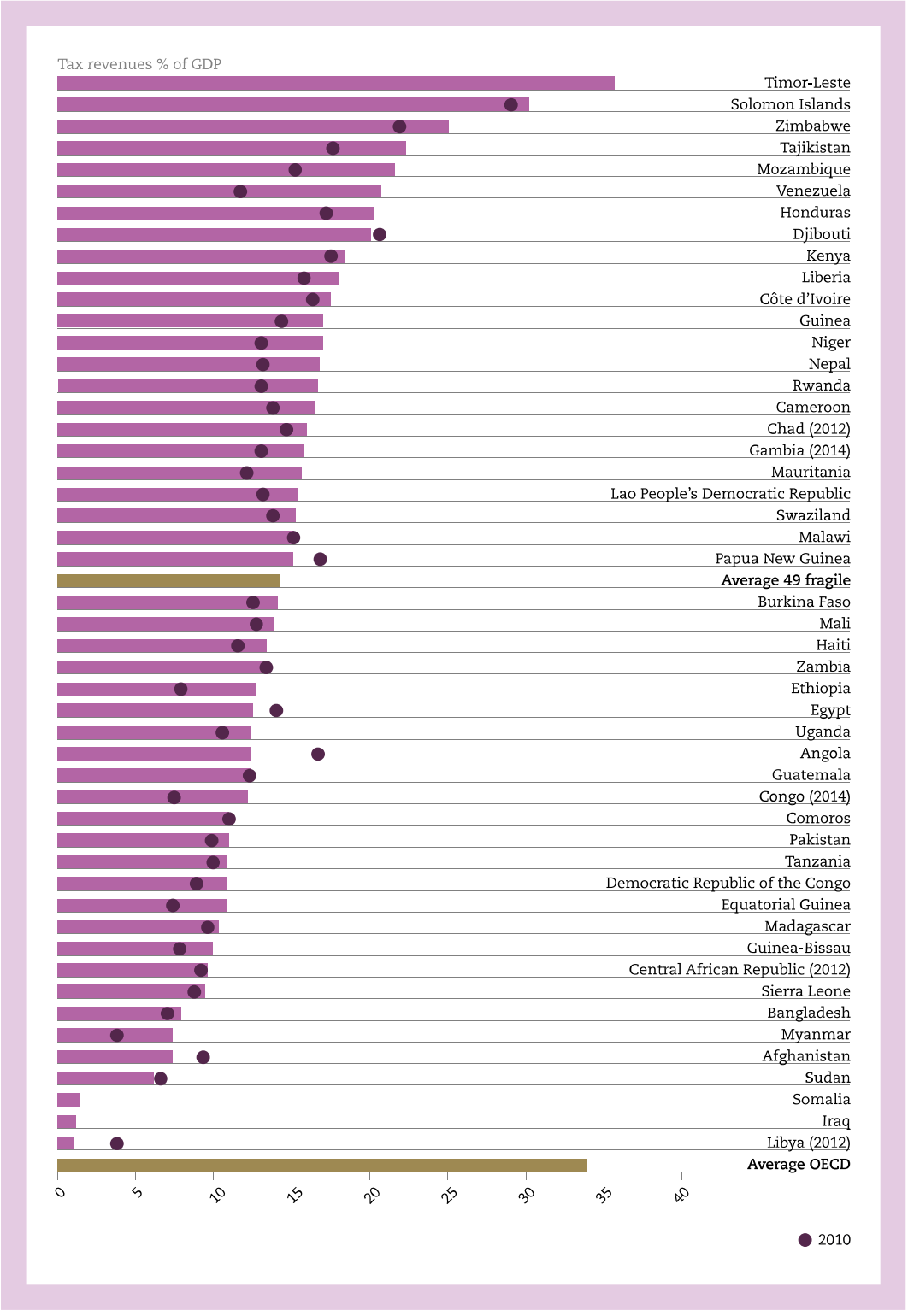
In addition to contributing to the achievement of the Sustainable Development Goals (SDGs), mobilising domestic revenues in fragile contexts plays a crucial role in building a robust social contract between the state and its citizenry, demonstrating the commitment and accountability of the state to public goods and reducing dependency on external assistance. The impact of tax systems on societies extends beyond financing. The 2018 conference of the Platform for Collaboration on Tax[1] highlighted this point, noting that tax structures affect many societal concerns including equality, investment and growth, women's empowerment, environmental sustainability, and extraction of natural resources (World Bank, 2018[3]). All of these require special attention in fragile contexts.

Despite recognition of the transformative potential of domestic resource mobilisation, fragile contexts lag far behind other developing countries in their revenue raising capability. Using the World Bank's definition of "fragile state", recent research finds that the 12.1% tax-to-GDP ratio for low-income fragile states is an average of 4 percentage points lower than that of non-fragile peers, demonstrating that fragility has a significant impact on an economy's capacity and willingness to raise tax revenue (Independent Evaluation Office, 2018, p. 11[4]).

The typical view is that a minimum of 15% of GDP in revenue is required to finance basic services (World Bank, 2018[5]). It is estimated that as many as 70% of fragile and conflict-affected situations had a tax-to-GDP ratio of under 15% in 2014 (IMF/World Bank, 2016[6]). In 2015, according to analysis undertaken for this report, 26 out of the 49 fragile contexts examined, or 53.1%, did not pass that threshold (Figure 7.1). On the assumption that the 9 contexts for which data are not available[2] also would not pass this threshold – a highly likely possibility, considering most of these are extremely fragile – then it can be concluded that two-thirds of fragile contexts would have difficulty financing basic services from their own revenue.

These statistics should not obscure the fact that certain fragile contexts have made significant progress. For example, from 2010 to 2015, Mozambique, Republic of the Congo, Ethiopia and Tajikistan all improved their tax revenue as a percentage of GDP, by 6.15%, 4.57%, 4.54% and 4.46% respectively. Yet, pushing high levels of taxes on weak economies too quickly can have negative impacts and hamper economic growth, for example by discouraging private investment. Therefore, support is needed for better and more equitable tax systems rather than pursuing a myopic focus only on more tax collection (Long and Miller, 2017[7]).

Figure 7.1. Tax revenues as a percentage of GDP in fragile contexts, 2010 and 2015



Notes: Data are not available for Burundi, the Democratic People's Republic of Korea, Eritrea, Iran, Nigeria, South Sudan, Syria, West Bank and Gaza Strip, and Yemen. In addition, data for 2010 were not available for

Iraq, Somalia, Papua New Guinea and Timor-Leste. For tax to GDP data, databases with the highest levels of disaggregation of tax composition have been preferred when data were available in more than one database.
Sources: For tax revenues: (OECD, 2018[8]), *OECD Revenue Statistics* (database), http://www.oecd.org/tax/tax-policy/revenue-statistics-comparable-tax-revenue-data.htm; (ICTD/UNU-WIDER, 2017[9]), *Government Revenue Dataset 2017*, www.wider.unu.edu/project/government-revenue-dataset; (World Bank, 2018[10]), "Tax revenue (% of GDP)", *World Development Indicators* (database), https://data.worldbank.org/. For GDP estimates: (OECD, 2018[8]), *OECD Revenue Statistics* (database), http://www.oecd.org/tax/tax-policy/revenue-statistics-comparable-tax-revenue-data.htm; (World Bank, 2018[10]), "Tax revenue (% of GDP)", World Development Indicators (database), https://data.worldbank.org/.

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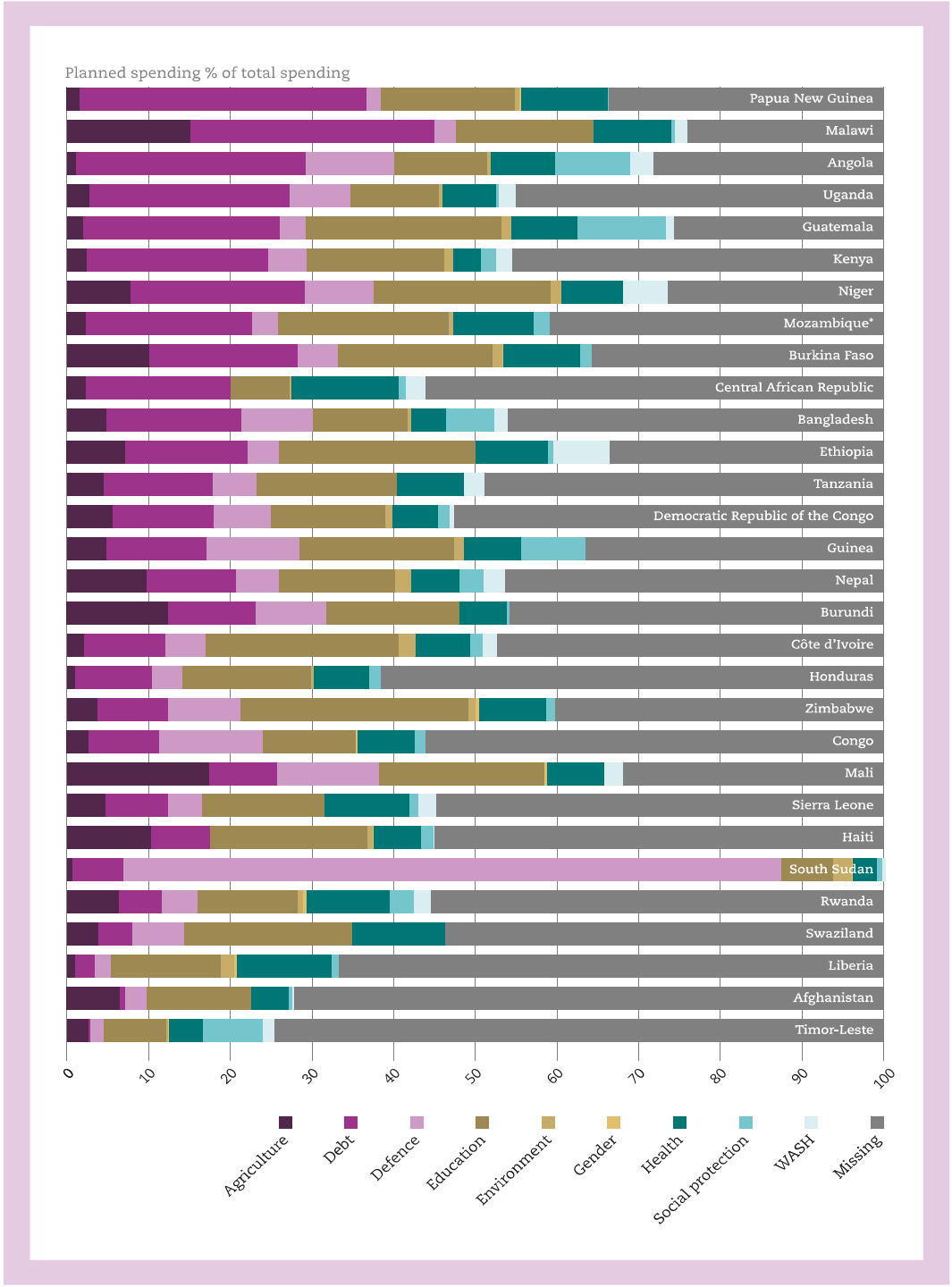
In general, fragile situations are characterised by a narrow tax base that often relies on customs revenues and revenues from non-renewable natural resources rather than a balanced mix across all sectors of economic activity. Indeed, in fragile contexts with a high occurrence of non-renewable natural resources, royalties from these resources can make up a large share of the total revenues available.

7.2. Revenues and domestic spending

In fragile contexts, the amount of resources matters. How resources are spent and what they are spent on matter just as much. There is an assumption that more domestic revenue will equate to more spending on social services, and in general, the evidence base supports this (Long and Miller, 2017, p. 11[7]). However, as discussed in Trend Five (see Chapter 1), different governments also have different strategies for how to allocate their revenues and which sectors to support with the revenues. Where public services are absent or insufficient, people who can afford them often turn to private alternatives that not only are unregulated but also can increase inequalities (Mo Ibrahim Foundation, 2018, p. 2[11]). Figure 7.2 shows the variety of possible allocation strategies for sectoral spending as well as the challenges posed by the lack of complete and reliable data for all fragile contexts.

Overall, most fragile contexts allocate a large proportion of their revenues to debt and education; revenue allocation for the agricultural sector, social protection, health and defence is less uniform. Malawi and Mali spent more than 15% of their revenues in the agricultural sector in 2016. Angola, Honduras, Liberia and South Sudan barely budgeted 2% of their revenues in this sector. Spending on national defence in most fragile contexts is below 10% of total revenues. South Sudan is a striking exception, planning an exorbitant 80.41 % of its total revenues for national defence in 2016 while budgeting only 6.36% for education, 2.97 % for health and 0.62 % for social protection. It is worth noting, though, that the South Sudan Defence Forces are also a major employer, so a rapid reduction of the defence budget could be destabilising to household incomes. Allocation decisions, especially in fragile contexts, thus can have risky knock-on effects. Further, more balanced expenditure across key sectors is no guarantee against fragility: Mali, which planned a relatively uniform allocation among sectors, is in the extremely fragile category, as is South Sudan with its defence-heavy allocation of revenues.

Figure 7.2. Planned government spending by sector as a percentage of total planned government spending in select fragile contexts, 2016



Notes: WASH refers to water, sanitation and hygiene. *No information was available for Mozambique on planned government spending in agriculture. However, information was available for actual spending in agriculture. The latter has therefore been used as a proxy for planned government spending.

Source: (Government Spending Watch, 2018[12]), "Government Spending Watch", (database), http://www.governmentspendingwatch.org/.

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Recent research finds that many African countries are having difficulties meeting their spending pledges in core areas such that an average fragile context would have to increase spending on education by about 20%, health by 50% and agriculture by more than 100% in order to meet commitments (ONE, 2017, p. 33[13]). This is not the case for all fragile contexts, as Ethiopia and Malawi, for example, both surpassed their commitments in spite of being fragile and low income (ONE, 2017, p. 34[13]). This shows that fragility, in and of itself, does not preclude investments in and progress on key social sectors if governments truly prioritise them and pertinent international support is provided.

International engagement can be structured to support better domestic resource mobilisation and budget execution capacity. Both are critically important. Technical support should focus on building capacity in revenue collection systems, including in customs, and in the public financial management of technical ministries to help these units spend their budget allocations. This support should apply to national ministries as well as decentralised authorities. In fragile contexts, capacity building for decentralised authorities is especially critical considering the positive effect that decentralisation can have on redressing real and perceived inequalities (UN/World Bank, 2018, p. 146[14]). As an example, since 1990, the number of such subnational administrative units in 25 African countries has increased by at least 20% and they must continue to be supported with the necessary capacity to succeed (Mo Ibrahim Foundation, 2018, p. 38[11]). Box 7.1 looks at several examples of support for capacity building for international taxation in fragile contexts.

Box 7.1. International tax standards and fragile contexts

Given its complexity and the significant capacity it requires for enforcement, international taxation is too often disregarded as a priority focus for fragile contexts. Rather, for fragile contexts, which often have to rely on a small number of large taxpayers, the emphasis is on ensuring simplicity and neutrality, and being able to work with a low administrative capacity and without the need for complex legislation (IMF, 2017[15]). These are not characteristics often associated with international taxation. Nevertheless, the wide availability of new tools and increasing support for the implementation of international tax standards are opening opportunities for fragile contexts. Several countries have identified potential benefits and prioritised implementation of parts of international best practice. Following are some examples:

Zimbabwe: Successfully using base erosion and profit shifting

Zimbabwe has sought technical assistance from the partnership of the African Tax Administration Forum (ATAF), the OECD and the World Bank Group (WBG) on issues related to base erosion and profit shifting (BEPS) since 2015. Like many countries and contexts affected by fragility, Zimbabwe had weak laws and limited capacity in tax administration. These left it facing significant challenges in terms of dealing with the complex tax planning strategies of some multinational enterprises to shift profits. For example, Zimbabwe had no transfer pricing documentation requirements and no rules enabling it to tax permanent establishments.

With the support of the ATAF/OECD/WBG programme over the past three years, Zimbabwe has successfully introduced stronger transfer pricing rules including legislation based on the BEPS outcomes but customised to meet the specific challenges facing Zimbabwe. These rules help the Zimbabwe Revenue Authority (ZIMRA) overcome its limited capacity, particularly

to obtain information about such taxpayers and their transactions within a beneficial tax jurisdiction. The assistance has also helped ZIMRA to build its auditing capacity on international tax issues, resulting in a significant increase in tax revenue collected over the past two years.

Pakistan: The introduction of automatic exchange of information

Following revelations stemming from high-profile data leaks, Pakistan committed to joining the automatic exchange of information (AEOI) standard. AEOI offers developing countries great opportunities in the area of taxation because it provides access to information on their residents' financial accounts held in other countries. It also is a challenge to such countries because it requires complex legislation, robust safeguards to keep the data they receive confidential and secure, and the capacity to implement an effective system to use the data received.

Pakistan has partnered with the United Kingdom and the Global Forum on Transparency and Exchange of Information for Tax Purposes to put in place confidentiality and data safeguards and other systems and organisational requirements needed to implement AEOI. Pakistan has completed all the legal, organisational and practical steps necessary to begin sending and receiving financial account information in September 2018. This effort created wider benefits across the whole tax system by providing information critical for anti-money laundering and anti-corruption purposes; supporting the digitalisation of the tax administration; and improving standards and practices related to confidentiality, data safeguards and data use, and risk profiling overall.

Liberia: Tax Inspectors Without Borders

Tax Inspectors Without Borders (TIWB) takes a learning-by-doing approach to capacity building through support for active audits of multinational enterprises. This approach has generated more than USD 328 million from its 33 programmes in 25 countries. In Liberia, TIWB is supporting the Natural Resources Tax Unit (NRTU), which is responsible for the mining, oil and gas, agriculture and forestry sectors and, as such, some of the largest companies in the country. The TIWB programme has provided a transfer pricing and extractives industry expert to work directly with the NRTU to build capacity to identify and then undertake audits. This approach to capacity building can have a significant impact in a short time by, in addition to building capacity, bringing in increased revenues from audits. The first assessments in the Liberia programme have been issued, with the potential for significant revenues.

Democratic Republic of the Congo: Revenue statistics

The African Union Commission, the African Tax Administration Forum and the OECD supported the inclusion of the Democratic Republic of the Congo (DRC) in the 2017 edition of *Revenue Statistics in Africa* (OECD/ATAF/AUC, 2017[16]). This has equipped the DRC with a tool that provides essential evidence to support reforms aimed at mobilising resources to finance public goods, services and infrastructure.

The process has contributed to better data collection and reporting systems, notably the collection of data on social security contributions for the first time. Internal co-operation between the revenue agencies in the DRC also has been improved including through the creation of a platform to report all the revenue streams collected by the general government, which were previously unavailable. The reporting changes have provided the DRC a set of reliable and detailed data comparable to data that is consistently available to other African countries.

Contributed by the Centre for Tax Policy and Administration, GRD, OECD

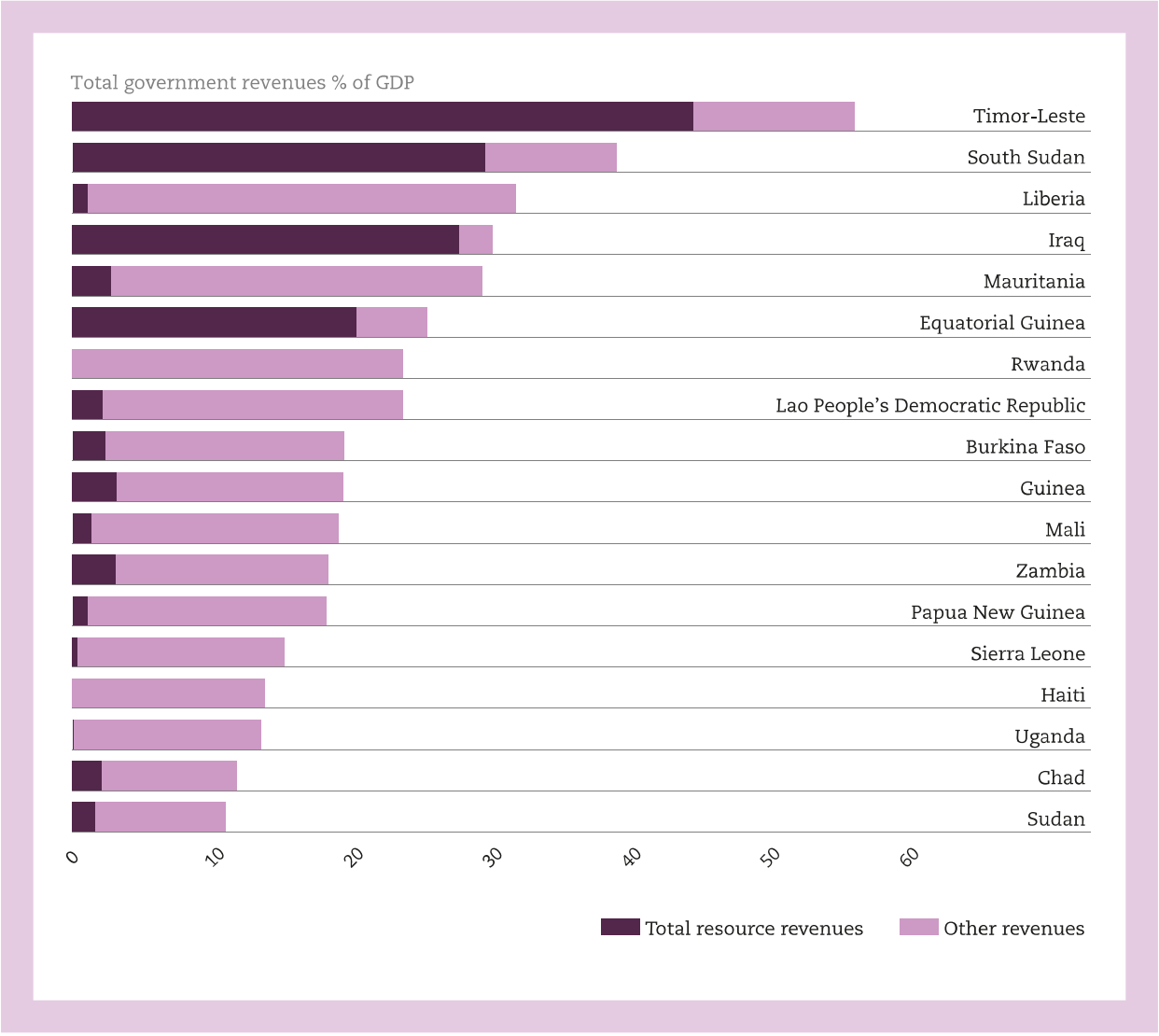
International support also can affect incentives that in turn affect spending allocations. If donors are investing large amounts of ODA in social sectors, for example, partner governments have less incentive to allocate their own budget resources in the same sectors. To avoid this pattern, donors could introduce a phased approach. For example, a donor might agree to invest heavily in health for a fixed number of years while building the absorption capacity of the partner's health ministry and then agree with the government to reduce ODA in tandem with increased domestic spending on health.

As focus increasingly shifts to domestic revenue mobilisation as a key part of the development finance solution for fragile contexts, attention will need to be paid to the complex impact of higher revenues on the lives of average citizens. Taxes can be a double-edged sword, especially when they are not channelled into responsible social sector spending and demonstrable improvements in services. At worst, they can promote divisions in society if they are opaque or preferential (Long and Miller, 2017, p. 11[7]). Taxes also can reveal highly problematic elite bargains (Di John, 2010, p. 3[17]). As these become more visible and apparent, they may fuel grievances and perceptions of inequality. Caution is needed as well in economies that are predominantly informal to ensure that the tax burden does not rest unfairly on a relatively small middle class, since this could lead to frustration. Therefore, continued support will be needed to ensure that the push towards strengthening domestic resource mobilisation is accompanied by increased technical assistance, greater transparency, and civil society empowerment and capacity building so that it becomes more engaged in oversight and monitoring of fiscal accountability.

7.3. Natural resources

Natural resources can be a blessing in non-fragile contexts. But they tend to be a curse in situations of fragility, where poor governance and weak institutional capacities are pervasive. If managed properly, natural resources can potentially catalyse transformative change (African Development Bank, 2016[18]). Yet more often than not, they create opportunities for corruption, encourage elite capture, serve as a source of financing for armed conflict and decrease the overall incentives for governments to broaden their tax base. Since paying taxes is also a means for citizens to gain political representation, over-reliance on natural resource taxation also weakens the social contract between the state and its citizens (Crivelli and Gupta, 2014[19]) and is likely to have a negative impact on overall perceptions of state legitimacy. Figure 7.3, which presents total revenues from taxes and other revenues for 36 fragile contexts, shows that resource-rich countries such as South Sudan, Iraq and Equatorial Guinea stand out in terms of their reliance on revenues from natural resources.

Figure 7.3. Government revenues as a percentage of GDP in select fragile contexts, 2015



Source: (ICTD/UNU-WIDER, 2017[9]), "Government Revenue Dataset 2017", (database) www.wider.unu.edu/project/government-revenue-dataset.

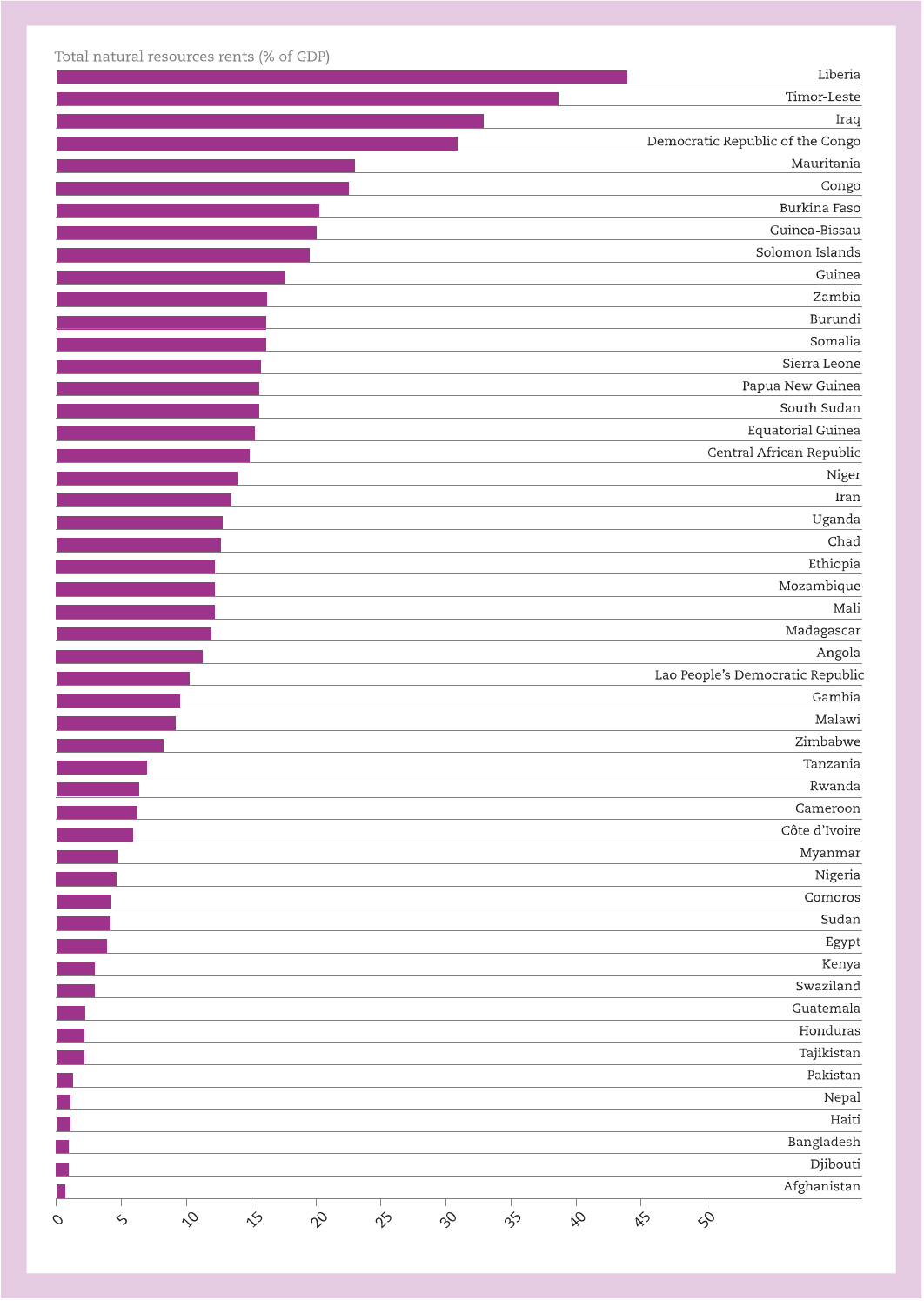
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From an economic perspective, dependency on natural resources also can lead to what is sometimes termed Dutch disease. This describes a situation in which exchange rates rise at the expense of investments in export sectors, such as manufacturing and services, which are generally associated with technological innovation and job creation. Where non-renewable, exhaustive natural resources – minerals in particular – are present, economic specialisation also exposes fragile contexts to the volatility of international commodity price cycles. It also increases their economic vulnerability, as exemplified by the fall in commodity prices after 2013. In Africa, which is home to 11 of the 20 resource-rich fragile contexts in the fragility framework, the effects of that drop in commodity prices contributed to a 44% decline in resource revenues and led to a 23.6% decrease of the total domestic revenue for the 2012-15 period (ONE, 2017, p. 11[13]).

Fragile contexts are especially vulnerable. Dependency on natural resources revenues leaves such economies exposed to poorly negotiated deals that benefit to an enormous degree international companies and third states while the people living in fragile contexts see only a small percentage of the true value of resources. Environmental risks may also increase if these deals do not require extraction and use of resources, including those in the so-called "blue economy",[3] to be managed sustainably.

Figure 7.4 shows the reliance on natural resource rents[4] as a percentage of GDP and indicates that Liberia, Timor-Leste, Iraq and the Democratic Republic of the Congo are especially vulnerable to swings in commodity prices. This figure, when considered with Figure 7.3, also makes clear that some economies that rely heavily on natural resources are not reaping the benefits of revenues from these resources. A case in point is Liberia, where the reliance on natural resource rents as a percentage of GDP exceeds 40% and the percentage of non-tax revenues from natural resource revenues barely reaches 5%. Estimates for total natural resource revenues are necessarily lower than those for total natural resource rents. But cases like Liberia (and Mauritania) suggest that governments sometimes lack the resources and monitoring capacities necessary to effectively monitor mining activities, thus paving the way for international companies and third states to exploit natural resources without paying appropriate taxes.

Figure 7.4. Total natural resource rents as a percentage of GDP in fragile contexts, 2015



Note: Data are missing for the Democratic People's Republic of Korea, Eritrea, Libya, Syria, Venezuela, West Bank and Gaza Strip, and Yemen.

Source: (World Bank, 2018[20]), "Total natural resources rents (% of GDP)", *World Development Indicators* (database), https://data.worldbank.org/indicator/NY.GDP.TOTL.RT.ZS.

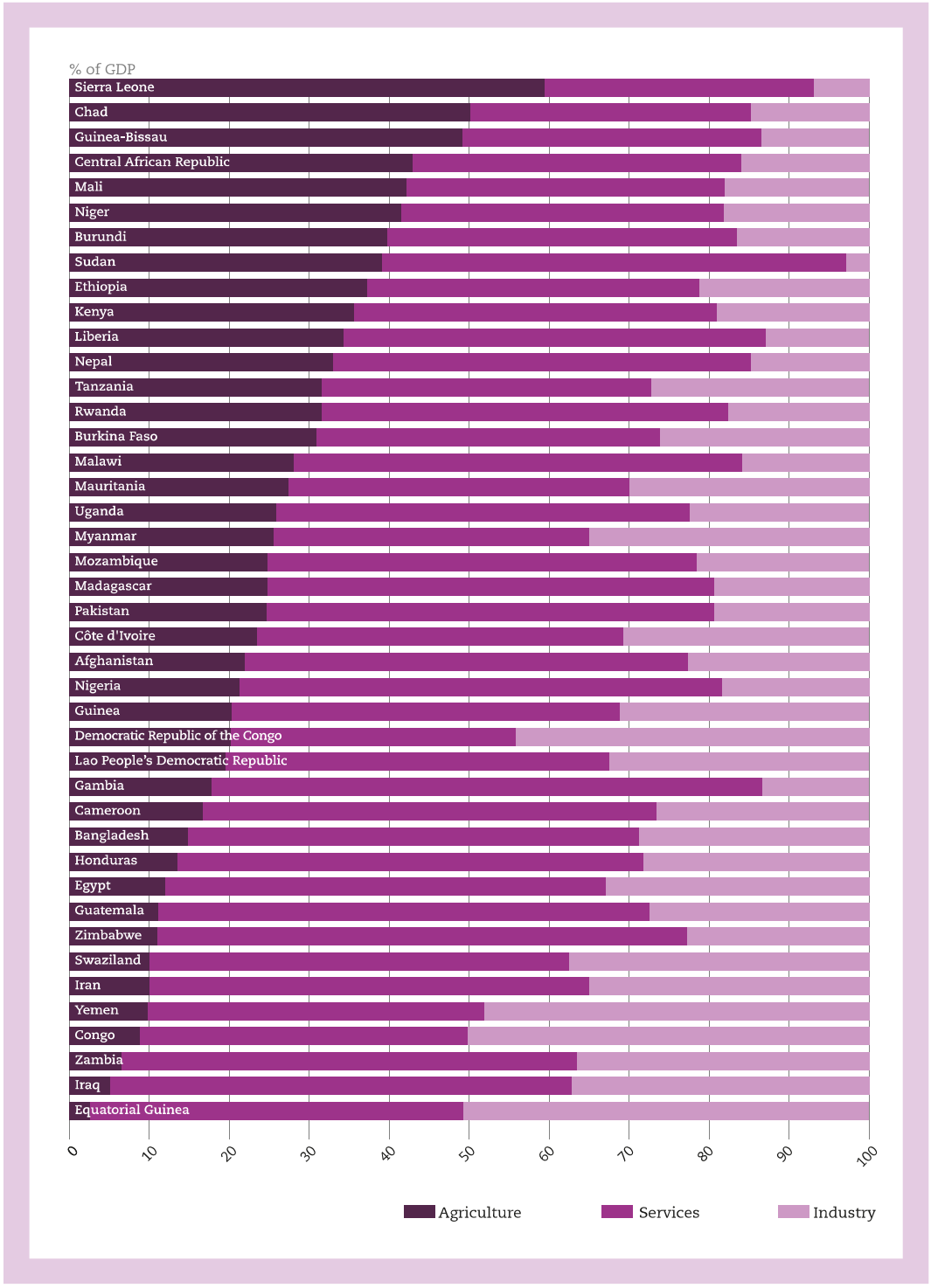
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In fragile situations threatened by resource depletion, and where the negative effects of reliance on natural resources coexist with a dysfunctional fiscal framework, economic diversification is essential to stabilise public finance, create incentives for foreign investment and build the foundations for economic sustainability (Ahmadov, 2012, p. 4[21]). A wealth of non-renewable natural resources, however, also may lull governments and the public into a false sense of economic security and make diversification seem less pressing. This can occur even though resource-rich countries will not automatically achieve sustainable growth or sustainable job creation; as many studies suggest, extractive industries generate relatively few jobs given their capital-intensive nature (UNCTAD, 2015, pp. 5,8[22]).

In many fragile contexts, even those with natural resources, the agricultural sector holds the key to unlock the transformational potential of their economies in the near to medium term. It also is a main contributor to GDP (Figure 7.5). In Africa, the agricultural sector employs as much as 70% of the workforce and agriculture also is the main economic activity of the more than 70% of Africans living in rural areas (World Bank, 2013, p. 14[23]). Africa has more than one-fourth of the world's arable land (McKinsey & Company, 2010[24]). Yet, as recently as 2010, Thailand exported more food products than the entire sub-Saharan Africa region (World Bank, 2013, p. 14[23]). Some fragile contexts are not even producing enough for their own needs. In 2013, for instance, Liberia was importing 99% of its food needs, according to its government (Liberia Ministry of Commerce and Industry, 2013[25]). Its overreliance on imports led to a negative trade balance that reached a high of -161% of GDP in 2007 and imports still are needed to cover basic goods such as eggs, chicken and pork (USAID, 2015[26]).

Agriculture in many fragile contexts remains primarily an informal sector, however, so greater focus on this sector will not necessarily lead to higher tax-to-GDP ratios and could well lead to the opposite result (Addison and Levin, 2011[27]). If people living in fragile contexts are to feel the primary benefits of growth in the agricultural industry, their governments must retain control over more of the value chain as the sector develops, so that the profits do not only go to multinational agribusiness firms, for instance.

Figure 7.5. GDP composition by sector in fragile contexts, 2016



Note: Data are not available for Comoros, the Democratic People's Republic of Korea, Djibouti, Eritrea, Haiti, Libya, Papua New Guinea, Solomon Islands, Somalia, South Sudan, Syria, Tajikistan, Timor-Leste, Venezuela, and the West Bank and Gaza Strip. For Afghanistan, data exclude opium production.
Source: (World Bank, 2017[28]), "Structure of output (% of GDP)", *World Development Indicators* (database), http://wdi.worldbank.org/table/4.2#.

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To promote growth, domestic revenues should be reinvested in productive sectors, including agriculture, rather than just basic services. Given population growth in Afghanistan, for example, the agricultural sector will need to grow by at least 6% per year to increase incomes and the living standard (World Bank, 2014[29]). Likewise, improving the agricultural system of sub-Saharan Africa will require as much as USD 50 billion in additional investment accompanied by increased access to financing and fundamental inputs such as seeds, fertilizer and water (McKinsey & Company, 2010[24]).

Economic diversification, therefore, should be a focus for donor support. This is especially relevant in fragile contexts that are rich in natural resources, where technical support can help implement economic diversification strategies and more effectively manage such resources. Yet in 2016, only 0.27% of total ODA to fragile contexts (USD 182.4 million) was disbursed for support to the mineral resources and mining sector. Just 51% (USD 93.5 million) of that relatively tiny amount of ODA specifically dealt with mineral or mining policies and administrative management.

Different contexts will pursue and achieve diversification differently. But as a general rule for economic development in fragile contexts, donor support needs to start at an early stage, focus on strengthening governance structures and institutions, invest in capacity building and functional regulatory frameworks, and contribute to the creation of a business-enabling environment to strengthen the private sector (OECD, 2011[30]; Asian Development Bank, 2016[31]). Given the many and diverse challenges facing these fragile contexts, donors also need to develop tailored approaches that build on a thorough understanding of the political and economic context while allowing diversification to happen at an appropriate pace. Economic diversification is not a quick process. But if it is targeted to the needs of the economy in fragile contexts, it will help build resilience and the foundations for sustainable economic growth and development.

7.4. Illicit financial flows

Illicit financial flows (IFFs) pose further challenges to the mobilisation of domestic revenues. More broadly, they are an obstacle to economic growth and development and to addressing fragility. IFFs are commonly defined as money illegally earned, transferred or used. In institutionally weak contexts, they tend to place severe strains on governance structures and public institutions and provide a breeding ground for criminal networks to flourish (OECD, 2018, p. 18[32]). As discussed in Trend Ten (see Chapter 1), IFFs also can feed instability, fuel corruption, and exacerbate the potential for conflict and violence depending on the particular type of flow and who profits from it.

In fragile contexts, IFFs represent a huge net outflow of capital and deprive governments of the resources necessary to provide public goods such as basic security, infrastructure, health and education. The size of illicit financial flows in fragile contexts is hotly contested, and the fact they are illicit makes it nearly impossible to arrive at one figure, but they are largely estimated to exceed inflows of aid and net FDI combined (OECD, 2018, p. 18[32]; OECD, 2014[33]). One research report estimated that IFFs cost developing and emerging economies – a category that includes many fragile contexts – approximately USD 7.8 trillion from 2004 to 2013 and USD 1.1 trillion in 2013 alone (Kar and Spanjers, 2015[34]). Illicit financial flows may be costing Africa, home to 35 of the 58 fragile contexts in the OECD fragility framework, an average of USD 50 billion per year (OECD, 2018, p. 13[32]). Illicit financial flows are particularly difficult to quantify in fragile settings, where they have a complex relationship with the broader political economy in these places (Box 7.2).

Box 7.2. Illicit financial flows and fragility

Illicit financial flows are a global problem. But their economic, social and stability effects are particularly marked in contexts that are highly vulnerable, rely on immobile or natural commodities, and are already grappling with chronic fragility and episodic conflict.

A recent OECD DAC report on illicit financial flows focused on the economy of illicit trade in West Africa. It found that the distinction between licit and illicit activities is often blurred and cited the lack of viable livelihood alternatives as one factor explaining the prevalence of illicit trade and individual involvement in criminal economies in West Africa and elsewhere (OECD, 2018, p. 117[32]).

Illegal activities often offer the essential forms of subsistence livelihoods for those with few viable opportunities in the formal sector, especially the poor. For example, whole borderland communities in the Sahel are dependent on illicit cross-border trade of fuel and commodities while rural communities may rely on illegal logging, poaching and forced labour. Activities like commodity smuggling, arms trafficking and even human smuggling may not carry the stigma of criminal behaviour in the eyes of the local population, who may develop a range of services to optimise the downstream benefits of these activities. This creates interdependencies at the local level. For instance, towns along major smuggling routes have developed a host of complementary services including the provision of accommodation, food and armed security for hire.

In addition to the illicit and informal economy, the informality of the financial system is a leading driver of illicit financial flows in the Sahel region. More than 80% of the population do not have access to a formal banking system, so most financial transactions are carried out in cash or through informal money transfer systems. These place significant volumes of transactions outside the reach of government, regulators and international trade measurement. Financial exclusion exacerbates the risk of money laundering and terrorist financing in the region, while also impeding the economic benefits derived from access to the banking system such as community empowerment or an increase of consumption and productive investment.

The complex interaction of illicit financial flows with licit and informal economies and local livelihoods, as well as their links to problems of financial exclusion, means that adopting solely security-based approaches to tackle illicit financial flows is likely to be ineffective. Indeed, such approaches will often serve to displace or exacerbate the problem rather than mitigate it.

Addressing illicit financial flows in contexts of fragility, where they are multi-dimensional and dynamic in nature, requires a nuanced understanding of local political, economic and social contexts and relationships. Any approach also needs a development perspective to avoid doing (more) harm.

Illicit financial flows are deeply intertwined with problems of development, frequently dovetailing with societal injustice or inequality and linked local to strategies of survival. It is important, then, to consider the context in which illicit activities take place and the degree of harm they generate. These will be reflected in the origins of the goods sourced; the networks or actors involved and incentives that drive them; and how their resulting illicit financial flows are earned and invested. Addressing these flows therefore requires the adoption of multisectoral policy approaches.

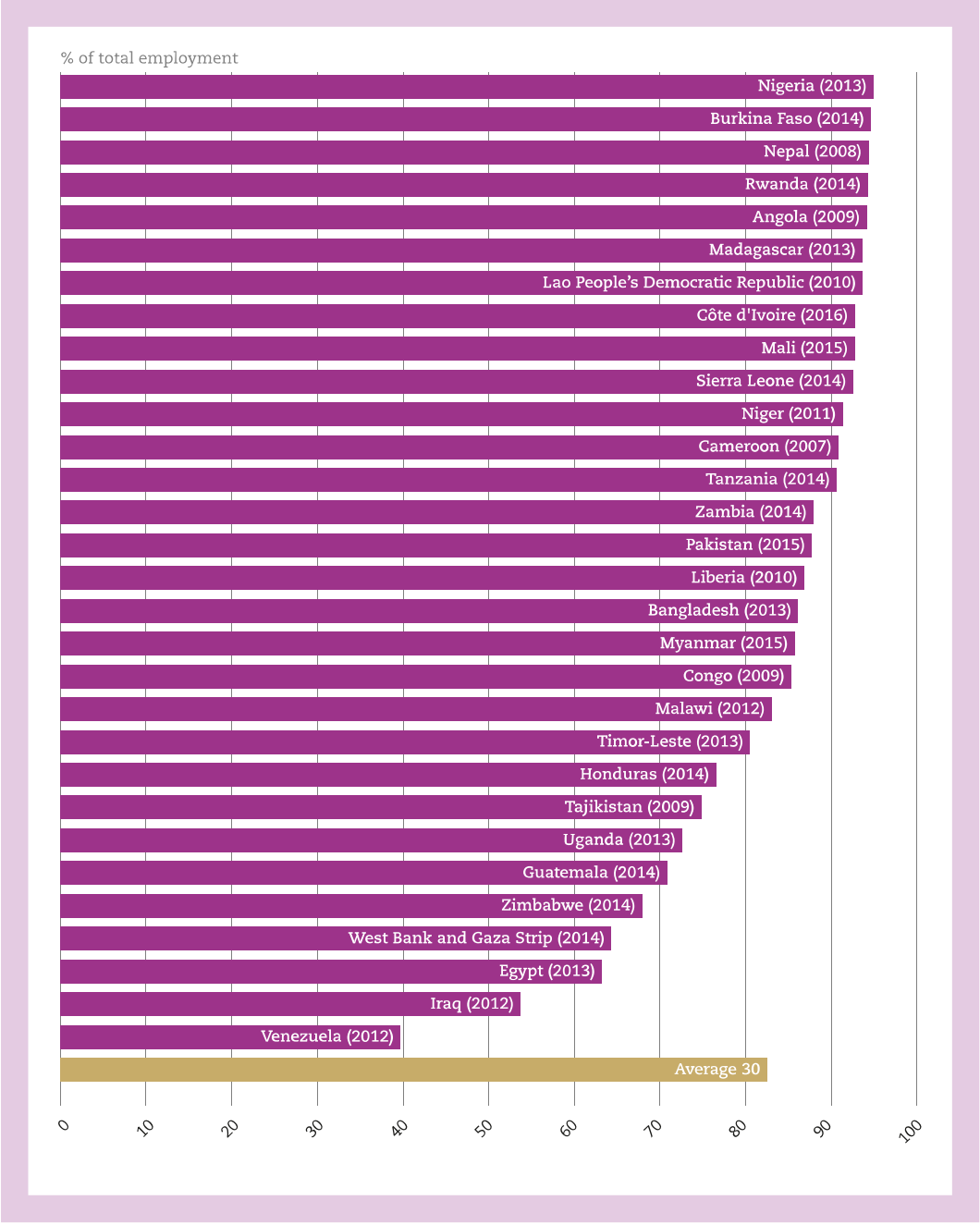
Contributed by the Governance for Development Unit, DCD, OECD

7.5. Informal economy

Donors tend to focus on all things illicit and especially on money laundering, tax evasion and international bribery (OECD, 2014[33]). But the informal sector also includes activities that are not per se illegal in their intention (OECD, 2018[32]) or that are not considered illegal in a specific socio-economic and cultural setting. As noted in the discussion of illicit flows in West Africa, the theoretical and regulatory distinction between illicit and licit activities is often blurred in fragile contexts, where the formal sector is underdeveloped and many people rely for their livelihoods on informal activities.

It is estimated that the informal sector in a typical developing country produces approximately 35% of GDP and employs 75% of the workforce (World Bank, 2016[35]). In a fragile context, the relative weight of the informal workforce often is higher (Figure 7.6). According to OECD calculations using data available for 30 of the 58 fragile contexts analysed in this report, informal employment on average is estimated at 82.5% of total employment. In Burkina Faso, for example, informal employment constituted 94.6% of total employment in 2014. In Tanzania, the proportion was 90.6%. In fragile contexts, then, the informal economy is the main economy and it may dwarf the formal economy (Schoofs, 2015, p. 3[36]). Box 7.3 explores this in more detail.

Figure 7.6. Informal employment as percentage of total employment in selected fragile contexts



Source: (ILO, 2018[37]), *Women and Men in the Informal Economy: A Statistical Picture (Third Edition)*, www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm.

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Box 7.3. The informal economy

The informal economy provides livelihoods for millions of people in developing countries and employs the great majority of the labour force in fragile contexts. But its role in economic development and resource mobilisation remains a subject of debate. Some workers, often those at the high-end segment of the informal labour market, may freely choose to work informally, finding that informal employment can support livelihoods and keep individuals and households out of extreme poverty. However, many workers are forced into informality due to a lack of formalised employment opportunities. The impacts of a large informal sector are felt at both the individual and societal levels and affect poverty, productivity and public finance (OECD, 2009[38]).

Although informal work may be the only way poorer people can access the labour market, informal workers usually face a broader array of risks than formal workers. Informal jobs in developing countries are often precarious and not covered by social protection. Women in informality are particularly vulnerable. They tend to be over-represented in low-quality jobs such as domestic workers, home-based workers or contributing family workers, which has implications for women's earnings and their access to social protection and other benefits.

The exclusion of informal workers from labour-based insurance and other statutory schemes means that a variety of risks – among them illness, injury, maternity, disability, job loss and old age – are poorly covered or not covered at all. Assessing those risks is essential to fully capture the benefits to society that would come from the extension of social protection to the informal economy. Identifying appropriate modalities for adaptation and extension of social protection also requires such an assessment. OECD analysis shows that differences in household composition mean that a disproportionately large share of dependent family members, such as children and elderly relatives, live in informal households. This means that lack of proper social protection coverage affects not just informal workers but also a significantly larger population. Effort to extend social protection to informal workers should recognise the diversity within the informal economy, and especially differences in terms of potential eligibility and capacity to build up entitlements (OECD, forthcoming[39]).

High levels of informality also affect fiscal revenues. Formal direct taxation of households and businesses in the informal sector is challenging and often not cost-effective. However, the informal sector indirectly contributes to tax revenues through other taxes and links to the formal sector. In developing countries, governments tend to rely on indirect taxes such as value added tax on consumption, which has the advantage of not being subject to high compliance costs. Indirect taxation of informal businesses and households also occurs through labour and monetary payments outside of the formal tax system in many developing countries. Informal taxation systems are co-ordinated by public officials, although enforced socially rather than through the formal legal system. Empirical evidence from ten developing countries shows that informal taxation constitutes a substantial share of local public revenue, especially in rural areas (Olken and Singhal, 2011[40]). Estimates of formal taxes as a result may understate the true tax contribution of households and enterprises in the informal sector.

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7.6. Small and medium-sized enterprises

The OECD defines small and medium-sized enterprises (SMEs) as "non-subsidiary, independent firms which employ fewer than a given number of employees" and "can be either formal or informal" (OECD, 2005[41]). The threshold number of employees varies considerably depending on the country where the definition is applied, but it usually denotes firms with fewer than 250 employees and includes micro-enterprises of just several employees. It is estimated that SMEs employ up to 90% of all workers in developing countries; the estimated number of SMEs in the world ranges from 365 million to 445 million (Page and Söderbom, 2012, p. 3[42]). SMEs have several comparative advantages in fragile contexts. They can be more flexible and less risk-averse. They can provide services in areas the government may not reach. They also provide jobs including to those whose skills might not be as useful to or recognised by larger companies.

Beyond these advantages, SMEs have the potential to support social cohesion and reconciliation by economically linking different groups. SME actors are potentially more invested in sustaining peace since they are connected to communities and directly affected by local instability (Hoffmann and Lange, 2016, p. 13[43]). Local businesses and entrepreneurs traditionally have not been recognised as peace actors. Increasingly, though, the vital role they can play in peacebuilding efforts and conflict prevention as well as economic growth is gaining credence.

Still, SME actors face multiple challenges that are particularly hard to overcome because of their size. Among these challenges are a lack of assets or asset destruction, a lack of infrastructure, macroeconomic instability, weak public institutions, complex land ownership rights, corruption, and security (Peschka, 2010, pp. 12-13[44]). SMEs also have trouble accessing credit. One report estimates the financing gap globally at between USD 2.1 trillion and USD 2.5 trillion, with formal micro-enterprises and informal SMEs accounting for more than 90% of the underserved enterprises (Stein, Ardic and Hommes, 2013, p. 7[45]). In Madagascar, for instance, donors are issuing guarantees to local banks to help them de-risk loans to SMEs. It is hoped that incentivising this lending creates a virtuous circle by helping the banks better understand the SME sector and thus building capacity and confidence for future lending.[5]

In 2016, USD 233.3 million (0.31%) of ODA in fragile contexts went to development of small and medium-sized enterprises through a variety of projects and funding sources. But there tends to be little co-ordination among donors (Page and Söderbom, 2012, p. 6[42]) Moreover, it can be complicated for both donors and governments to develop clear strategies to engage formal and informal SMEs, in part because these enterprises are so embedded in the social fabric and rely upon social identity groups and existing power configurations (Hoffmann and Lange, 2016, p. 48[43]).

While they may not easily fit into existing regulatory structures, the informal and SME sectors in fragile contexts represent considerable untapped, positive potential and they should be considered key assets in fragile contexts where external sources of finance are limited. Given the challenging operating environment in many fragile contexts, however, entrepreneurs and small businesses are frequently forced to focus only on economic survival. They rarely have the luxury to think about formalisation or expansion. Research in the three fragile countries of Afghanistan, Pakistan and South Sudan shows that businesses tended to develop strategies of resilience as opposed to growth in order to keep operating in these insecure and unpredictable environments (Hoffmann and Lange, 2016, p. 24[43]).

The traditional approach to informality was to figure out how to formalise it, often without appreciating the enterprises' or entrepreneurs' disincentives and lack of capacity for doing so. Greater effort is needed to identify and implement incentives so that incremental formalisation is attractive and leads to benefits such as access to new market opportunities and financial and non-financial services (Stein, Ardic and Hommes, 2013, p. 8[45]). In part, this will require donors to continue to adjust their support and not focus solely on the enabling environment and investment climate (Page and Söderbom, 2012, p. 5[42]). In addition, they should invest in understanding the specific context and constraints that actors face at all levels of the economy, and tailor interventions accordingly.

Notes

[1] The Platform is a joint effort of the OECD, International Monetary Fund, United Nations and World Bank Group. It was launched in April 2016.

[2] These are Burundi, the Democratic People's Republic of Korea, Eritrea, Iran, Nigeria, South Sudan, Syria, West Bank and Gaza Strip, and Yemen.

[3] The World Bank defines the blue economy as the "sustainable use of ocean resources for economic growth, improved livelihoods and jobs, and ocean ecosystem health". For more information and a useful infographic, see (World Bank, n.d.[45]), http://www.worldbank.org/en/news/infographic/2017/06/06/blue-economy.

[4] Total natural resources rents are the sum of oil rents, natural gas rents, coal rents (hard and soft), mineral rents, and forest rents in both the private and public sectors. Amounts shown in Figure 7.4Figure 7.4 are calculated by taking the difference between the total value of the natural resources extracted and the cost of the extraction. Natural resources rents are captured partly by the private companies. See (OECD/ATAF/AUC, 2017[13]).

[5] This information is based on research the OECD conducted in Madagascar as part of ongoing Financing for Stability work. For further information, see (OECD, n.d.[47]).

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Chapter 8. What do financial flows look like using a multidimensional lens?

by

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Chapter 8 analyses external financial flows to fragile and non-fragile contexts that are eligible for official development assistance (ODA), using the multidimensional fragility lens introduced in Chapter 2. It begins with an overview of aid flows to extremely fragile, other fragile and non-fragile contexts across the five dimensions of the fragility framework. It then demonstrates how a clustering technique provides a more fine-grained look at the ways ODA, foreign direct investment and remittances play out across the economic, environmental, political, societal and security dimensions. The chapter pays particular attention to whether these international flows are sufficiently calibrated to the specific needs of fragile contexts and the severity of their fragility.

The OECD fragility framework uses a clustering technique, which is discussed in Chapter 2 and the methodological Annex. It is employed to determine the severity of fragility in each dimension by clustering together contexts that perform similarly on certain indicators. The outcome of the mixed-method analysis (quantitative and qualitative) is applied to the results of the clustering exercise. This generates a ranking of clusters on a six-level scale of severity on which 1 is severe fragility, 2 is high fragility, 3 is moderate fragility, 4 is low fragility, 5 is minor fragility and 6 is not fragile.

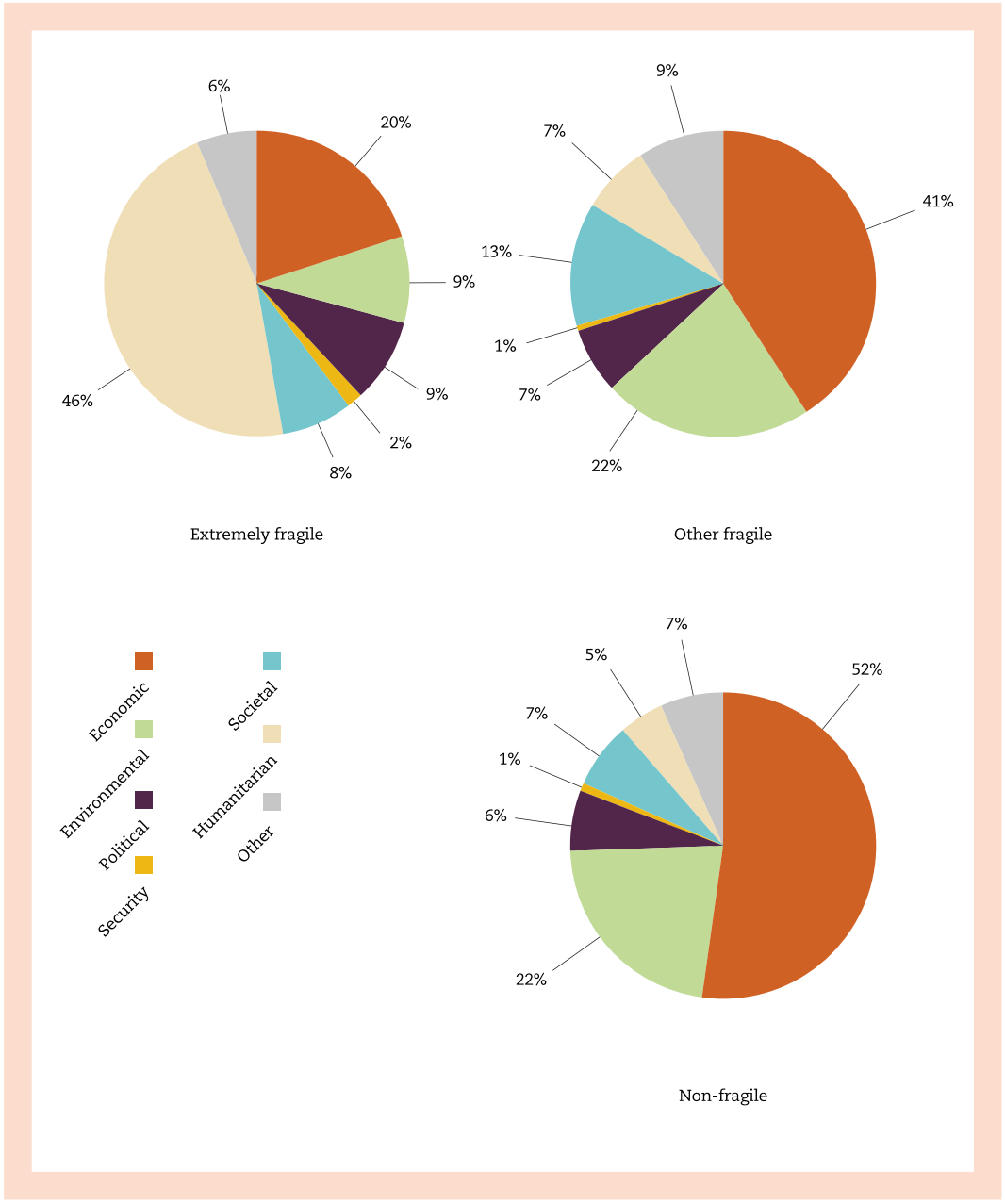
The clustering technique was run on all contexts that passed the data threshold for this report, i.e. on 172 contexts. Because the main focus of this chapter is development finance such as official development assistance (ODA), however, the results included in the analysis are limited to the 125 contexts that are ODA-eligible. These contexts then are divided into the categories of fragile contexts and non-fragile contexts.

This chapter first presents a brief, graphic depiction of ODA flows to extremely fragile, other fragile and non-fragile contexts across the five dimensions of the OECD multidimensional fragility framework. It then breaks out each of the five dimensions to take a closer look at the main international financial flows – ODA, foreign direct investment (FDI) and remittances – within each dimension. The discussion of each dimension begins with a map showing the contexts included in the clusters across that dimension according to their level of fragility; the variation in the different financial flows depending on the level of fragility of each cluster; and the breakdown of ODA allocation based on the five dimensions across the fragility clusters.

8.1. The multidimensional fragility lens and official development assistance

The following sections analyse external financial flows to 125 fragile and non-fragile contexts across the five dimensions used in the fragility framework. The analysis begins with Figure 8.1, which presents a synthesis of the spread and balance of ODA flows among the 15 extremely fragile, 43 other fragile and 67 non-fragile contexts. It takes account of the caveats discussed in Chapter 5 about matching OECD Creditor Reporting System codes to the five dimensions.[1]

Figure 8.1. Multidimensional ODA to fragile and non-fragile contexts, 2016



Note: The OECD Creditor Reporting System category of disaster prevention and preparedness has been removed from the humanitarian component and is included in the environmental component.
Source: (OECD, 2018[1]), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database), https://stats.oecd.org/Index.aspx?DataSetCode=CRS1.

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ODA allocations differ significantly between extremely fragile contexts and other contexts, as is discussed further in Chapter 4. In extremely fragile contexts, nearly half of all ODA (46%) is in the form of humanitarian finance and therefore does not directly address structural drivers of fragility. However, most of the remainder of the ODA (48%) in these extremely fragile contexts is targeted either at reducing the risks of one of the five dimensions of fragility or at strengthening related coping capacities. The economic fragility dimension receives the most of this fragility-targeted ODA (USD 6.4 billion, or 20% in 2016) followed by the environmental (USD 2.9 billion, or 9%), political (USD 2.8 billion, or 9%) and societal (USD 2.6 billion, or 8%) dimensions. The security dimension of fragility receives the least. Only 2% of total ODA to extremely fragile contexts, or USD 512 million, was spent on risks and capacities related to the security dimension in 2016. This is surprising given that 9 of the 15 extremely fragile contexts are experiencing some form of violent conflict and that all 15 are either severely or highly fragile in the security dimension.

The fact that many security expenditures are not ODA-eligible may partially explain this phenomenon. ODA-eligible security activities are those with a clear developmental benefit to the partner country. The impact of security activities that are not ODA-eligible is not clear; they may be having a positive effect on reducing fragility or, in a worst-case scenario, they may be exacerbating it.

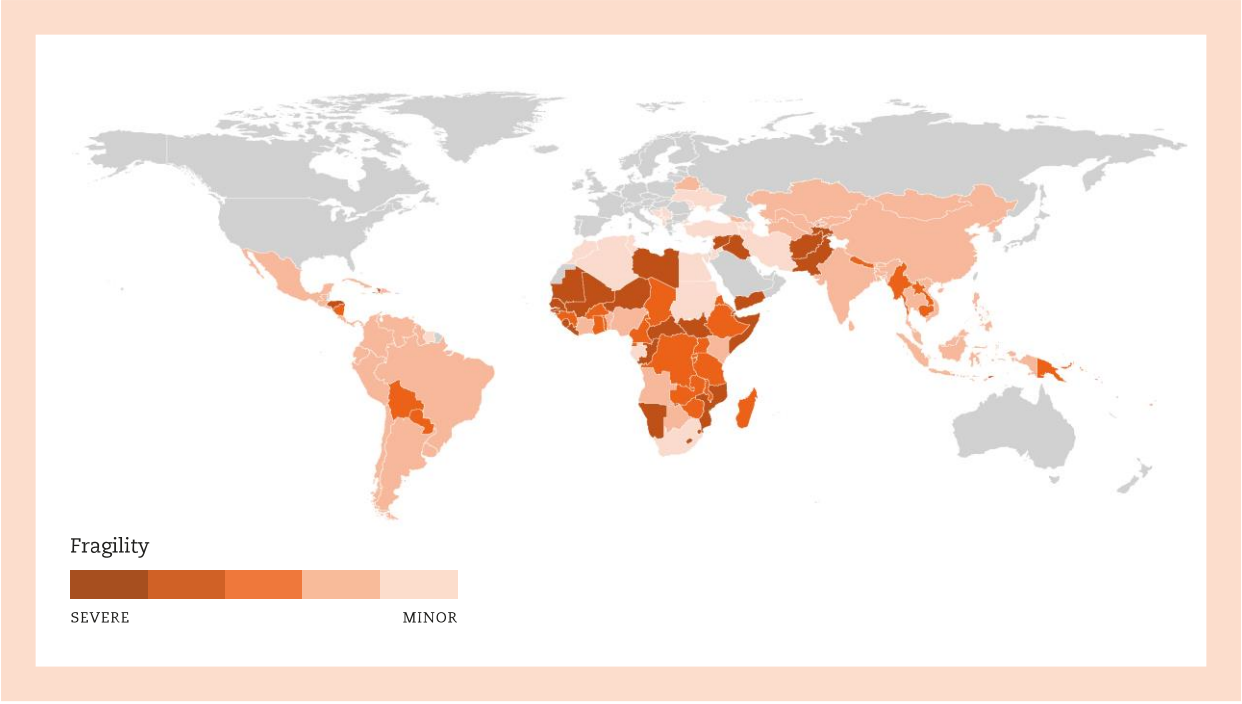
There is relatively little difference between ODA allocations to the different dimensions of fragility across the other fragile contexts grouping and other, non-fragile, developing countries. The only slight differences are that more ODA is invested in addressing the societal dimension in other fragile contexts than in non-fragile contexts (13% versus 7%, respectively) and that less ODA is spent on addressing the economic dimension in other fragile contexts than in non-fragile contexts (41% versus 52%, respectively). Additionally, in terms of volume of aid flows, other fragile contexts received significantly less ODA (USD 17.5 billion) in 2016 than non-fragile countries (USD 26.4 billion).

The proportionately high amounts of ODA that all fragile contexts are receiving should be taken as further indication that aid alone – even when it is allocated across the five dimensions – does not address fragility. Chapters 9 and 10 continue the discussion of this issue.

8.2. Economic fragility

Figure 8.2 shows the regional spread of ODA-eligible countries experiencing different levels of economic fragility.

Figure 8.2. ODA-eligible countries by levels of economic fragility

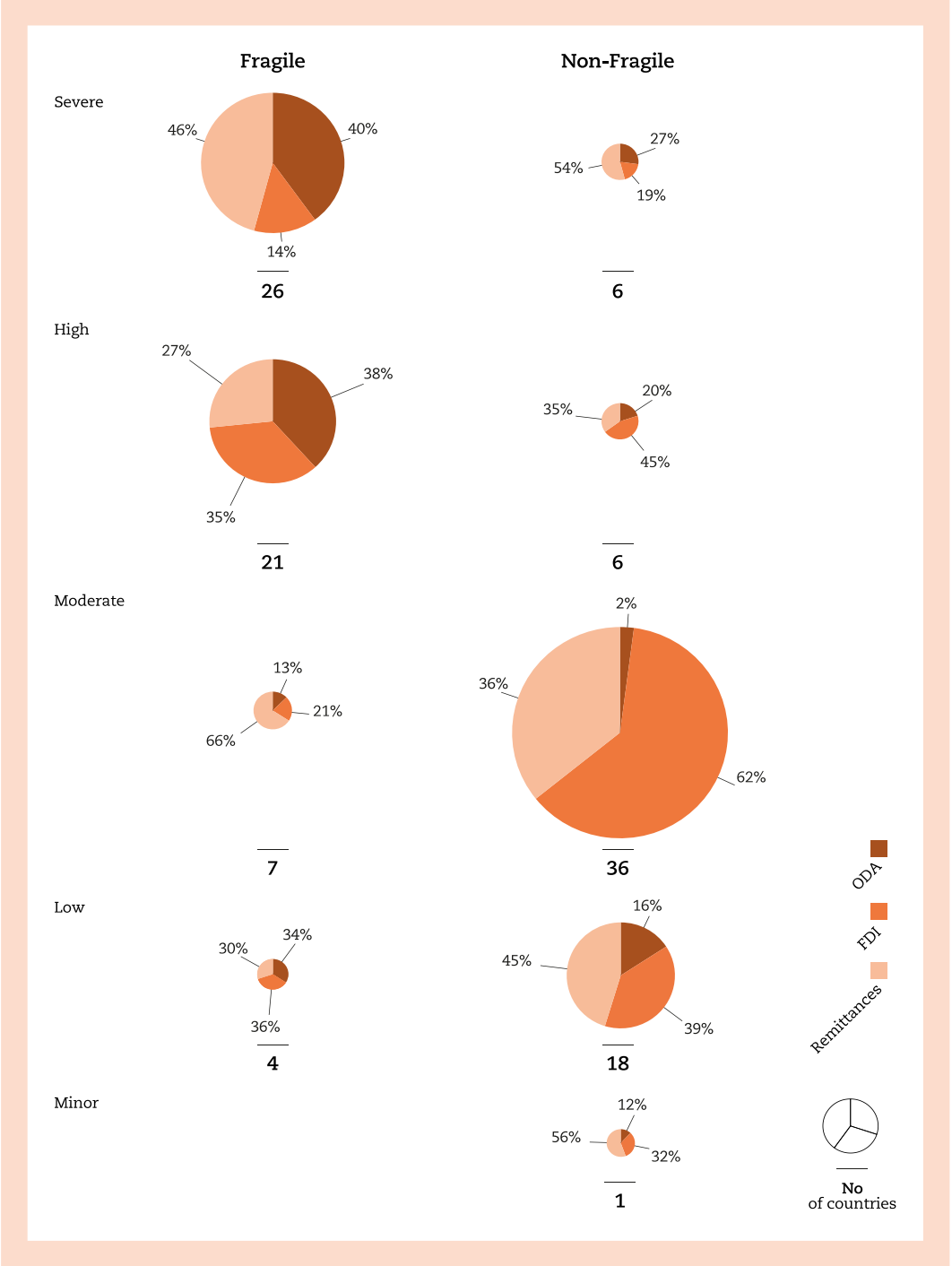


Note: Countries in grey are either non-ODA eligible or did not pass the data threshold to be analysed in the fragility framework 2018.

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Figure 8.3 shows the mix of financial flows in fragile and non-fragile contexts according to their level of economic fragility.

Figure 8.3. Remittances, FDI and ODA in fragile and non-fragile contexts by levels of economic fragility, 2016



Sources: FDI and remittances data from (World Bank, 2018[2]), "Foreign direct investment, net inflows (BoP, current USD)", *World Development Indicators* (database), http://data.worldbank.org/indicators, converted to USD, 2015 constant prices; (World Bank, 2018[3]), "Personal remittances, received (current USD)", *World Development Indicators* (database), http://data.worldbank.org/indicators. ODA data from (OECD, 2018[4]), "Aggregate DAC Statistics Table DAC-2a: ODA official development assistance: 2016 disbursements", *OECD International Development Statistics* (database), https://stats.oecd.org/qwids/.

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Two main factors determine the mix of FDI, ODA and remittances to economically fragile contexts: the severity of each one's economic fragility and the context's overall classification as either fragile or non-fragile.

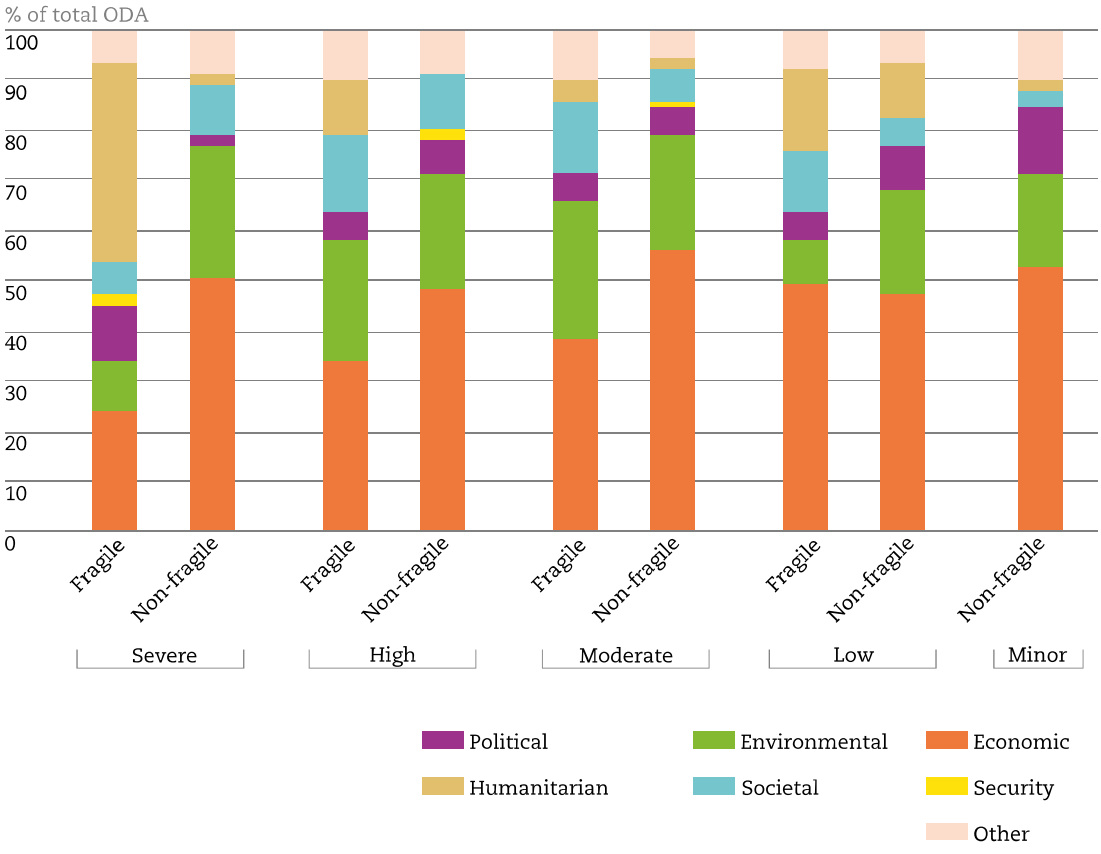
Logically, a more economically fragile context has a more difficult and risky investment climate and thus will attract less FDI. This holds true, more or less, for contexts in the 2018 fragility framework. FDI to severely economically fragile contexts made up only a small percentage of total international development finance flows in 2016 – 14% for contexts that are considered fragile overall and 19% for contexts that are considered non-fragile overall. Contexts with the less severe classification of high economic fragility received higher FDI levels, or 35% of total flows in places considered fragile overall and 45% of total flows in contexts that are non-fragile overall. FDI then becomes a majority flow, or 62% of the total, in moderately economically fragile contexts that are not considered fragile.

However, the severity of economic fragility is not the sole determinant of the mix of international development finance flows. For example, ODA makes up 40% of international development finance flows in contexts that are severely economically fragile and also are considered fragile overall, a group that includes Somalia and South Sudan. A very different picture emerges in severely economically fragile contexts that are considered non-fragile overall due to their better performance in other dimensions, for instance Namibia and Senegal. In this group of contexts, ODA makes up only 27% of the mix. This demonstrates that ODA is an important source of financing for fragile contexts that rank poorly on the economically fragile scale.

Although economic fragility might affect some aspects of remittance flows – for example, if currency controls make remitting funds difficult – there does not seem to be a correlation overall between remittance flows and the severity of economic fragility.

Figure 8.4 shows the breakdown of ODA by different levels of economic fragility using the five dimensions of the fragility framework.

Figure 8.4. Multidimensional ODA to fragile and non-fragile contexts by levels of economic fragility, 2016



Source: (OECD, 2018[1]), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database).

StatLink http://dx.doi.org/10.1787/888933787807

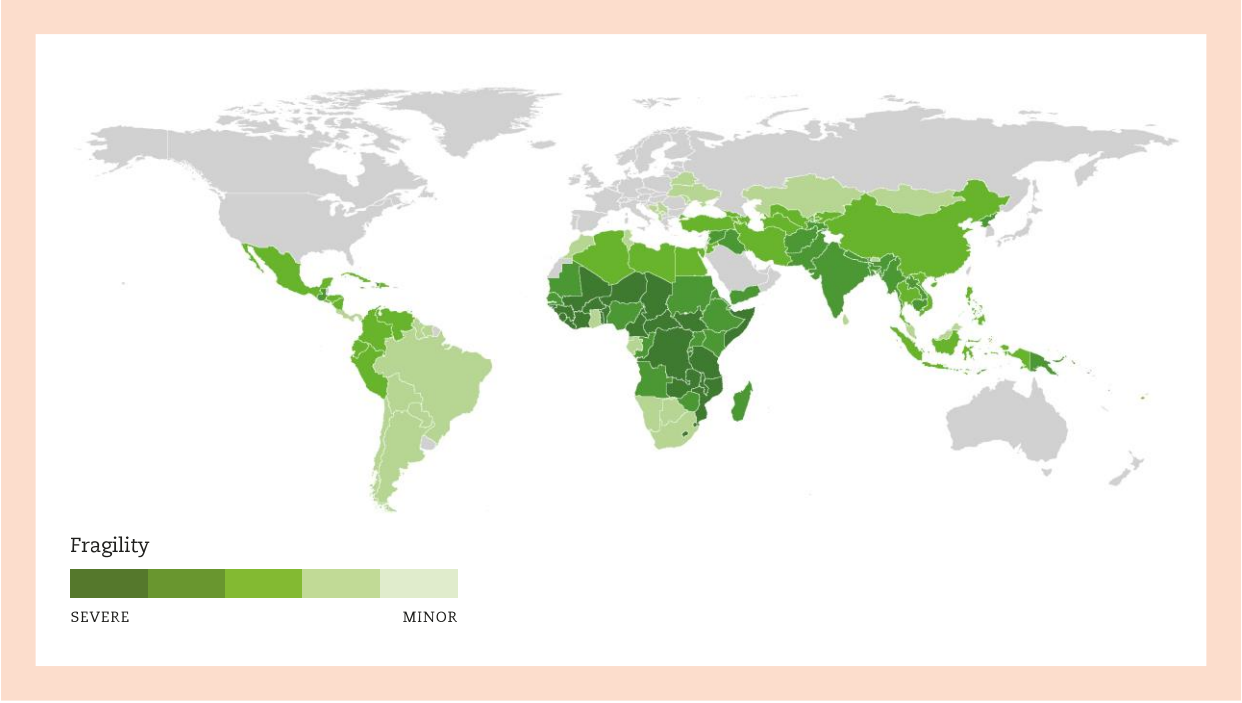
ODA targeting the risks and capacities that together drive economic fragility is significant across all categories of severity of economic fragility, with the surprising exception of those contexts where economic fragility is most severe. In contexts experiencing high, moderate, low or minor economic fragility, ODA that targets its drivers ranges from 23% to 53% of total aid expenditure. However, in contexts that are severely economically fragile and whose overall fragility puts them in the fragility framework – i.e. contexts where the need to address the economic drivers of fragility is arguably the greatest – ODA targeted to these drivers constituted only 23% of total ODA disbursed. A much higher proportion, or 38% of ODA, was spent on humanitarian assistance in these severely economically fragile contexts. One other notable trend is that non-fragile contexts consistently receive higher proportions of ODA targeted at economic fragility factors than do fragile contexts. This

seems perverse but perhaps reflects the need for some level of overall stability in a country as a pre-condition for investments in economic growth-related factors.

8.3. Environmental fragility

Figure 8.5 shows the regional spread of ODA-eligible countries experiencing different levels of environmental fragility.

Figure 8.5. ODA-eligible countries by levels of environmental fragility

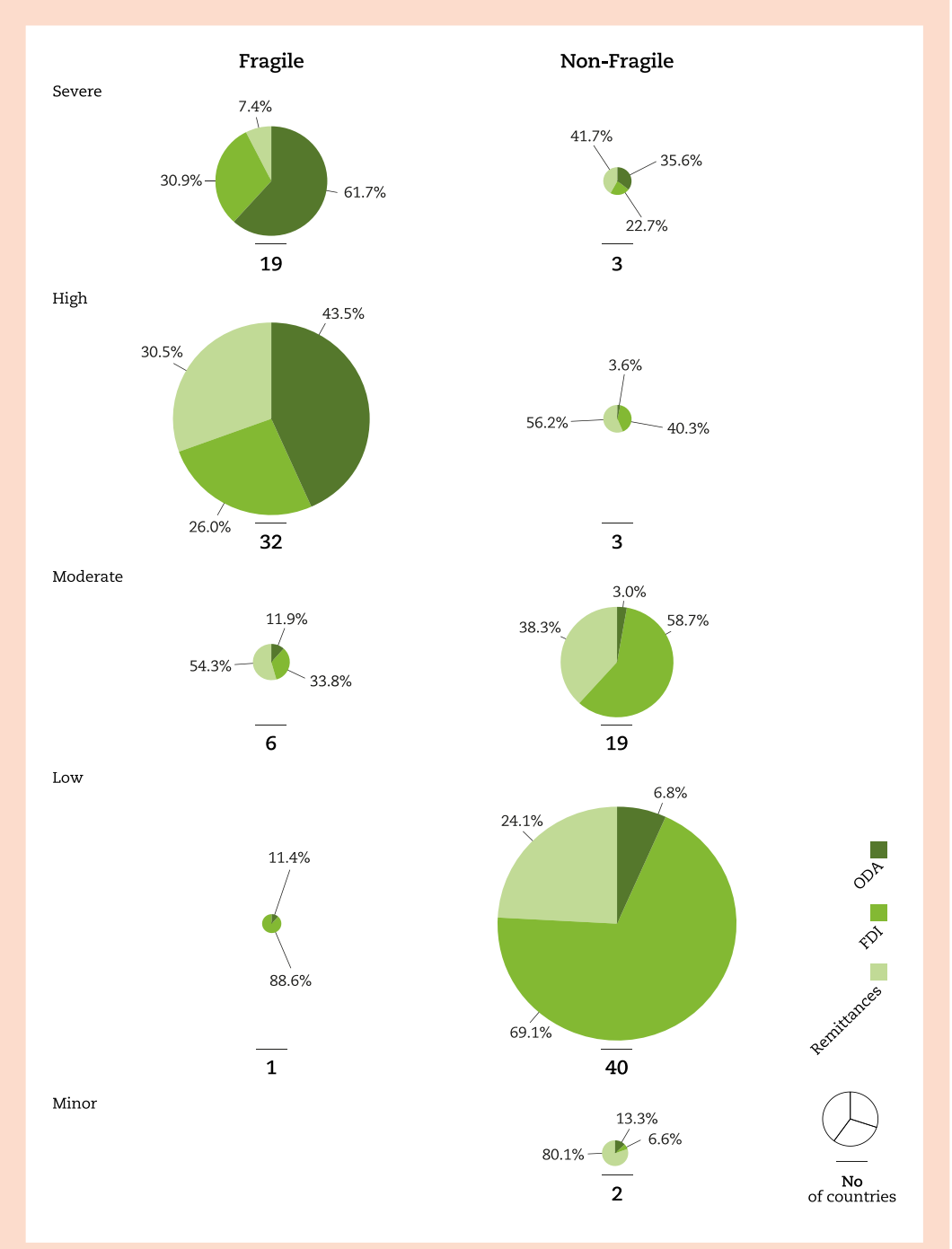


Note: Countries in grey are either non-ODA eligible or did not pass the data threshold to be analysed in the fragility framework 2018.

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As shown in Figure 8.6, ODA is the most significant international financial flow to fragile contexts that show high levels of environmental fragility.

Figure 8.6. Remittances, FDI and ODA in fragile and non-fragile contexts by levels of environmental fragility, 2016



Sources: FDI and remittances data from (World Bank, 2018[2]), "Foreign direct investment, net inflows (BoP, current USD)", *World Development Indicators* (database), http://data.worldbank.org/indicators, converted to USD, 2015 constant prices; (World Bank, 2018[3]), "Personal remittances, received (current USD)", *World Development Indicators* (database), http://data.worldbank.org/indicators. ODA data from (OECD, 2018[4]), "Aggregate DAC Statistics Table DAC-2a: ODA official development assistance: 2016 disbursements", *OECD International Development Statistics* (database), https://stats.oecd.org/qwids/.

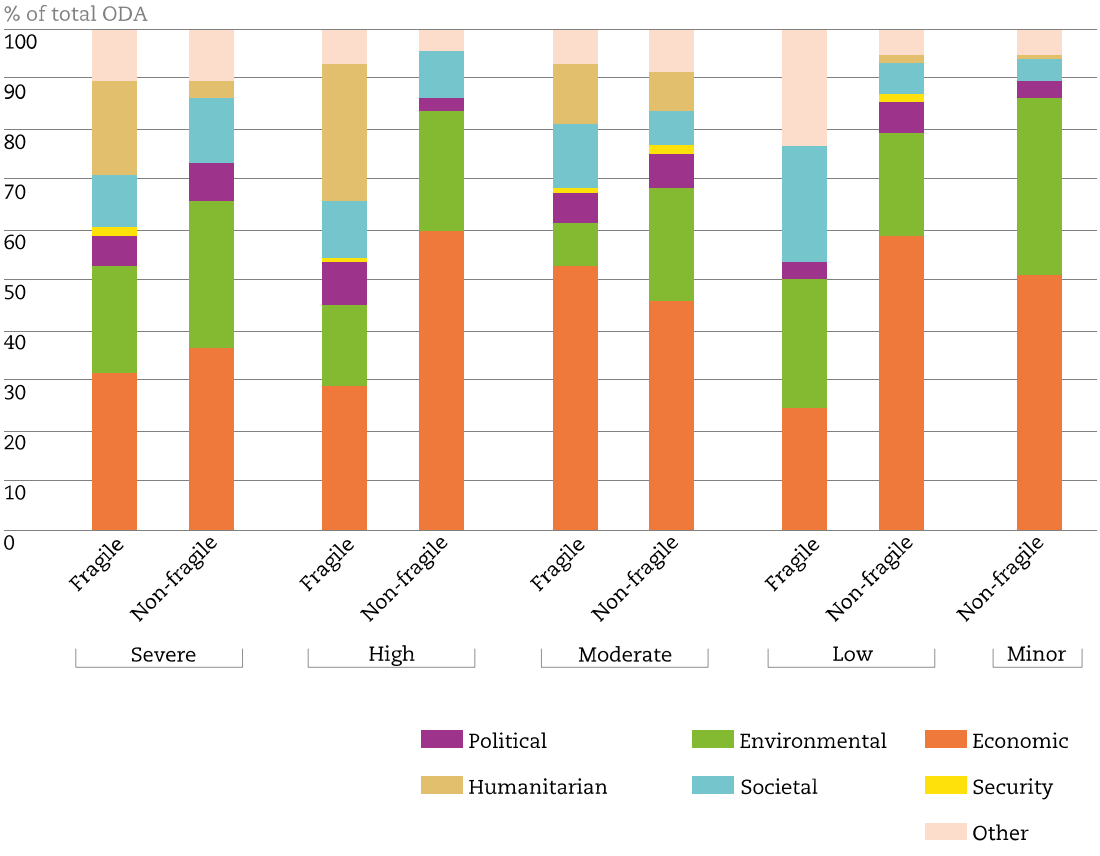
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For example, ODA makes up 61.7% of all international flows to fragile contexts with severe environmental fragility and 43.5% to those with high environmental fragility. In contexts with moderate, low and minor levels of environmental fragility – and regardless of whether they have been assessed overall as being fragile or non-fragile – FDI is a much bigger part of the picture. This can be seen in the 40 non-fragile, developing countries that have low environmental fragility, where FDI is the largest flow (69.1%).

ODA therefore is playing a significant role in addressing environmental fragility. This is important because it is difficult to attract climate financing mechanisms to fragile contexts given their lower risk tolerance levels (Chapter 9).

Figure 8.7 shows the breakdown of ODA by different levels of environmental fragility using the five dimensions of the fragility framework.

Figure 8.7. Multidimensional ODA to fragile and non-fragile contexts by levels of environmental fragility, 2016



Source: (OECD, 2018[1]), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database).

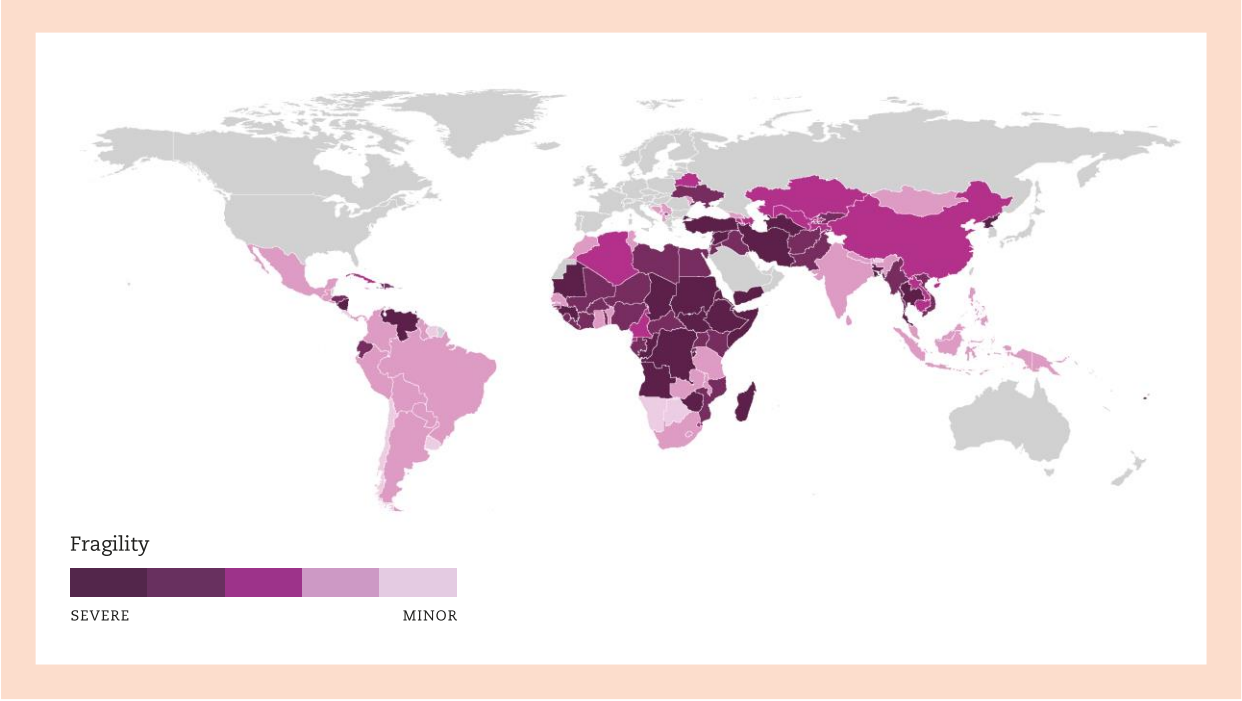
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In high-risk environmental contexts, more ODA is being spent on the drivers of economic fragility than on environmental issues. In consequence, it would be useful to examine these investments in economic factors to determine if they are being applied in an environmentally friendly, sustainable manner or if they are building in new risks. Allocations of ODA seem to increase as the severity of environmental fragility increases. In fragile contexts that are only moderately environmentally fragile, for example, 8.3% of ODA in 2016 was targeted to environmental factors; in highly environmentally fragile places, this percentage was 16.2%; and in contexts with severe environmental fragility, it was 21.4%. It is notable that the two contexts that are non-fragile overall and have only minor environmental fragility (Mauritius and Uruguay), received the highest share of ODA targeted to drivers of this dimension of fragility.

8.4. Political fragility

Figure 8.8 shows the regional spread of ODA-eligible countries experiencing different levels of political fragility.

Figure 8.8. ODA-eligible countries by levels of political fragility

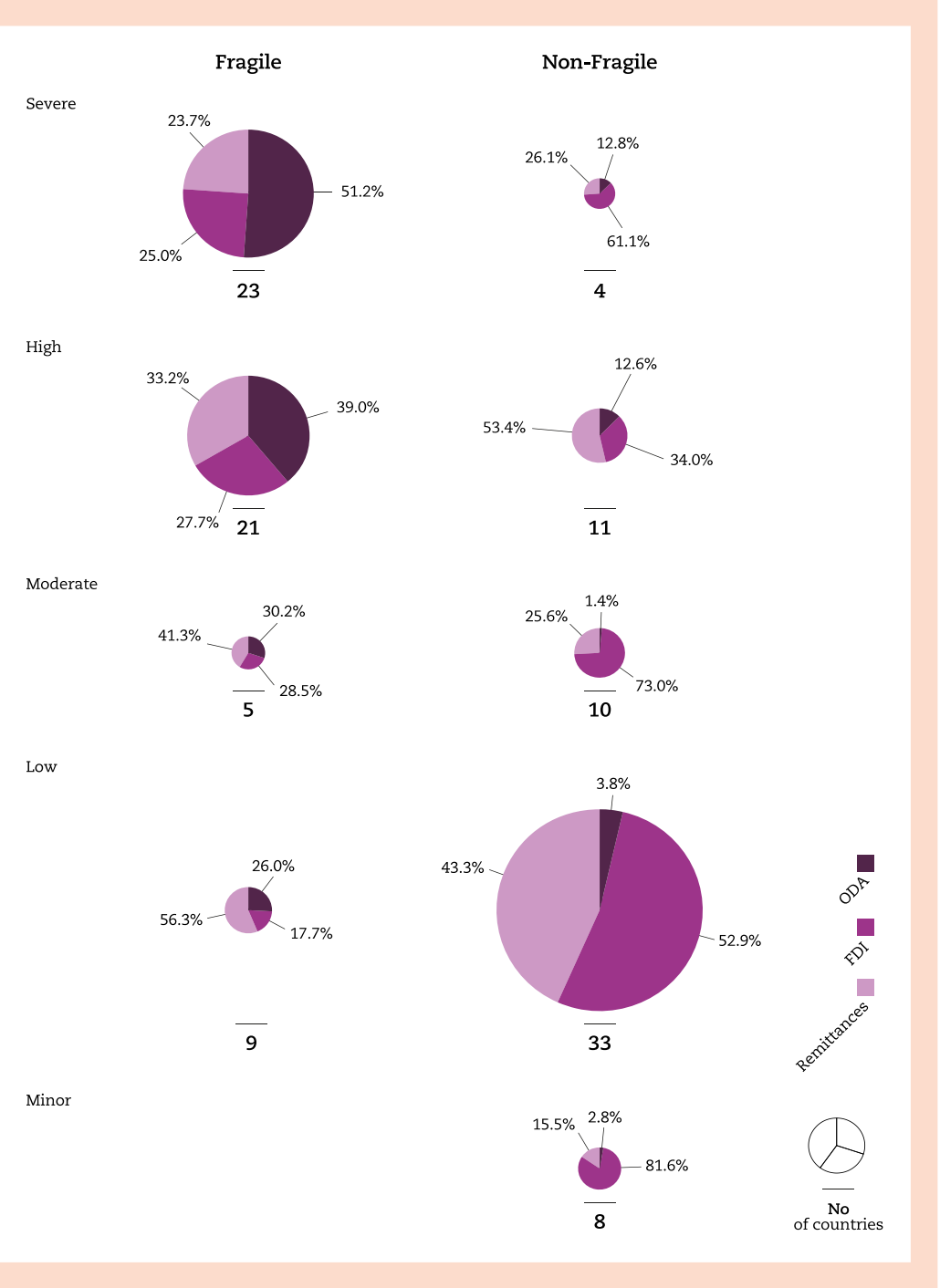


Note: Countries in grey are either non-ODA eligible or did not pass the data threshold to be analysed in the fragility framework 2018.

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Figure 8.9 shows the mix of financial flows in fragile and non-fragile contexts according their level of political fragility.

Figure 8.9. Remittances, FDI and ODA in fragile and non-fragile contexts by levels of political fragility, 2016



Sources: FDI and remittances data from (World Bank, 2018[2]), "Foreign direct investment, net inflows (BoP, current USD)", *World Development Indicators* (database), http://data.worldbank.org/indicators, converted to USD, 2015 constant prices; (World Bank, 2018[3]), "Personal remittances, received (current USD)", *World Development Indicators* (database), http://data.worldbank.org/indicators. ODA data from (OECD, 2018[4]), "Aggregate DAC Statistics Table DAC-2a: ODA official development assistance: 2016 disbursements", *OECD International Development Statistics* (database), https://stats.oecd.org/qwids/.

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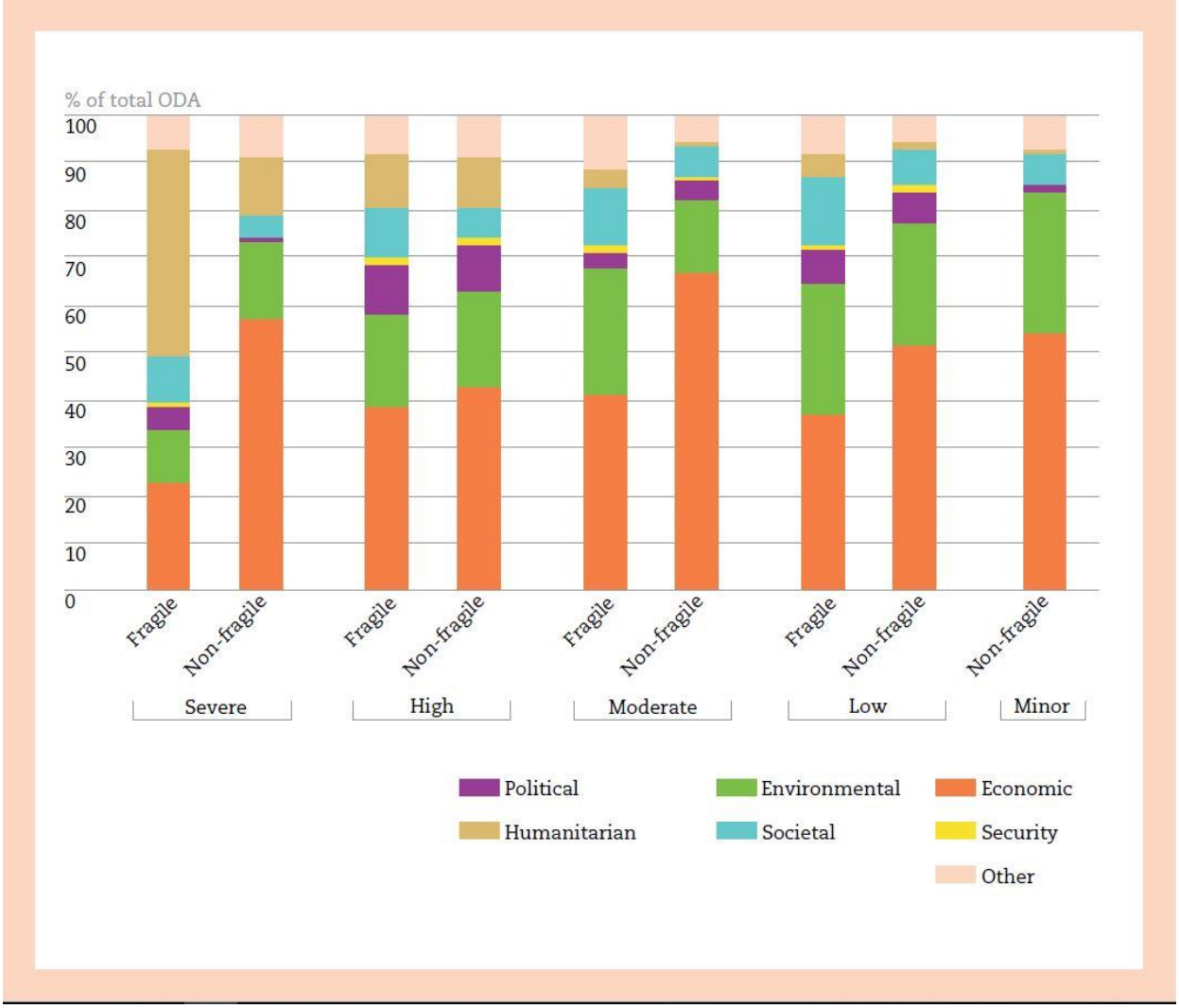
It is commonly thought that a certain level of political stability is necessary for investor confidence. Some research also shows that factors such as government effectiveness, corruption levels, accountability and the rule of law are important for increasing the capacity of states to attract FDI (Rodríguez-Pose and Cols, 2017[5]). Indeed, in 2016, more severe political fragility corresponded with lower levels of FDI in fragile contexts. Thus, in severely politically fragile contexts, FDI made up 25% of total international financial flows; in contexts with high political fragility, FDI represented 27.7% of total flows while in contexts of moderate political fragility, it made up 28.5%.

FDI to non-fragile contexts in this dimension, however, did not show this same pattern. FDI represented 61.1% of international development flows in non-fragile contexts with severe political fragility, suggesting that other factors worked to attract investment in compensation for the extreme levels of political fragility.

As in the other dimensions, in 2016, ODA was the major source (51.2%) of international development finance in fragile contexts with severe political fragility, underscoring the key role that donors must play in addressing the underlying drivers of this type of fragility (Chapter 5). Remittances also were a significant flow in all contexts with political fragility, which suggests there may be opportunities for involving diasporas to help resolve some aspects of political instability.

Figure 8.10 shows the breakdown of ODA by different levels of political fragility using the five dimensions of the fragility framework.

Figure 8.10. Multidimensional ODA to fragile and non-fragile contexts by levels of political fragility, 2016



Source: (OECD, 2018[1]), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database).

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As discussed in Chapter 5, ODA allocations targeted to the drivers of political fragility were very low in all contexts, regardless of whether they were assessed with minor, low, moderate, high or severe political fragility. This means that even where political fragility is severe, there is no increase in aid to reduce its risks or to strengthen coping capacities.

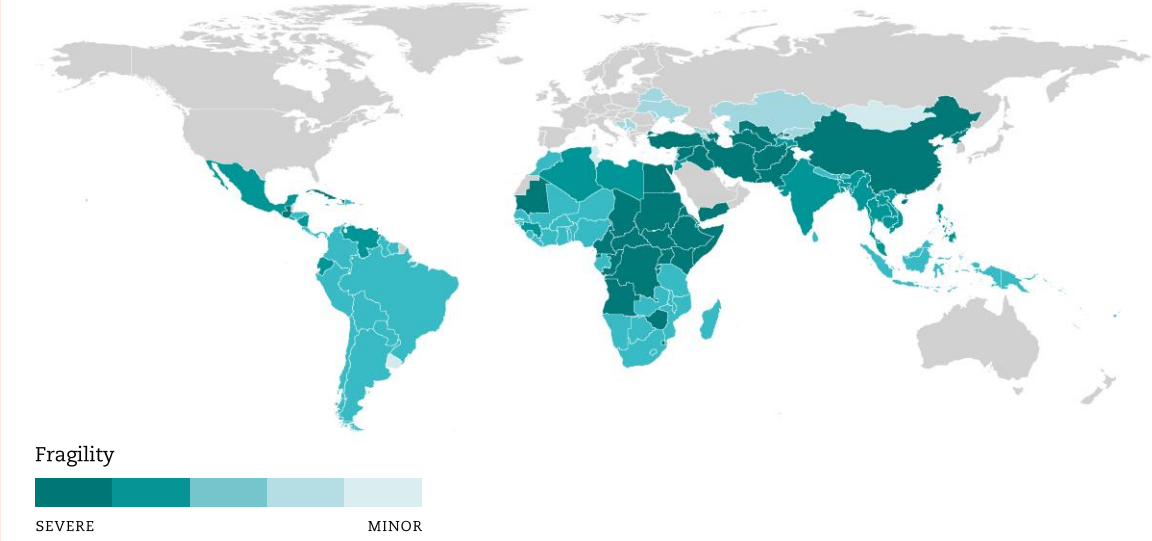
The mix of other ODA investments in these severely politically fragile contexts, and the activities they targeted, is worth noting. Contexts in this grouping that are classified as non-fragile overall received proportionately high levels of economic-focused ODA, or 57.4% of total aid; environmental-focused ODA represented 15.7% of the total and humanitarian aid made up 11.9%. However, a very different picture emerges in the contexts that are severely politically fragile and also assessed as overall fragile. The ODA to these contexts was largely humanitarian aid (43%) and, to a much smaller extent,

economic-focused (22.9%). This breakdown supports the assumption that political stability is a pre-condition for economic growth and related donor investments. It would be interesting to calculate – although this has not yet been done – how much of the humanitarian aid spent in severely politically fragile contexts would have been saved had there been corresponding investments in political stability.

8.5. Societal fragility

Figure 8.11 shows the regional spread of ODA-eligible countries experiencing different levels of societal fragility.

Figure 8.11. ODA-eligible countries by levels of societal fragility

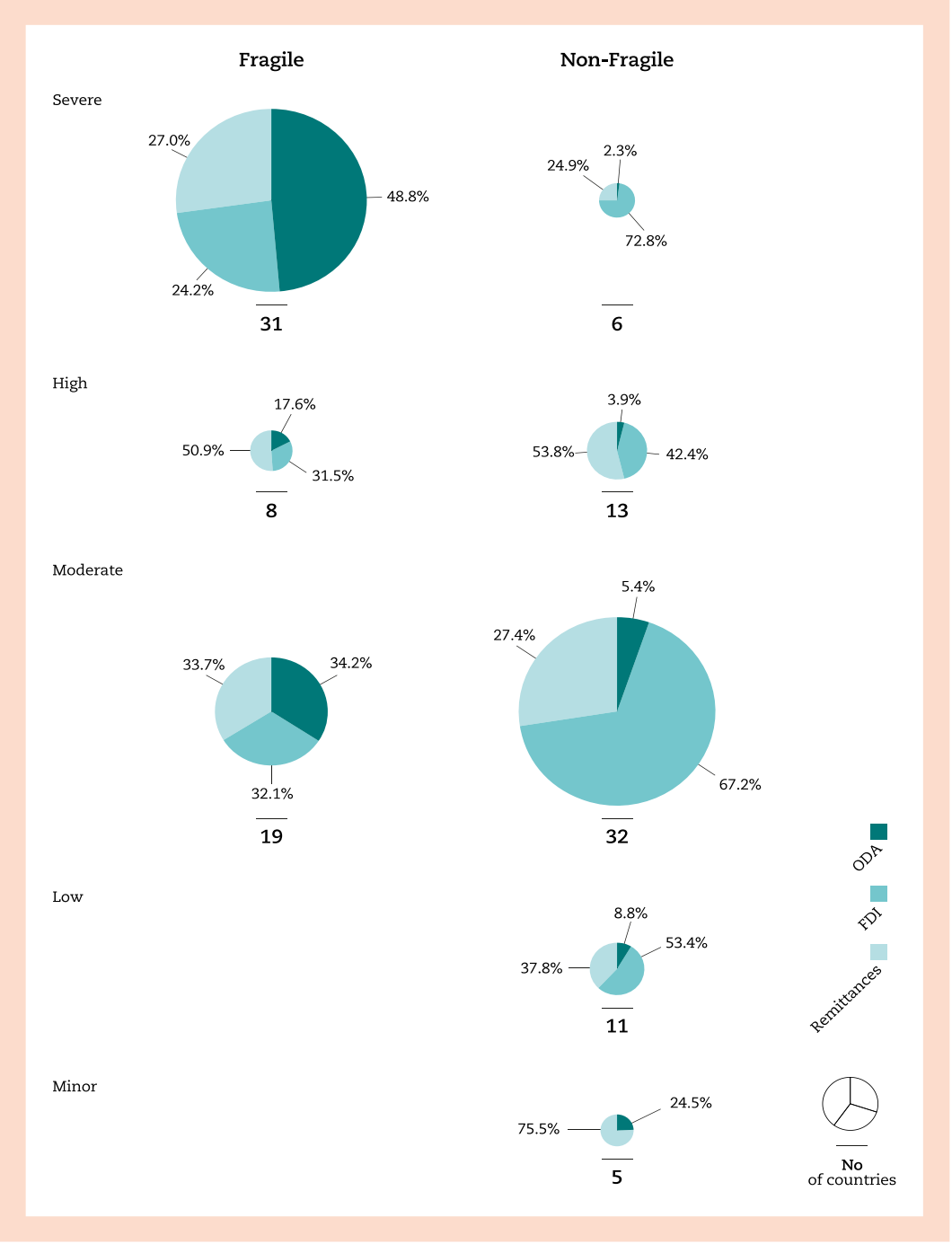


Note: Countries in grey are either non-ODA eligible or did not pass the data threshold to be analysed in the fragility framework.

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Economic remittances do not seem to have a strong correlation with societal fragility either in fragile or non-fragile contexts, as is shown in Figure 8.12.

Figure 8.12. Remittances, FDI and ODA in fragile and non-fragile contexts by levels of societal fragility, 2016



Note: In the cluster for minor societal fragility, total net FDI is negative and thus has not been included.
Sources: FDI and remittances data from (World Bank, 2018[2]), "Foreign direct investment, net inflows (BoP, current USD)", *World Development Indicators* (database), http://data.worldbank.org/indicators, converted to USD, 2015 constant prices; (World Bank, 2018[3]), "Personal remittances, received (current US$)", *World Development Indicators* (database), http://data.worldbank.org/indicators. ODA data from (OECD, 2018[1]), "Aggregate DAC Statistics Table DAC2a: ODA official development assistance: 2016 disbursements", *OECD International Development Statistics* (database), https://stats.oecd.org/qwids/.

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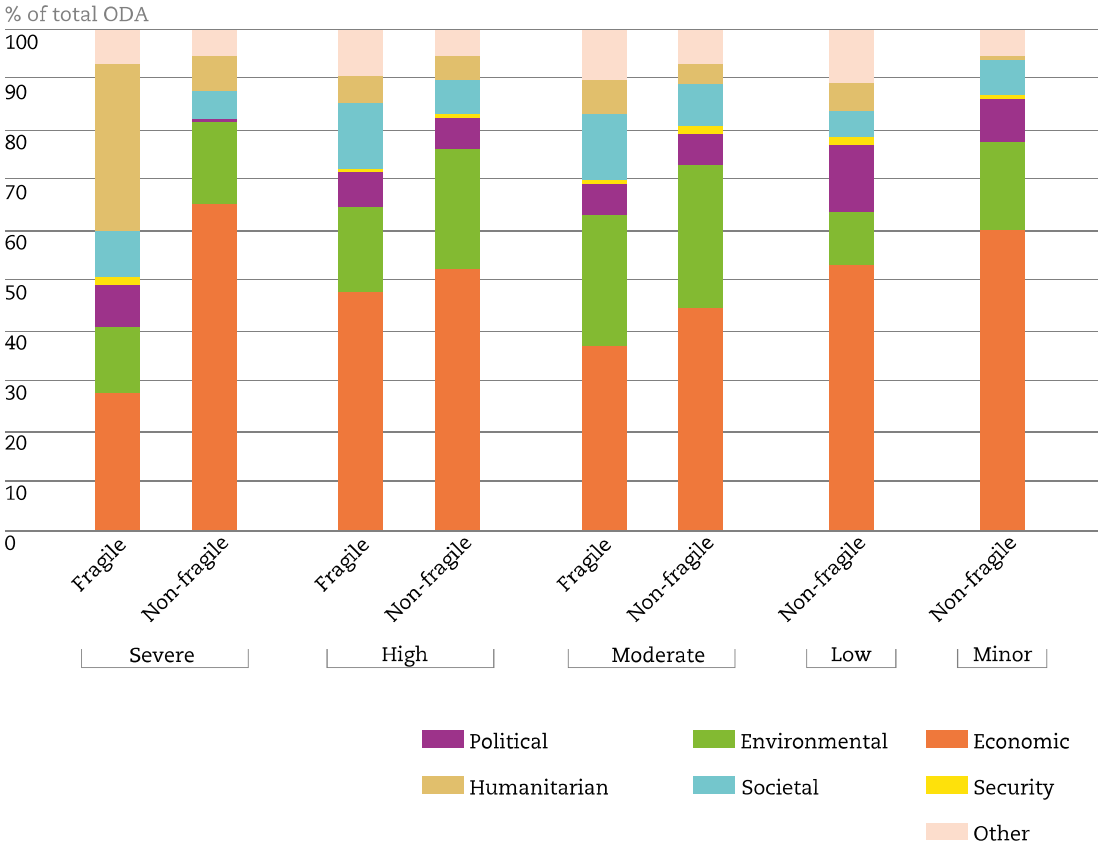
Remittances are the largest international development finance flow in contexts with high societal fragility. This is the case for both fragile contexts, where remittances make up 50.9% of total flows, and for non-fragile contexts, where they make up 53.8% of the total. As societal fragility increases, however, remittances make up a smaller portion of finance flows. They represent only 27% of flows to contexts that are severely fragile in the societal dimension and fragile overall and only 24.9% to such contexts that are non-fragile overall. The same pattern is evident as societal fragility decreases: in contexts with only moderate societal fragility, remittances make up 33.7% (fragile contexts) and 27.4% (non-fragile contexts) of all international financial flows.

The lack of a correlation between societal fragility and remittances is interesting in itself, as diaspora communities also contribute what have been termed social remittances to their home countries. These take the form of transferring skills and knowledge and bridging cultural divides, for instance, as well as breaking down gender stereotypes by promoting the financial inclusion of women. Social remittances are thought to transform or challenge values in countries of origin (UN, 2017, p. $2_{[6]}$).

In terms of other types of flows, ODA is the most significant flow (48.8%) in fragile contexts with severe societal fragility. In non-fragile contexts with severe levels of societal fragility, FDI makes up a much greater proportion, or 72.8%, of international development finance flows. This suggests that FDI is not particularly deterred by heightened levels of societal fragility.

Figure 8.13 shows the breakdown of ODA by different levels of societal fragility, using the five dimensions of the fragility framework.

Figure 8.13. Multidimensional ODA to fragile and non-fragile contexts by levels of societal fragility, 2016



Source: (OECD, 2018[1]), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database).

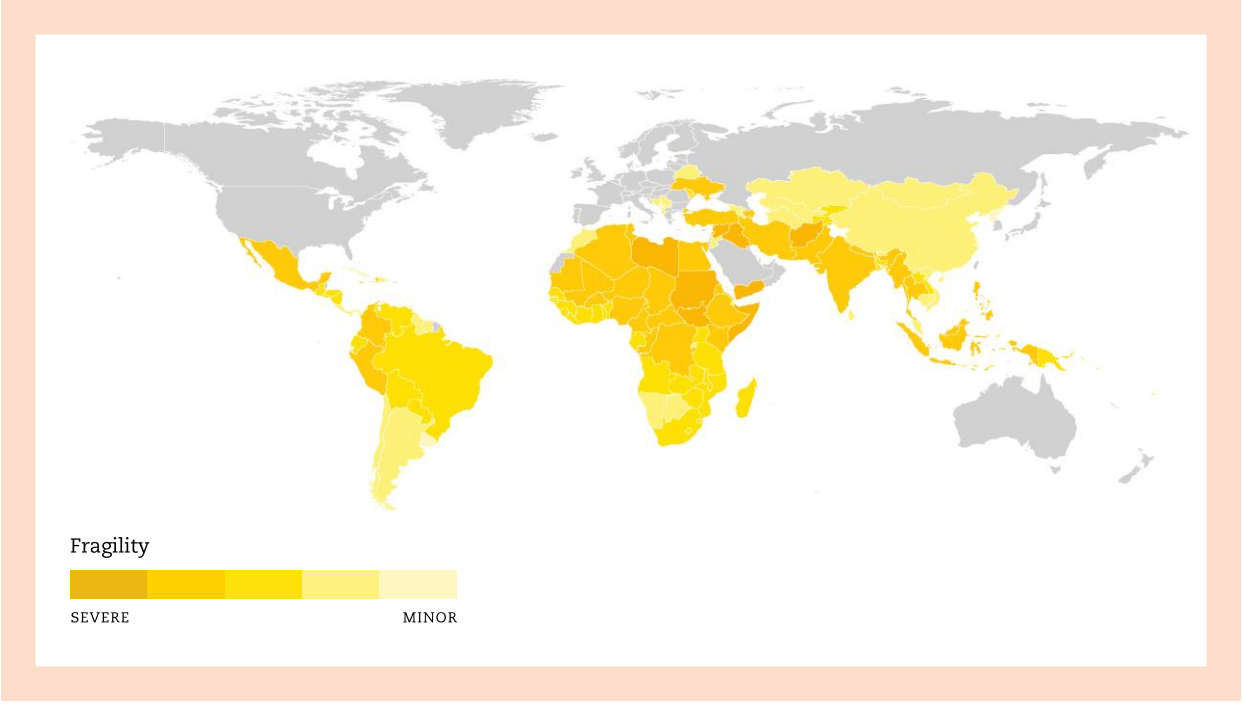
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As seen in the political fragility dimension, investments in reducing the risks or increasing capacities to cope with societal fragility are low. This is the case even in contexts with severe societal fragility, where the proportion of ODA allocations for societal factors is 5% for non-fragile contexts and 9.7% for fragile contexts. It is also true in the highly fragile cluster, where ODA allocations targeted at societal fragility amount to 7.4% of aid in non-fragile contexts and 13% in fragile contexts. Indeed, in contexts with severe societal fragility that were also overall considered fragile, 33% of ODA was humanitarian assistance, thus far outstripping investments in societal factors. In addition, investments in societal factors seem to be largely indifferent to the severity of societal fragility, with the ratio of such aid not varying much across all levels. ODA allocations, then, do not appear to be either focused on or targeted at reducing societal fragility.

8.6. Security fragility

Figure 8.14 shows the regional spread of ODA-eligible countries experiencing different levels of security fragility.

Figure 8.14. ODA-eligible countries by levels of security fragility

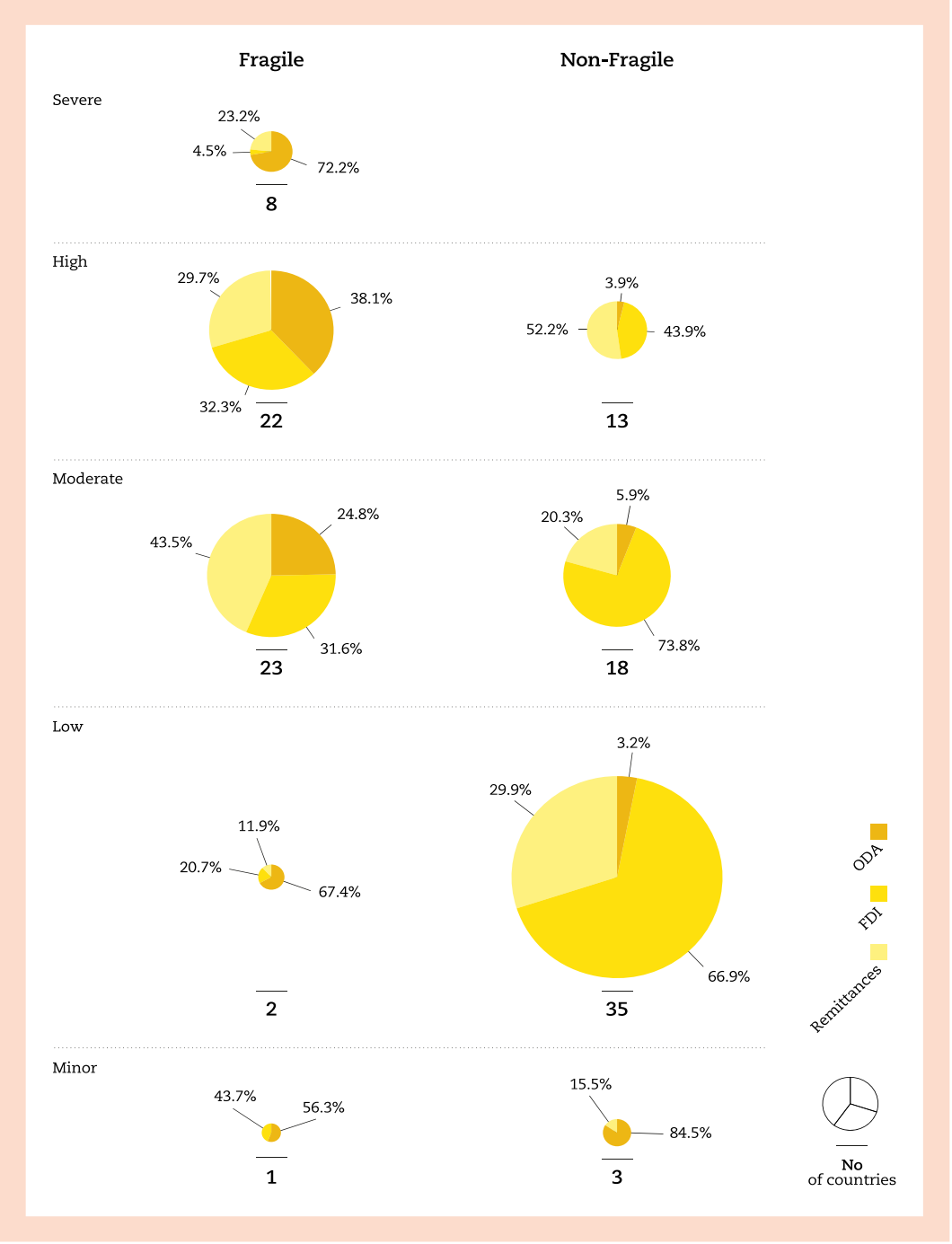


Note: Countries in grey are either non-ODA eligible or did not pass the data threshold to be analysed in the fragility framework.

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Figure 8.15 shows the breakdown of international development finance flows to contexts with security fragility.

Figure 8.15. Remittances, FDI and ODA in fragile and non-fragile contexts by levels of security fragility, 2016



Note: In the cluster for minor security fragility, total net FDI is negative and thus has not been included.
Sources: FDI and remittances data from (World Bank, 2018[2]), "Foreign direct investment, net inflows (BoP, current USD)", *World Development Indicators* (database), http://data.worldbank.org/indicators, converted to USD, 2015 constant prices; (World Bank, 2018[3]), "Personal remittances, received (current USD)", *World Development Indicators* (database), http://data.worldbank.org/indicators. ODA data from (OECD, 2018[4]), "Aggregate DAC Statistics Table DAC-2a: ODA official development assistance: 2016 disbursements", *OECD International Development Statistics* (database), https://stats.oecd.org/qwids/.

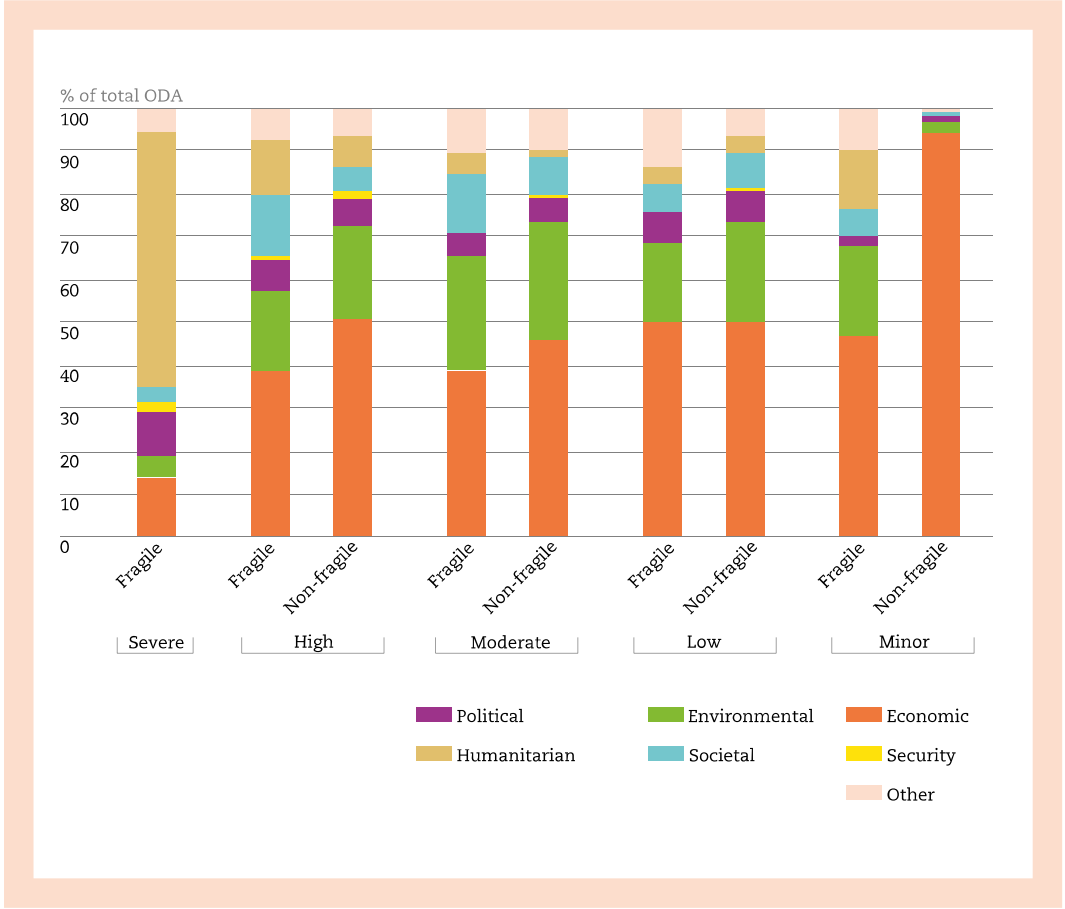
StatLink http://dx.doi.org/10.1787/888933788016

In the eight contexts that are severely fragile in the security dimension, ODA is the dominant international development finance flow, making up 72.2% of the total. ODA remains a significant flow (38.1%) in fragile contexts that have high security fragility and in those with moderate security fragility (24.8%). Reliance on international donors is even greater than the figures for this dimension of fragility show, however, as several of these contexts with high levels of security fragility have peacekeeping missions. These missions constitute a financial flow into fragile contexts but are not fully represented in Figure 8.15. In such contexts, it will be important to consider how to compensate for the loss of this financial flow – to the economy but also to the livelihoods of communities and families – following the drawdown of these missions.

In non-fragile contexts, ODA is only a minor portion of total international development finance flows, regardless of the severity of security fragility. Instead, in these contexts, FDI is the major flow, at 43.9% of total flows in contexts with high security fragility and 73.8% in contexts with moderate security fragility. This may indicate an opportunity for foreign investors to play a role in the reduction of security fragility in non-fragile contexts.

Figure 8.16 shows the breakdown of ODA by different levels of security fragility, using the five dimensions of the fragility framework.

Figure 8.16. Multidimensional ODA in fragile and non-fragile contexts by levels of security fragility, 2016



Source: (OECD, 2018[1]), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database).

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As represented at the beginning of the chapter in Figure 8.1, only 2% of ODA targets the security dimension in extremely fragile contexts, and 1% of ODA in other fragile contexts. Therefore, it is not surprising that the share of ODA going to addressing security overall is negligible regardless of the severity of security fragility in different contexts. Instead, as might be expected, humanitarian aid makes up the major proportion of ODA (60%) to severely security fragile contexts. In other contexts where security fragility is assessed as minor, low, moderate or high, most ODA is targeted at the drivers of economic fragility and, to a lesser extent, drivers of environmental fragility. Comparatively little ODA for economic factors is allocated to contexts with severe security fragility, which could be expected. But in these severely fragile contexts, there is more investment in reducing political fragility than in any of the other clusters, which appears to recognise a correlation between political and security fragility. It will be interesting to see how the refocus on the conflict prevention agenda changes this mix of ODA investments in the future and to gauge the optimal mix of investments for prevention, particularly as concerns security, political and societal fragility.

Notes

[1] To avoid double-counting, humanitarian ODA shown in this section excludes aid flows that are spent on the OECD Creditor Reporting System category of disaster prevention and preparedness (DPP). These are included instead in the environmental dimension.

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Chapter 9. What is the right financing for fragile contexts?

by

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This chapter looks at ways to improve both domestic and international development financing in fragile contexts. It discusses the importance of increasing the coherence and complementarity of all financial flows and making sure that each finance strategy is tailored to the unique requirements of each fragile context. The chapter goes on to discuss which financial tools are appropriate in different cases, the impact of sequencing and timing of different financial flows, and best practices to ensure these flows provide the right incentives for stability and sustained peace.

The aspirations of the Addis Ababa Action Agenda require an updated approach to bringing together financial flows from public and private sources – both domestic and international – that mixes and matches ODA (aid) flows with local tax and customs revenue, private investment, remittances, philanthropic spending, loans, and other types of financing. Nowhere is this more important than in fragile contexts with the greatest potential risks and the greatest potential returns (Poole, 2018[1]).

To achieve these aspirations, leave no one behind and scale-up financing resources for fragile contexts requires getting four things right:

- The right amount of financing
- The right financing tools
- Deploying finance over the right timeframe
- Ensuring that finance delivers the right incentives for stability.

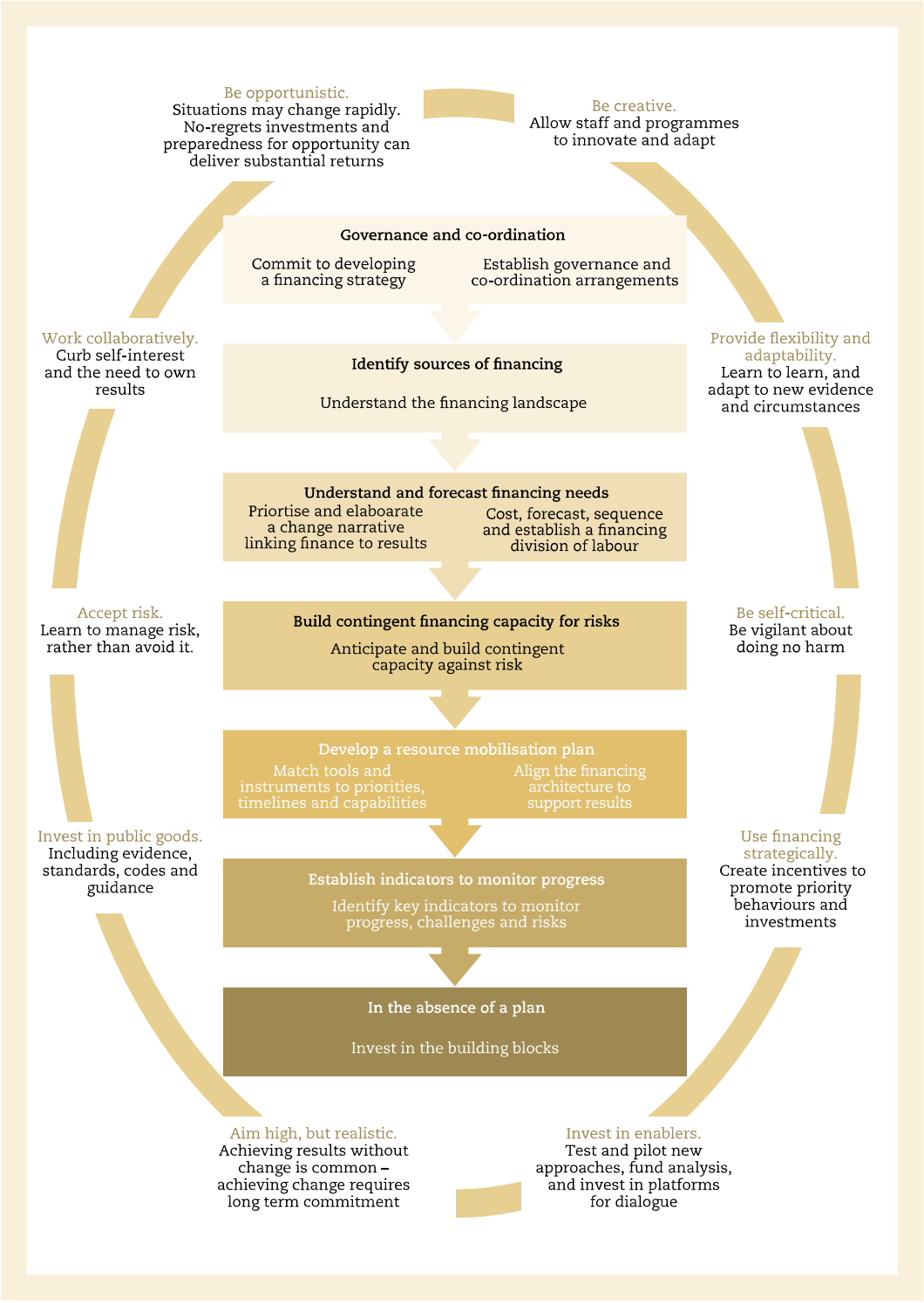
New approaches to financing for development bring in a more diverse cast of actors with different interests and experiences as well as new tools and ways of working. In addition, the challenges in fragile contexts vary significantly, as do the means at their disposal to attract and create development financing. As outlined in Trend Twelve (see Chapter 1), navigating systems with dual complexities – in this case, the complexities of both financing and fragility – will require an approach that is highly context-specific.

Indeed, there is neither a magic formula nor a one-size-fits-all solution for the right development financing in fragile contexts. Rather, financing strategies that are specifically tailored to each context are needed to get financing right in fragile situations. One tool that can help deliver these tailored strategies is the Financing for Stability Model of the International Network on Conflict and Fragility (INCAF) that is shown in Figure 9.1. This model helps development actors in different contexts build financing strategies that look beyond immediate financing gaps to the potential contributions of different financing actors and flows to stability, humanitarian, resilience and peacebuilding goals.

Such strategies provide the foundation for the right financing for fragile contexts. But formidable challenges remain to systematically delivering this financing. To overcome these will require increasing staffing capacity to help absorb additional funds and better programme in a landscape of increasingly diverse financial flows; enabling flexible, risk-tolerant financial tools; creating the right incentives for working collaboratively; and increasing financial literacy in the system (Poole, 2018[1]).

This chapter discusses additional challenges and successes related to ensuring the right financing for fragile situations.

Figure 9.1. Financing for Stability Model



Source: Adapted from (Poole and Scott, 2018[2]), "Financing for stability: Guidance for practitioners", http://dx.doi.org/10.1787/5f3c7f33-en.

9.1. The right amount of financing

9.1.1. Financing is highly context-specific

More financing does not automatically bring more peace. The 15 extremely fragile contexts in the OECD fragility framework, which are also the least peaceful contexts, already receive more official development assistance (ODA) than the other 43 fragile contexts put together: USD 31.1 billion compared to USD 27 billion in 2016.

Nor should it be assumed that fragile contexts with high levels of financial flows are getting the right amount of financing and that those with fewer financial resources are underfunded. While the international community uses financial appeals and programme budgets as proxies for need, in reality programming costs vary significantly across the different dimensions of fragility and from context to context. For example, and as highlighted in Chapter 5, programming to build social cohesion often will be significantly less expensive than large infrastructure projects to address economic fragility. ODA for Peacebuilding and Statebuilding Goal (PSG) 4 (economic foundations and livelihoods) exceeded ODA for PSGs 1, 2 and 3 (legitimate politics, security and justice) – at USD 16.3 billion versus USD 4.54 billion in 2016. But this does not necessarily mean that there is too much funding for economic issues or too little for politics, security and justice.

Likewise, insecure environments also drive up programme costs. The World Food Programme, for instance, estimates that it could reduce costs by nearly USD 1 billion each year if humanitarian access in such environments improved (WFP, 2017[3]). This serves to demonstrate further that the right amount of financing is highly context specific.

9.1.2. The right mix and match of different development financing flows will help to maximise their value in each fragile context

There are ways to get more value and impact from the various flows of finance in fragile contexts. Rather than focusing on increasing the amount of those flows, or by seeking to change how they are targeted, additional value can be created through synergies: through seeking to understand how the range of different flows are actually being used and also by helping the different flows – public, private, domestic and international – to become complementary and coherent. This will help reinforce the collective impact of all development financing flows on stability and resilience in individual fragile contexts.

Synergies also enable flows such as Islamic social finance, remittances, private flows, ODA and investments from non-traditional donors to become part of a coherent overall financing landscape in different contexts.

Islamic social finance, in particular, is increasingly cited as an important solution for fragility.[1] This takes a number of forms. The Islamic Development Bank is investing in a range of fragile contexts (IDB, 2017[4]). It also is a part of the Global Concessional Financing Facility,[2] which is supported by a number of international organisations and provides development support on concessional terms to middle-income countries affected by refugee crises. Another source of such financing is zakat, the mandatory Muslim practice of giving 2.5% of one's accumulated wealth for charitable purposes every year. Globally, zakat is estimated to amount to tens of billions of dollars annually, with between 23% and 57% of the total zakat used for humanitarian assistance (Stirk, 2015[5]). In Sudan, for instance, zakat is mandatory, regulated and used predominantly for social safety nets.[3]

Remittances represent another important flow whose impact can be maximised in the right mix, as discussed in Chapter 6. Fragile contexts received USD 111 billion in remittances

in 2016. These flows primarily supplement the incomes of poor households on a regular basis and in times of shock, with the effect of increasing aggregate demand and thus employment and livelihoods (Ratha et al., 2011, p. 60[6]). However, remittances can also lead to negative economic drivers, for instance when they are used for purchasing imported goods, as has been seen in Haiti (INCAF, forthcoming[7]).

Private financing must also play a part in better financing in fragile contexts. However, as noted in Chapter 6, fragile contexts are difficult environments in which to mobilise and attract external private financing. On a practical level, high levels of risk and volatility and a shortage of partners and viable investment projects act to limit investment opportunities (Leo, Ramachandran and Thuotte, 2012[8]). Infrastructure constraints, inefficient business regulation procedures and low levels of skilled domestic labour also make the cost of doing business relatively high, which is another constraint on private finance. Therefore, in fragile contexts, there is a strong argument for focusing development finance on broader and longer-term public investments and macroeconomic reforms; supporting the development of pipelines of investable projects; and strengthening the investment-enabling environment before attempting to crowd in private funds (Poole, 2018[1]).

All of the above types of financing flows form an integral part of the development landscape. It may be difficult to influence the size of these flows, how they are spent and where they have development impact. Nevertheless, it is essential to ensure coherence among the different flows as much as possible. In this way, their collective value for development outcomes in fragile contexts can be maximised.

9.1.3. Investments in security can also catalyse greater value from development flows

Improved security can also help increase financing flows by enabling and stimulating economic growth and livelihoods and by improving domestic resource (tax) mobilisation, as described in Chapter 7. The 2017 *Revenue Statistics in Africa* report, which compiles fiscal statistics in 16 African countries, finds that the average tax-to-GDP ratio in these countries was 19.1% in 2015, but was much lower in the fragile contexts in this group – for example, 10.8% in the Democratic Republic of the Congo (OECD/ATAF/AUC, 2017[9]).

Investments in reducing insecurity in fragile contexts can also lower costs in fragile contexts by reducing needs as well as the cost of implementing programmes.

Demonstrating the key role that investments in security play in promoting development and stability, and to help to ensure there is the right amount of financing for fragile contexts, a greater percentage of peacekeeping expenditure is now being counted as ODA. The co-efficient was increased to 15% from 7% as of 2016 data.[4]

9.1.4. Climate financing is hard to mobilise for fragile contexts

Climate financing should also contribute to the overall mix of flows to fragile contexts, and help to grow the amount of finance, as many fragile contexts are also exposed to climate risks. In 2016, the OECD fragility framework recognised the environmental dimension of fragility for the first time. This report finds that 51 of the 58 countries in the 2018 framework are severely or highly fragile on the environmental dimension. Yet climate financing is extremely difficult to obtain in fragile contexts, in part because these instruments require tangible results in short timeframes, which are difficult in a complicated environment.

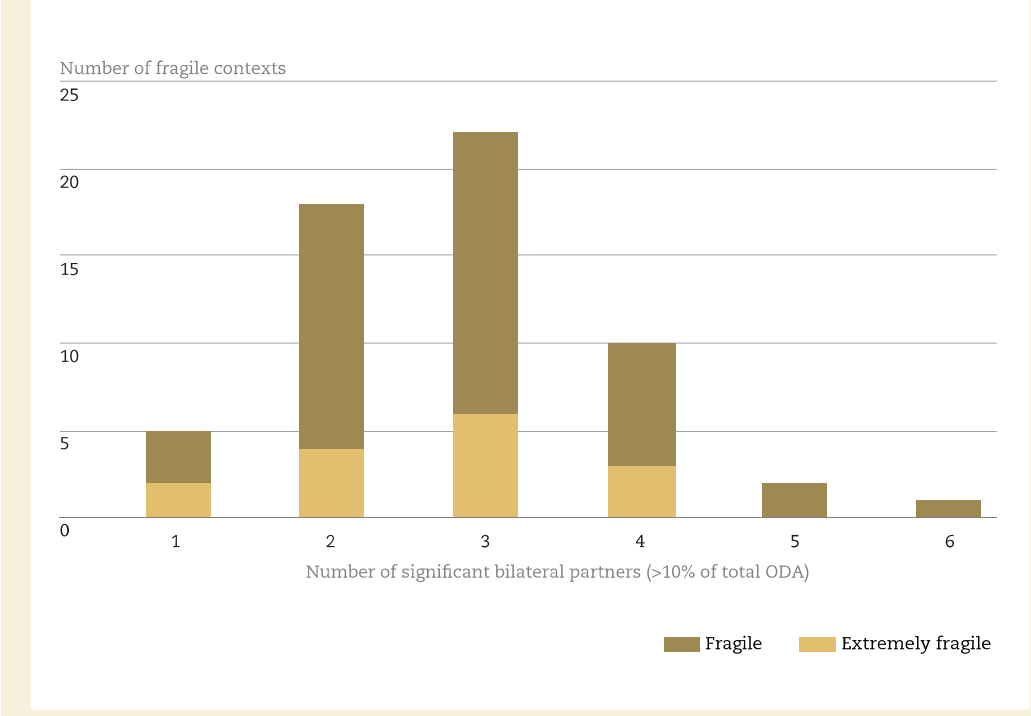
9.1.5. Fragile contexts attract many bilateral partners but few of them are significant

The right amount of financing also requires development partners to make significant and not just token investments. In addition, dependence on one or two main partners can leave fragile societies overly exposed to shifts in aid policy.

Bilateral donors have many different reasons and criteria for investing in fragile situations. The criteria are usually a mix of quantitative and qualitative measures based on needs, such as poverty measures and the presence of humanitarian crises; historical ties, commercial and geopolitical interests; and regional and global public goods that often including those related to migration and violent extremism.

As a result, fragile situations not only have a broad range but also a large number of bilateral donors – on average 23. At one end of the spectrum, Afghanistan, Egypt, Syria, and the West Bank and Gaza Strip each had 30 bilateral donors in 2016. At the other end, Equatorial Guinea and Solomon Islands each had 11 donors in 2016. These numbers do not tell the full story, however. Most fragile contexts actually have only two or three significant bilateral donors, that is, donors who represent over 10% of the total ODA disbursed in that context (Figure 9.2). This means that ODA spent in fragile contexts is often concentrated in the hands of a small number of donors, among them usually European Union institutions and the United States. It also means that the remainder of the ODA can be highly fragmented. Fragmentation makes donor co-ordination challenging, while over-reliance on two major donors leaves fragile situations excessively exposed to shifts in individual agency aid policy.

Figure 9.2. Donor concentration in fragile contexts, 2016



Source: (OECD, n.d.[10]), "Creditor Reporting System", *OECD International Development Statistics* (database), https://stats.oecd.org/Index.aspx?DataSetCode=CRS1; authors' calculations.

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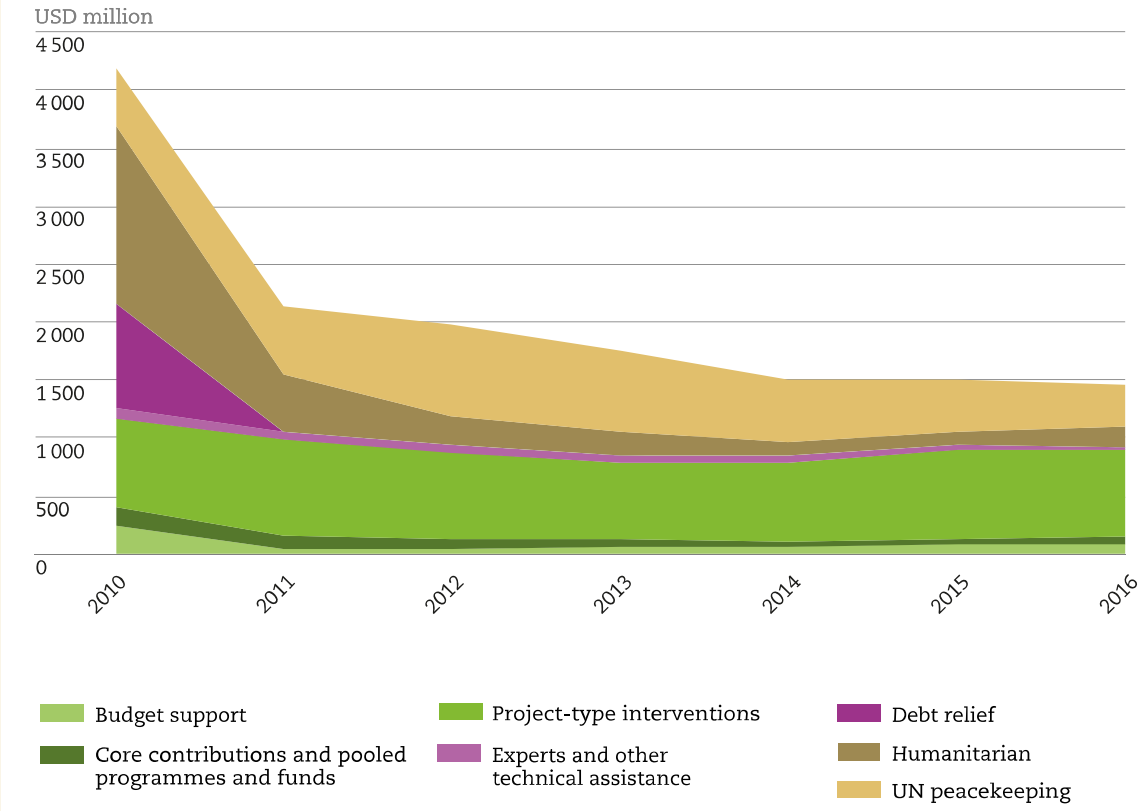
9.2. The right financial tools

9.2.1. Financial tools vary significantly from context to context and over time

A comparative analysis of different ODA tools and peacekeeping flows shows that the types of aid used can vary significantly over time and among different contexts. The reason for this variation often relates to the particular bilateral donors who are investing in a particular context and to the tools they have in their own toolboxes, rather than to proactive decisions about which financing tools are the most appropriate for each context.

Haiti, an extremely fragile context without active conflict, has seen significant shifts in the types of aid offered over the last seven years (Figure 9.3). ODA to Haiti spiked in 2010, when humanitarian aid poured into the country in response to the earthquake that devastated much of the country. By 2012, these humanitarian flows had tapered off almost completely. The volume of development investments also increased in 2010, remaining fairly constant out to 2016. However, rather than focusing on building capacity – which might be expected in a recovery situation without conflict – these flows remain largely project-type interventions. Technical assistance, which can be used to build capacity, has decreased over the post-earthquake period to USD 27.5 million in 2016 from USD 75.6 million in 2010. There will be another significant change in development finance flows when the peacekeeping mission (MINUJUSTH) transitions from a peacekeeping to development role.

Figure 9.3. Changes in types of aid: Haiti, 2010-16

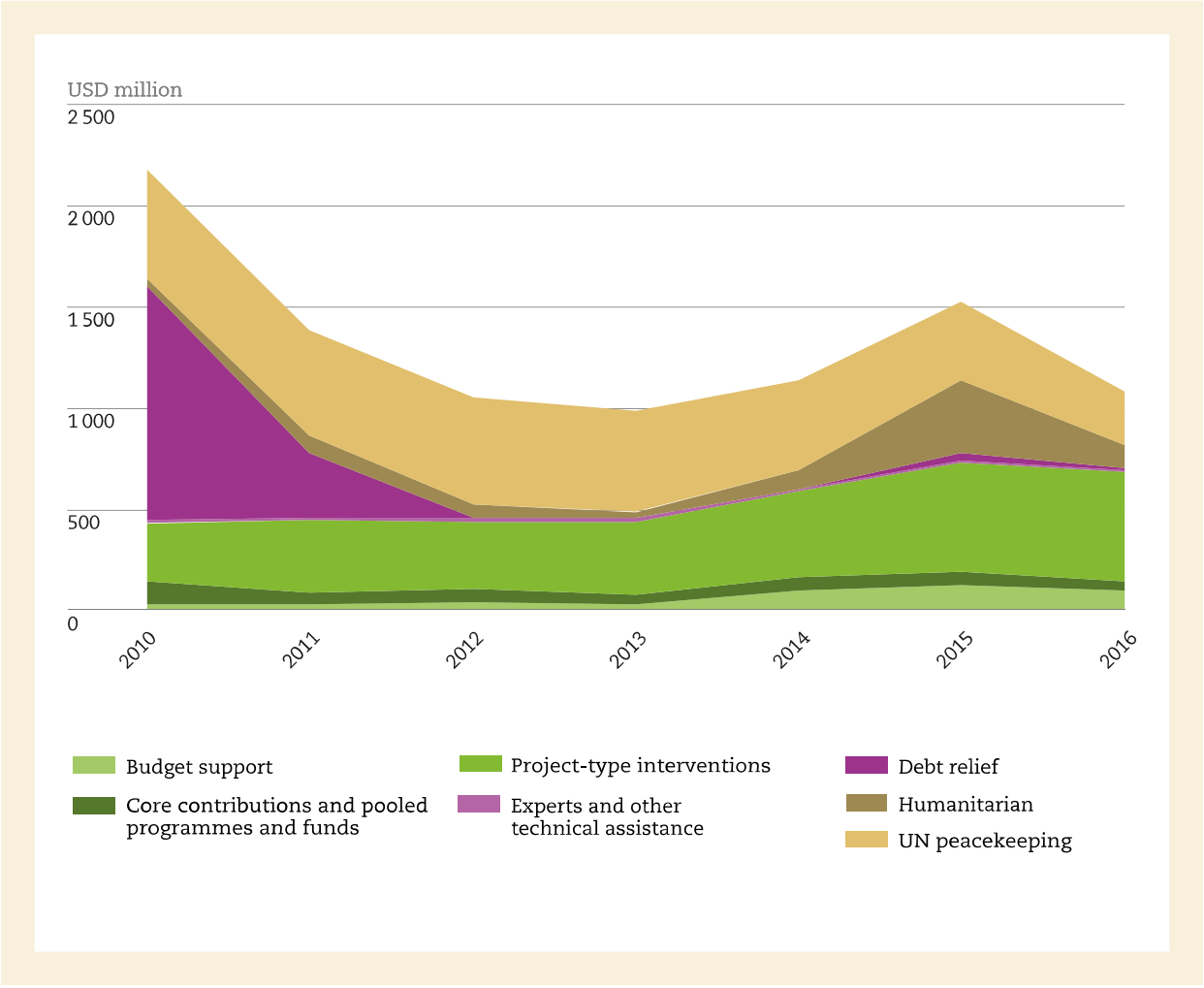


Note: 2016 constant prices.
Sources: (OECD, n.d.[10]), "Creditor Reporting System", *OECD International Development Statistics* (database), https://stats.oecd.org/Index.aspx?DataSetCode=CRS1; (UN, n.d.[11]), *Year in Review, 2006-2012*, https://shop.un.org/series/year-review-united-nations-peace-operations; (UN, n.d.[12]), *Peacekeeping Fact Sheet, 2013-2017*, https://peacekeeping.un.org/en/how-we-are-funded; author's calculations.

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Liberia, another post-crisis context, saw a significant spike in overall ODA in 2015 due to a massive influx in humanitarian assistance for the Ebola crisis (Figure 9.4). This was accompanied by an uptick in development assistance, largely in the form of project-type interventions that have grown by nearly 2 000%, to USD 545.6 million in 2016 from USD 28 million in 2007. It appears that in the Liberia context, as is the case in some other contexts, rapid growth in development programming is easier to accomplish through project-type interventions than by using other modalities.

Figure 9.4. Changes in types of aid: Liberia, 2010-16

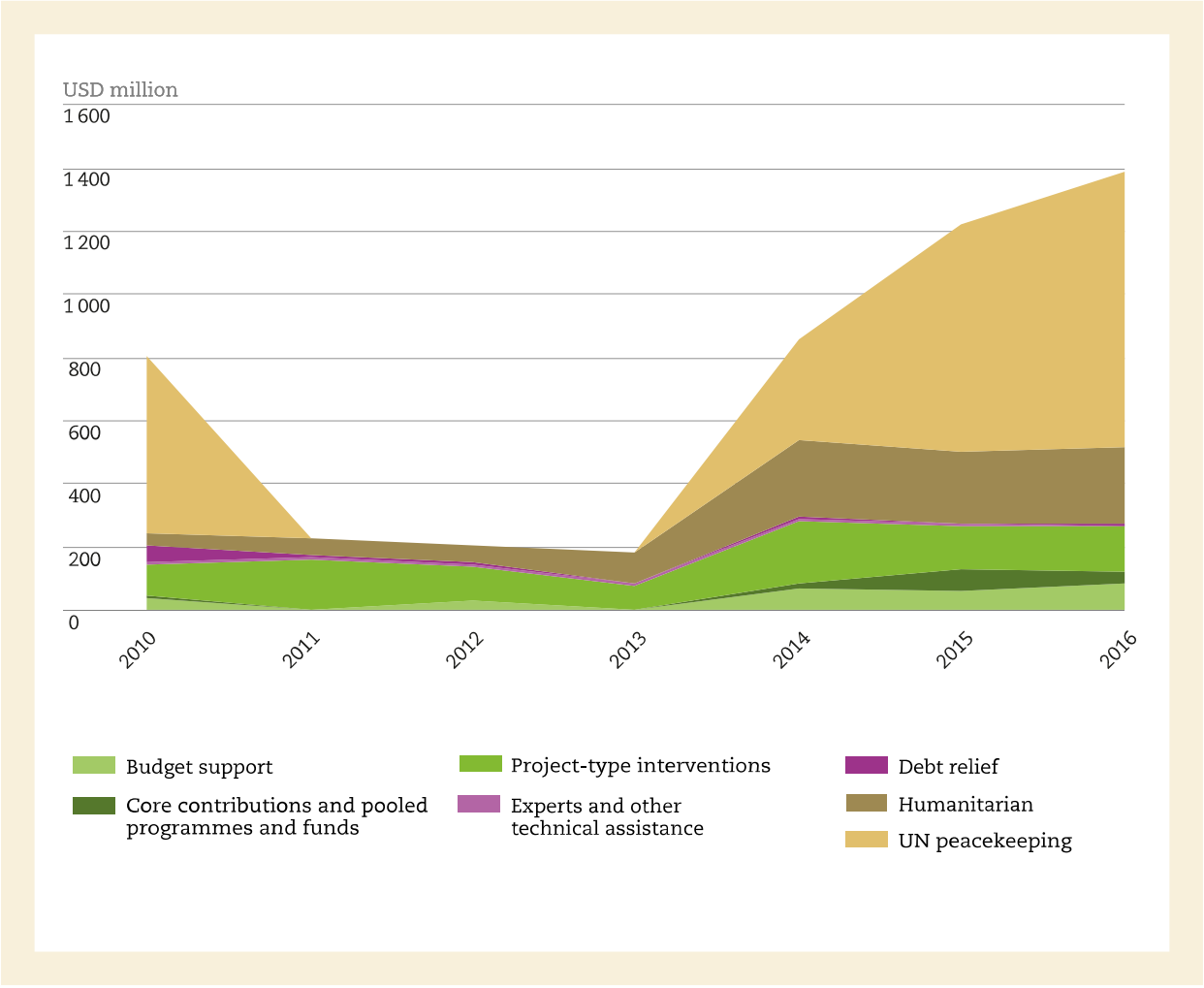


Note: 2016 constant prices.
Sources: (OECD, n.d.[10]), "Creditor Reporting System", *OECD International Development Statistics* (database), https://stats.oecd.org/Index.aspx?DataSetCode=CRS1 ; (UN, n.d.[11]), *Year in Review, 2006-2012*, https://shop.un.org/series/year-review-united-nations-peace-operations; (UN, n.d.[12]), *UN Peacekeeping Fact Sheets 2013-2017*, https://peacekeeping.un.org/en/how-we-are-funded; authors' calculations.

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The Central African Republic, an extremely fragile context with an active conflict situation, has seen humanitarian assistance dominate the ODA landscape since 2012 (Figure 9.5). In 2016, humanitarian assistance, at USD 246.9 million, was almost equal to ODA delivered using development assistance tools. While this may be appropriate for a context experiencing significant conflict, it is noteworthy that even in this very challenging environment, budget support – all from France – represented a significant part of the development support to Central African Republic, or 16.7% in 2016. This is in contrast to Haiti and Liberia, which potentially are more stable situations and where budget support was a very minor part of the development picture.

Figure 9.5. Changes in types of aid: Central African Republic, 2010-16



Note: 2016 constant prices.
Sources: (OECD, n.d.[10]), "Creditor Reporting System", *OECD International Development Statistics* (database), https://stats.oecd.org/Index.aspx?DataSetCode=CRS1; (UN, n.d.[11]), *Year in Review, 2006-2012*, https://peacekeeping.un.org/en/year-review; *UN Peacekeeping Fact Sheets 2013-2017*, https://peacekeeping.un.org/en/how-we-are-funded; authors' calculations.

StatLink http://dx.doi.org/10.1787/888933788111

9.2.2. Contingent financing is often an afterthought at best

Fragile situations can evolve rapidly, either because of ongoing shocks or due to new opportunities. Yet development planning and prioritisation processes rarely plan for and build in financing capacity against risk. Risk financing instruments have been successfully applied to fragile situations, notably the African Risk Capacity sovereign disaster risk financing pool,[5] which helps governments to make financial provision for disaster risks. However, neither national financial protection strategies nor contingent arrangements by development financers are systematic in fragile contexts.

In addition, readiness actions in anticipation of major new flows are also too rare. For example, sanctions on Sudan were lifted in 2017, so now would be the time for

development actors to build absorption capacity and draw up initial plans in preparation for potential new financing, whether in the form of new private inflows, an eventual scale up of multilateral bank investments or other flows. This could be done on a no-regrets basis, i.e. delivering useful development results even if the increase in development investments does not arrive in the short term (Poole and Scott, 2018[2]).

9.2.3. Pooled funds should complement and not substitute for other instruments

The popularity of pooling funds from multiple donors into a single instrument, a multi-partner trust or pooled fund has peaked and ebbed over the last decade, including in fragile contexts. As of April 2018, there were 66 pooled funds operating in 37 fragile contexts, with total approved budgets of USD 247.7 million, representing 71.6% of the total approved budgets for all United Nations (UN) pooled funds (UN Development Group, 2018[13]). As noted in a recent discussion paper (UN Development Group, 2016[14]), pooled funds can help improve risk management for individual development partners, particularly in fragile and conflict-affected contexts. However, they should complement rather than substitute for agency-specific instruments and more thought needs to be given to maximising their comparative advantage. Therefore, a review of the individual pooled mechanisms in fragile contexts would be useful to ensure they are playing a catalytic and coherent role and are operating to maximum efficiency. In Sudan, for example, there is significant potential to harmonise and align the work of the four pooled instruments, with many benefits in terms of information sharing on partner performance and results, aligning goals, and clarifying division of labour (INCAF, 2017[15]).

9.2.4. The missing middle is hampering investment in public goods

The quest for value for money and reduced administrative burden has led to what has come to be widely called a "missing middle" where middle-sized projects can no longer attract financing. Preliminary research conducted by the OECD found that a large grouping of projects range in size from around USD 1 000 to USD 30 000. These tend to be small-scale projects with limited scope for broader impact and with high administrative burdens relative to the amount of funding received. The next grouping of projects starts at USD 2 million for bilateral donors and at USD 10 million for multilateral donors.

Programmes with budgets in the missing middle, between these groupings, face more complicated funding challenges. These can include projects of non-governmental organisations (NGOs) that are targeted at soft areas such as social cohesion, for instance. To deal with these challenges, some UN agencies report that they bundle projects to make sure that they are sufficiently substantial to interest a donor. But only development actors with sizeable absorption capacity are able to use this tactic. Given the importance of the softer social and political dimensions of fragility, it will be important to overcome the missing middle challenge.

The push to deliver results in country also has led to a shift of the budget envelopes of OECD members towards country programmes, with only minor funding left over for policy areas and global public goods. As a result, a number of global inter-agency initiatives have been left in financial difficulty. This has been the case particularly in the risk management community, with global partnerships such as the Capacity for Disaster Reduction Initiative (CADRI), the INFORM Index for Risk Management and the Global Preparedness Partnership all experiencing difficulties in raising predictable financing.

9.2.5. Technical assistance is inadequate

It is widely recognised that fragile situations are characterised by weak capacity to deliver basic services and weak capacity to carry out basic governance functions. However, investment in building capacity is very low and technical assistance has consistently made up only between 1% and 2% of ODA to fragile contexts since 2010 (OECD, n.d.[10]). In Haiti, for example, only USD 65.6 million was invested in technical assistance in 2016, despite the clear need for improved capacity in the technical ministries (INCAF, forthcoming[7]). If the international community is to make good on its New Deal promise to use and strengthen country systems, there will need to be greater investment in technical assistance.

9.2.6. Mobilising financing for decentralisation is also complicated

Mobilising financing for sub-national institutions and domestic resource mobilisation at the sub-national level in fragile contexts also can be complicated, leaving such institutions often chronically underfunded despite recognition that pockets of fragility often exist at the sub-national level. This situation is further complicated by what are often low levels of absorption capacity at the sub-national level. For example, in Madagascar, the Local Development Fund, a donor-supported initiative housed in the Ministry of Interior, provides funds to local authorities based on objective criteria. But in practice, and mostly due to lack of absorption capacity at local level, the sums transferred are very small, often in the range of USD 500 to USD 5 000.

9.2.7. Care is required before making new loans to fragile contexts

Many fragile contexts have issues with debt sustainability. This means that their borrowing strategies and international community lending strategies need to take care to limit the associated risk of debt distress. Levels of indebtedness in most fragile contexts are increasing; their average debt-to-GDP ratio has risen steadily to a projected 50.5% in 2017, up from 37.5% in 2012.[6] Higher levels of indebtedness intensify the borrowers' exposure to market risks and create challenges for debt resolution, especially when debt is secured on commercial terms from non-commercial sources (IMF, 2018[16]).

Five fragile contexts – Chad, Gambia, South Sudan, Sudan and Zimbabwe – are already in debt distress, meaning they are already having difficulties in servicing their external debt.[7] To counter the risk of debt distress, factors such as the likelihood of conflict and other shocks and the existing debt burden should be factored into lending and borrowing decisions in fragile contexts, as such factors will create economic disruptions and a loss in resilience that can hamper long-term growth prospects and affect debt sustainability.

9.2.8. Development financing wherever possible and humanitarian financing only when necessary

Humanitarian financing makes up a major proportion of total ODA in fragile contexts and so must be actively factored into development financing strategies. In 2016, humanitarian financing constituted 25% of ODA to fragile contexts, or USD 18.3 billion (Chapter 4). In the run-up to the 2015 World Humanitarian Summit, policy makers focused on improving the quality and efficient use of humanitarian financing, resulting in agreements such as the Grand Bargain.[8] However, there is broad agreement that the humanitarian system, which experienced a shortfall in funding of an estimated 40% in 2016, is badly overstretched (Development Initiatives, 2017[17]).

A major policy push is under way for greater coherence among development, humanitarian and peace actors. It is driven by recognition that longer-term development approaches addressing underlying vulnerability, in combination with necessary life-saving humanitarian interventions, help to build resilience to future shocks and to minimise the impact of current crises. In consequence, they are more impactful than emergency relief alone. In fragile contexts especially, the international community should thus adopt the overarching principle of development programming and financing wherever possible and humanitarian assistance only when necessary.

9.3. Financing at the right time

9.3.1. Programming should be phased and sequenced to match the timing of financial flows

Different types of financial flows are transferred, realised or disbursed over different periods of time, whether they are public, private, domestic or international. ODA is disbursed in accordance with an individual donor's financial year or conditions attached to particular grants. Domestic budget allocations are made in line with the budgetary cycle. Remittances may peak at certain times of the year, and people's livelihoods – especially of those who make up the informal economy – will vary across the year, dependent on factors like agricultural cycles. Programme planning should take into account the timing of these different flows and attempt to match expenditure and investments as closely as possible to the different inflows of financing over the year.

Another key factor in getting the timing right is forecasting the intended contribution and trajectory of domestic and international public and private financing sources, noting that the predictability of forward estimates can vary enormously (Poole and Scott, 2018[2]). This type of forecasting allows programming to be matched to changes in the financing landscape. For example, Haiti has ambitions to become an emerging economy by 2030. To realise this ambition, Haiti will need to reduce its reliance on external financial flows such as ODA and instead step up domestic resource mobilisation, customs duty collection and other revenue-generating activities. Programming could thus be tailored to ensure that, in the short term, ODA flows build resilience to disasters, catalyse growth, increase capacity for tax collection and strengthen public financial management; in the longer term, Haiti's development will be driven from tax revenues and ODA may play only a niche role (INCAF, forthcoming[7]).

9.4. Financing that creates the right incentives for stability

9.4.1. Financing that promotes peace and does no harm

Financing should be designed to help provide the right incentives for sustained peace. As Jenks and Topping (2017[18]) note, there are a number of ways that this can happen:

- Strategies that include a financing strategy can help overcome or reduce competition for resources from the initial planning stages.
- The way financing is structured and targeted can help to ensure that a response moves beyond care and maintenance efforts to also deliver sustainable peace outcomes.

- Financial flows can help to bring sensitive topics to the table and create pressure for their resolution, for example by making future funds flows contingent on ensuring refugee rights or free and fair elections.
- Greater financing for local actors can change the way that societies are involved in their own future, while greater transparency in financing can help create local demand for better outcomes.
- Facilitating the collection of domestic tax revenue and its investment in basic services and good governance can help support the state-society contract.
- Financial flows direct to municipalities can help ensure that sustainable peace is also an objective in fast-growing, fragile cities.
- Financing should be designed to guard against disincentives, which means continuing to finance places that are showing a good track record towards peace.

9.4.2. Mutual accountability frameworks

Ensuring that financing is right, and that the right incentives are in place, does not stop at the planning process. It must continue through the life of the programme cycle and be based on a mutually agreed set of strategic indicators that are monitored both through peer pressure and domestic accountability.

Mutual accountability frameworks can be powerful tools. They can ensure that all aspects of development financing are working towards coherent results and provide a useful set of incentives to ensure that all actors are living up to their commitments – financial and otherwise – to improve stability (Box 9.1).

Box 9.1. Successful mutual accountability frameworks

Successful mutual accountability frameworks include the following features:

1. Partner government leadership
2. Efforts to strengthen national capacity for ownership and leadership
3. Strong domestic accountability by including domestic stakeholders
4. Donor "peer pressure" aspects
5. Built on existing mechanisms where possible, such as existing co-ordination structures
6. Can be sector-based or at sub-national level, not just at national level
7. Use independent monitoring and evidence where possible
8. Start small and grow over time
9. Transparent
10. As practical and simple as possible to make it more inclusive and workable

Source: (OECD DAC Task Team on Mutual Accountability, n.d.[19]), "10 tips on mutual accountability", www.oecd.org/dac/effectiveness/49656297.pdf.

9.4.3. Financing tools and practices can help to incentivise inclusive growth

How financing is used to catalyse and underwrite economic growth in a fragile context is critical to ensuring that growth is inclusive and therefore contributes to promoting sustainable peace. Inclusive growth is economic growth that creates opportunity for all segments of the population and distributes the dividends of increased prosperity fairly across society, both in monetary and non-monetary terms.

Addressing structural disincentives to doing business can be a good way for ODA to catalyse private sector growth. This is equally true for structural disincentives to attracting foreign investment and growing the domestic private sector. Fragile economies made up 79% of the bottom quarter of the World Bank's Ease of Doing Business index in 2017 (World Bank, 2017[20]). Each context may feature distinct opportunities for promoting inclusive economic growth, as can be seen in the discussion of opportunities in Central African Republic in Box 9.2.

Box 9.2. Opportunities to support inclusive growth in Central African Republic

Changes in the way ODA operates could help to support inclusive growth in Central African Republic. Changes can include:

- Ensuring that ODA projects subcontract to local enterprises and focus on building the governance and technical capacities of those enterprises
- Rewriting licence agreements with major banking and telecommunications operators so that they extend operations outside of Bangui, the capital, and thus act as a catalyst for development elsewhere in the country
- Providing financing for stimulating growth in the informal sector
- Promoting the return of displaced people to stimulate the agricultural sector
- Investing in energy production, infrastructure and education, as deficits in these areas significantly constrain economic growth
- Increasing investor confidence by investing in security and improving the ease of doing business

Source: (INCAF, 2017[21]), "Central African Republic: Accelerated Recovery Framework – Towards a financing strategy", www.oecd.org/dac/conflict-fragility-resilience/docs/Financing_for_Stability_CAR_en.pdf.

Getting the financing right in a fragile context is a complex task. It requires a financing strategy that mixes and matches a range of public, private, domestic and international flows to promote peace. Development financing should be used wherever and whenever possible and humanitarian financing only when necessary. People with the right skills are needed to help develop effective financial portfolios and manage the myriad of financial instruments and flows that are required to deliver the right financial solution for each fragile situation. Investment in building financial skills capacity and in providing expert technical support will thus be critical for success. It is also important to invest in demonstrating the added value of better financing so that good practices are shared and that new and innovative models of financing are scaled up and transferred to other contexts. Success breeds success.

Only then will peace be financed the right way, with the right amount of financing, using the right financial tools, for the right length of time and in a way that delivers the right incentives for peace and, by extension, for sustainable development in the world's most complex and difficult operating environments.

Notes

[1] See, for example, comments by global experts cited by the Islamic Development Bank in March 2016, at www.isdb-pilot.org/wp-content/uploads/2016/03/En.PAP-Press-12.03.2016-V2.pdf.

[2] Further information on the Global Concessional Financing Facility is at https://globalcff.org/about-us/.

[3] Sudan's laws make zakat mandatory. The government-run Zakat Chamber, established in 1990 and operating under the auspices of the Ministry of Social Welfare, is responsible for its distribution. A 2% zakat tax is automatically deducted from the salaries of people who earn more than USD 1 500 per month and the Sudanese government also makes significant contributions to the Zakat Fund. In 2011-12, a total of 700 million Sudanese pounds (about USD 105 million) was collected. Beneficiaries include disabled people, refugees, poor students, the homeless, orphans, mentally ill people, people with health problems, and those deemed the poorest of the poor. Sudan's government also provides these groups with free health insurance.

[4] For more information, see https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/ODA-Coefficient-for-UN-Peacekeeping-Operations.pdf.

[5] See www.africanriskcapacity.org for more information on African Risk Capacity.

[6] The IMF directly supplied data on indebtedness, which were then analysed using the OECD fragility framework results. Indebtedness data for 2017 are projected. No data are available for the Democratic People's Republic of Korea, Libya, Somalia, Swaziland, Syria, Timor-Leste, and West Bank and Gaza Strip.

[7] The International Monetary Fund provided these data to the authors.

[8] For more details on the Grand Bargain, see https://interagencystandingcommittee.org/grand-bargain-hosted-iasc.

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Chapter 10. How can the international community better address fragility today?

by

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States of Fragility 2018 *concludes by reaffirming the urgent need to more vigorously address fragility now. This final chapter warns that fragility stands in the way of the world reaching the critical goals set out in the 2030 Agenda for Sustainable Development and the sustaining peace agenda. The chapter builds on the report's main findings about the state of fragility today to set out ways for the development community to more effectively and proactively analyse, programme for, finance and deliver sustainable results that address fragility and build resilience.*

Alarms are being sounded about the current state of fragility, conflict and violence and their dire implications for humankind. In his 2018 New Year's Day message, United Nations (UN) Secretary-General António Guterres did not stick to an appeal for peace, instead issuing a "red alert for our world" and warning of many of the same issues discussed in this report (UN Secretary-General, 2017[1]). Discussion of the future of global development in many international fora now focuses on the corrosive impact of fragility on efforts to achieve sustainable development and sustainable peace for all the world's people. Indeed, as some experts are warning, fragility is the new development frontier and this should be considered an "alarm call" because "history will judge today's development community by how effectively it deals with fragility" (Kharas and Rogerson, 2 October 2017[2]).

Against the backdrop of this growing sense of urgency, *States of Fragility 2018* offers a fine-grained snapshot of fragility and development financing today. This stocktaking can make an important contribution as the development community considers its evolving role in tackling fragility more effectively across different settings. The report also aims to put forward salient ideas for discussion within broader debates around the agendas of sustainable development, sustaining peace (UN Security Council, 2016[3]) and "beyond aid" (OECD, 2017[4]). With these objectives in mind, this concluding chapter presents key ideas that can inform better and more strategic approaches, all the while taking account of the current financing landscape, and it offers suggestions for how more demonstrable results can be achieved for people living in fragile contexts.

10.1. Fragility matters to sustainable development and sustaining peace

If no action is taken, more than 80% of the world's poor could be living in fragile contexts by 2030. In 2017, 11.8 million people worldwide were internally displaced due to violence and conflict and an additional 18.8 million were displaced because of disasters (Internal Displacement Monitoring Centre, 2018[5]). That is the equivalent of an average of 80 000 people each day being forced to flee their homes. This reality stands as a stark challenge to the commitment laid out in the 2030 Agenda for Sustainable Development "to build a better future for all people, including the millions who have been denied the chance to lead decent, dignified and rewarding lives and to achieve their full human potential" (UN General Assembly, 2015[6]).

Fragility impedes development and human potential, making it possibly the single biggest spoiler to achievement of the Sustainable Development Goals (SDGs) and the sustaining peace agenda. The success of both of these international agendas thus hinges on whether fragility's multiple drivers and manifestations can be addressed more proactively and support provided for more robust societies. Ideally, this will result in building resilience – not only to prevent violent conflict, which is one of many types of fragility, but also to mitigate the effects of other political, economic and environmental crises. Success in these areas also means laying foundations for better take-up of the SDGs by fragile contexts and helping those contexts that are chronically fragile to establish more consistent progress.

The world today is interlinked as never before. This presents challenges as well as opportunities. A drive for more inclusive societies is underway while the international order is in flux. Economic structures are changing while a revolution is taking place in information and communications technologies. At the same time, the world is experiencing dramatic demographic change, large-scale movements of people, climate change, transnational organised crime and the spread of harmful ideologies (UN/World Bank, 2018, pp. 49-71[7]). All of these are issues that know no borders. Therefore, all layers of the global system – local, national, regional and international – have a role to play in tackling fragility,

and all have the responsibility to prevent fragility from spoiling the universal promises made in the 2030 Agenda. The SDGs provide a useful framework for collective action because they "recognize the deep complexity and interconnectedness on the path to peace and progress" (UN/World Bank, 2018, p. 71[7]). Fragility does not only matter for people living in fragile contexts or for those who have been left behind. It is time to recognise that fragility matters for everyone.

10.2. Fragility requires balancing complexity with simplicity

The analytical work and ability to more accurately frame fragility have evolved impressively in recent years. However, they have reaffirmed the inherent complexity of fragility, meaning that there is no straightforward way to describe the state of fragility in 2018. The sheer breadth of fragility trends discussed in Chapter 1 illustrates the many facets and causal chains of fragility. As the fragility framework in Chapter 2 shows, both the drivers and the consequences of fragility are multidimensional and not easily disaggregated.

The poverty data and worrying lack of progress on the SDGs discussed in Chapter 3 demonstrate why fragility has increasingly been folded into the mainstream development discourse, especially in the context of the commitment to leave no one behind. This suggests that development actors across sectors will have to become fragility specialists to some extent in the SDG era. Therefore, people who work in and study fragile contexts should continue to improve and clarify their communication of what fragility means for specific contexts and specific sectors, so that the term retains genuine meaning and utility for practitioners.

While fragility is complex, not all aspects of delivering programmes to address fragility need to be complicated, provided fragility is well understood at country level. A wider group of actors – donor and partner government officials, civil society and the private sector, to name a few – need to be able to understand and articulate the risks that are faced in a given context and the ways that these interact with coping capacities and sources of resilience. Fragility specialists can help facilitate these efforts by introducing more creative forms of scenario planning, for instance. These can help a range of actors understand the causality, multidimensionality and impacts of fragility. Most importantly, the implications of leaving certain risks unaddressed must be highlighted.

Going forward, the OECD will continue to contribute to the development community's ability to translate the complex concept of fragility into practical information. It aims to do so by improving the fragility framework and further exploring fragility's multidimensional aspects, particularly the interplay of risks and coping capacities and how the dimensions themselves interrelate. Additionally, the OECD will examine what the analysis of clusters reveals about possible new typologies of fragility, and it will begin work on trajectories of fragility to better understand fragility's behaviour over time and how to be more anticipatory. The quest to generate deeper, more accurate and proactive information about fragility will increasingly confront the data limitations raised in Chapters 1 and 3. To overcome these limitations, collective action will be needed to push for the development of new public data sources.

10.3. Systems-based thinking and approaches can help deliver better results

The multidimensional fragility framework introduces a more systems-based approach to fragility. It acknowledges that there are manifold dynamics in fragile contexts which result in fragility manifesting in different ways. *States of Fragility 2016* and many of the fragility trends (Chapter 1) also point to the ways in which issues such as violence, climate change, urban fragility and illicit economies are networked and interlinked. Moreover, fragile societies include multiple societal layers beyond national governments and down to the community, household and individual levels. Fragility dynamics both affect and are affected by these different layers of a society, which at the same time are interacting and affecting one another. As discussed in Trend Twelve, international development is yet another system that has impacts on the already complex ecosystems of fragile contexts. These dynamic, mutually impactful interactions between systems help to explain why achieving results in fragile contexts can be so challenging.

Indeed, it is impossible to ignore the impact of systemic issues on the relative success or failure of international engagements. Their interconnectedness also shows the importance of thinking more holistically about the systems in which development and peace are being encouraged. Further, and as Trend Six notes, societies in fragile contexts are fractured into different identity groups and so should not be treated as cohesive entities. Trend Three shows that fragile cities are not only systems themselves but also affect the overall health of countries and economies. As Trend Nine, on violence, argues, systemic change is unlikely if approaches to fragile contexts attempt to isolate and target only specific drivers or dynamics or if interventions are narrowly projectised. Interventions have their own ripple effects so development actors must know these and take them into consideration, just as a business must be aware of the full extent of its value chains.

As illustrated in Chapter 9, systems are useful not only for thinking about fragile contexts and the political economy of development assistance. Systems also should be considered in analysis of the various financial flows to a given fragile context. Equal consideration should be given to the way different policies, such as development policies and trade policies, interact. Development actors, however, still primarily think about aid, just as private sector actors primarily think about foreign direct investment (FDI). Yet each flow has its own comparative advantage. Opportunities exist for synergies across flows and, as highlighted in Chapter 6, for some flows to catalyse others.

While linear thinking is the default tendency, a greater focus on systems thinking and systems analysis is especially relevant for the complexity of fragile contexts. To that end, the international community increasingly is discussing how to work across siloes, for instance across the humanitarian-development-peace nexus. Through the International Network on Conflict and Fragility (INCAF), further work also will be done to understand this nexus and its implications for more effective responses. The OECD will continue to explore how systems thinking can help to support better practice at country level. Ultimately, the success of these important new, comprehensive approaches will rest on their ability to understand the systems they are engaging with as well as their own systems and, critically, how these affect one another.

10.4. Aid must be more ambitious

As outlined in Chapter 4, fragile contexts receive more external finance flows than any other grouping of countries. In 2016, USD 68.2 billion went to these places. However, growth in total ODA to fragile contexts is mainly due to the increase in humanitarian

assistance, which rose by 38% from 2015 to 2016. Humanitarian aid represents about one-fourth of total ODA to all fragile contexts but half of all ODA in extremely fragile contexts. The humanitarian needs in extremely fragile contexts are undeniable. Nonetheless, the trend of aid increasingly being used for stopgap "firefighting" (OECD, 2016, p. 26[8]) but ultimately prolonged humanitarian purposes, rather than for longer-term development, is worryingly inconsistent with visions for sustaining peace and sustainable development.

With humanitarian assistance, donors are responding to needs that last far longer than the typical 12- to 18-month funding cycles. Instead of strategic programming aimed at achieving more ambitious and long-lasting progress, the use of development aid for humanitarian emergencies can actually increase costs and decrease efficiency (Fabre, Cyprien, 2017[9]). As discussed in Chapter 9, an alternative that is gaining traction is the idea of "development wherever possible, humanitarian only when necessary" – a principle that is meant to encourage a reversal of the trend that has seen development stopping during crises even though crises are becoming increasingly protracted and so require development engagement throughout.

This changing use of aid is related to the larger question of the ambition for aid in the 21st century. No one would disagree that aid is for saving lives. But aid should also have a broader purpose. Much attention is now focused on moving beyond aid. The prospect offers exciting potential for developing countries everywhere. However, as this report illustrates, fragile contexts have unique challenges. For instance, two especially positive trends in the developing world – the reduction of extreme poverty and better access to diverse forms of development finance – unfortunately have not yet become trends in fragile contexts (Chandy, Seidel and Zhang, 2016[10]). As highlighted in Chapter 6, remittances and FDI benefit relatively few fragile contexts; 70% of remittances go to just five contexts; and less than 10% of FDI going to ODA-eligible countries reaches fragile contexts. Further, as described in Chapter 7, fragile contexts still struggle with generating enough, and the right mixture of, domestic resources.

Therefore, for the foreseeable future, ODA will continue to be critical to filling the financing gap and it must do so. While aid spending should take account of the five dimensions of fragility (Chapter 8), support to fragile contexts must also be more ambitious and targeted so that aid serves as a more profound lever of change. Different approaches will be appropriate in different contexts. But for all fragile contexts, aid is the only flow that can catalyse reform and support resilient foundations that other flows can then reinforce and help build upon. To this end, the OECD will continue to prioritise work on better development financing solutions for fragile contexts including how to make both development and humanitarian aid most effective.

10.5. Peace cannot be bought, but prevention is cost-effective

While aid is critical and often irreplaceable for fragile environments and societies, it cannot cure all their ills. More financial resources, for example, do not automatically bring or sustain peace. Nor is peace a direct by-product of development. Indeed, ODA to the 15 extremely fragile contexts in the fragility framework already far exceeds ODA to the other 43 fragile contexts. The so-called aid darlings, notably Afghanistan and Iraq, have not shown dramatic progress on either score despite being two of the top recipients of ODA for many years.

It matters what this money supports. The analysis put forward in Chapter 5 shows there is not nearly enough direct support for peace. In 2016, just 2% of total gross ODA going to

fragile contexts was directed towards conflict, peace and security activities, despite the well-recognised crises around the world. Only 10% of total gross ODA was spent in 2016 on the broader category of activities considered to be peacebuilding. Analysis of ODA through multiple perspectives also finds ODA-eligible security activities are consistently underfunded. As shown in Chapter 8, only 2% of all ODA to the 15 extremely fragile contexts is allocated to security, although 9 of these places are experiencing active conflict. The money that is being spent on security, and it is substantial, is taking place outside of ODA, which means there are no safeguards to ensure the funds have a clear developmental benefit for the partner country or that they do no harm.

The 2016 *States of Fragility* report urged investment in prevention. The recent UN-World Bank study on preventing violent conflict makes an even more explicit case for the need to invest more in prevention (UN/World Bank, 2018[7]). Indeed, the recommendation is repeated far and wide these days, demonstrating its importance as well as the dearth of action around it. This can be seen in the issue of financing for prevention. The cost-benefit analysis at the heart of the UN-World Bank study finds that more effective preventive activities potentially can save as much as USD 70 billion per year (UN/World Bank, 2018, p. 3[7]). The analysis conducted for this report, however, shows that financing has yet to catch up to this logical imperative. One reason is that the prevention conversation remains at the policy level and has yet to be translated into reality for national governments and the practitioners who are tasked with implementation.

To further put these costs in perspective, the approximate average budget for a project through the UN Peacebuilding Fund is USD 1.6 million.[1] One Tomahawk Land Attack Missile, according to a recent estimate, costs USD 1.4 million (Macias, 2018[11]). Another way to look at this is to compare total world military expenditure to ODA in 2017. Military spending was USD 1.739 trillion, almost 12 times the total ODA from OECD Development Assistance Committee (DAC) donors of USD 146.6 billion (SIPRI, 2018[12]; Gurría, 2018[13]). Development, it is clear, is much less expensive than military expenditures and prevention is even cheaper than development. However, more financing for prevention will have only limited impact if it is not accompanied by strong, collective political conviction and voice. Governments must powerfully communicate the message that the 21st century has already seen too much conflict and violence. It is therefore hoped that this same recommendation will not need to feature again in the next States of Fragility report.

10.6. Focus on fragility for more effective and differentiated programming

While financing for prevention has yet to meet recommendations, the sustaining peace and prevention agendas have been difficult to translate into action because there is a lack of clarity around what this means for programming. As this report notes, fragility suffers from much the same disconnect, in that it is a concept that makes sense on paper but becomes more nebulous at the point of operationalisation. These issues will remain conceptual until they are made easy as well as convincing to all elements across donor and partner governments, beyond just the current allies. The onus is now on the still relatively small community of practice to push out these ideas so that they are accessible and actionable for a wider audience and to pitch the importance of focusing on fragility.

The analysis in Chapters 5 and 8 shows there is surprisingly little variation in the spread of allocations between fragile and non-fragile contexts. This raises the question of how donors are differentiating their approaches to the unique needs of each fragile context, if they are not doing so through allocations. At the same time, as with the message about more finance not equalling more peace, it is important to emphasise that just because allocations are well

balanced across the five dimensions, fragility is not automatically being addressed. To more effectively and systematically focus on fragility requires common analysis or understanding of the structural vulnerabilities or risks, in addition to the coping capacities and sources of resilience. The OECD Resilience Systems Analysis is one of the tools that can assist with this process (OECD, 2014[14]). Strategies to address fragility can then be formulated appropriately and, in the vast majority of contexts, will be complementary to and accelerators of national development plans.

In addition to direct peacebuilding or reconciliation programmes, a number of standard development projects and programmes already operating in fragile contexts, with adjustment, can have a preventive effect and address drivers of fragility. For instance, the French development agency (AFD) designs what it calls "double dividend" operations that finance development goods (social services, public infrastructure, economic productivity, etc.) but at the same time reduce fragility and reinforce the capacity of states and societies to address crises (AFD, 2016[15]).

To make such adjustments for prevention in development projects and programmes, donors need to ask deeper questions about their portfolios in fragile contexts and reflect on issues such as geographic focus, thematic focus, beneficiary focus and support to local capacity building. Additionally, it means considering the scale of engagement; what other development actors are undertaking simultaneously; where inequalities exist and why; and local perceptions of the delivery of development dividends. Importantly, as noted in the discussion of systems thinking, this re-focus also requires donors to understand the impact that the various systems have on one another. And it is necessary to have a longer time horizon and a vision, rather than a precise path, guiding the journey throughout. For instance, the German government's "transitional development assistance" designs programmes that are explicitly intended from the outset to be cross-sectoral, to strengthen resilience of individuals and institutions, to remain suitably flexible and to lay the foundation for more long-term programming.

As noted in Chapter 9, these understandings should be accompanied by a sound financing strategy, one that enables and incentivises the pursuit of a vision for sustainable development and addresses core aspects of fragility. Without this critical part of the puzzle, good ideas will be infinitely more challenging to move from paper to practice. Development itself needs to become more investable (OECD, 2017[16]). The business case for prevention has been built. Now actors in fragile contexts need to build business cases and identify opportunities for investment in resilience. This will mean better articulating how they are going to deliver real results, ones that politically resonate with governments in fragile contexts precisely because they matter most for their people.

10.7. People-centred development has the best chance at enduring, sustainable results

What matters most for people must move back to the centre of development and be the beacon that guides aid, especially in contexts where parts of the population already are being left behind. Policies set at the global level are too often disconnected from their impacts on people's everyday lives. It is not just a matter of numbers: GDP is growing at a rate of 6% in Sierra Leone, for instance, and only 2.1% in Finland, but people in the two countries experience life very differently (World Bank, 2018[17]). Without the introduction of alternative metrics to weigh success, and the inclusion of people in fragile contexts as arbiters, it will be difficult to ascertain whether development is really being successfully

delivered in a way that does no harm and that also builds resilience and reinforces the social contract.

Hope matters, as Trend Eight argues. The delivery of development must take into account its impact on people. Attempts to find technical, surface solutions will overlook deeper feelings and perceptions of dissatisfaction, inequality and injustice, and they will undermine sustainability. Development that is not people-centred risks alienating populations when programmes fail to meet their expectations. Indeed, as noted in Trend Six, the social contract is the glue of resilient and peaceful societies. It depends on the ability of groups to work together and find collective purpose; it defines how people build relationships; and, in places that have experienced violent conflict, it helps to repair fractured relationships (UNDP, 2018, p. 9[18]). People in government and leadership positions play as critical a role as citizens, despite the fact that institutions and structures tend to be more commonly discussed with respect to statebuilding. Which pathway a society forges, as noted in the UN-World Bank study, depends on the agency of people in that society and the decisions they take (UN/World Bank, 2018, p. 85[7]).

Keeping people at the centre of development policy and actions also can address the issues raised in Trend Four regarding values-driven and interests-driven aid. Aid decisions increasingly reflect the tension between national interest, which in many places is being defined by fear, and the core value of helping people in fragile contexts improve their circumstances, reduce suffering and flourish as individuals. A recent evaluation of the European Union (EU) crisis response in Libya took note of this tension: "The securitisation of migration, and the framing of the latter as a crisis with destabilising potential, have led to the EU's normative commitments being overlooked, if not abandoned, in spite of their relevance precisely in time of crisis" (Loschi, Raineri and Strazzari, 2018, p. 24[19]). The EU is not alone in having short-term political imperatives increasingly dictate decisions about aid to fragile contexts. But putting people back at the centre will allow decisions, processes and planning to be made under a different set of principles.

Economists also are increasingly recognising that economic policies should be designed and assessed based on their contribution to people's economic and social rights (Anderlini et al., 2017, p. 9[20]). The OECD is in the process of developing a New Economic Narrative, one that acknowledges that traditional economic models based on GDP and income per capita do not capture the distributional consequences of policies. This is because they do not look at issues such as justice, trust or social cohesion or pay enough heed to the fact that real people's lives "are shaped by their hopes, aspirations, history, culture, tradition, family, friends, language, identity, the media, community and other influences" (Ramos, 23 June 2017[21]; OECD, 2017[22]).

In particular, young people hold the potential to be the "connective tissue" that bridges the nexus of development, human rights, humanitarian affairs, and peace and security and also bridges the local to the global (UN General Assembly/UN Security Council, 2018, p. 18[23]). Youth are the leaders of the future and so also hold the potential to be agents of transformational change. Development must support the meaningful inclusion of all people including youth within their societies to achieve a more peaceful and resilient future.

History indeed will judge the development community on how it manages, or not, to improve the state of fragility. The verdict is not in yet. But as this report confirms, it is abundantly clear that effectiveness and progress on fragility will have to be accelerated to bring about the transformational change that must happen in most of the 58 fragile contexts featured in the 2018 fragility framework. Change cannot wait until 2029 or for many more years of red alerts and high-level warnings; it must be planned, programmed for and

financed now (Eliasson, 2018[24]). Investment in the future – by all actors – must begin today and benefit all people.

Note

[1] This figure is based on a calculation of the average project budget for all projects approved over the lifetime of the Peacebuilding Fund by the Peacebuilding Support Office (PBSO).

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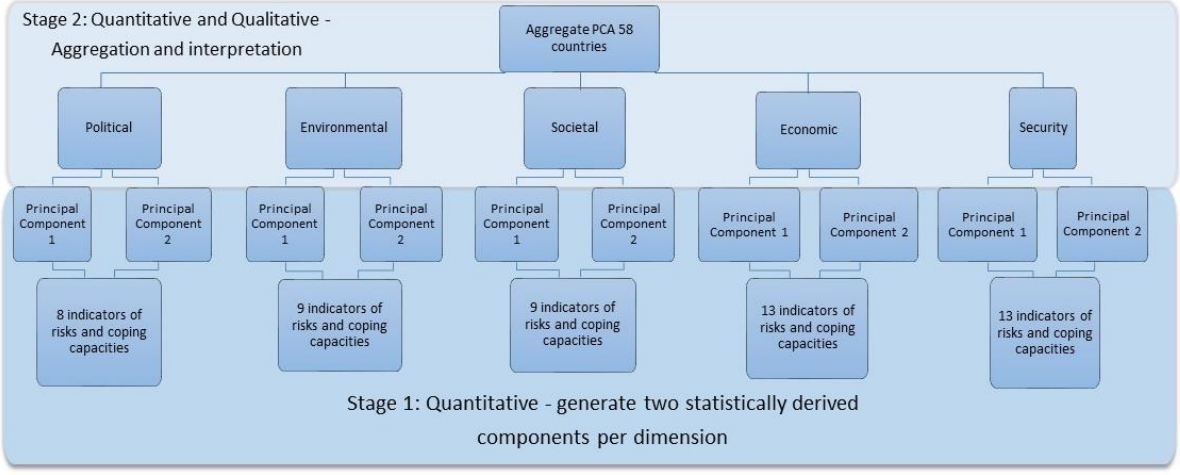
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Annex A. Methodological annex

The OECD fragility framework considers fragility to be multidimensional, measurable on a spectrum of intensity and expressed in different ways across five dimensions. It uses robust quantitative approaches to measure the magnitude of fragility, and it compares and contrasts different types of fragility descriptively. This mixed approach allows the analysis to extract the best value from the quantitative methods while also addressing the limitations of these methods through qualitative descriptions.

The methodology is based on a two-stage process that first examines contexts in each of five dimensions and then aggregates this information to obtain an overall picture of fragility. For each dimension, principal components analysis (PCA) is used to combine the risk and coping capacity indicators into two statistically derived components (Figure A A.1). Deriving two measures per dimension has distinct advantages over creating one composite index. First, using two measures allows for greater understanding of the differences among contexts that would score equally when a single measure is used. Second, using the first two principal components allows contexts to be broadly grouped based on their similarities in all of the input variables. Third, each indicator is weighted by the amount of new information it brings to the data, rather than on a set of normative judgements on their relative importance. With the components of each dimension calculated, contexts are then grouped on similarities and classified descriptively. Thus this mix of both quantitative and qualitative methods offers a more flexible approach to describing the diversity of fragility.

Figure A A.1. The 2018 OECD fragility framework methodology



Once contexts are classified into groups within each dimension, the second part of the methodology aggregates this information to arrive at an overall picture of fragile contexts.

To do so, the components of each dimension provide inputs to a second aggregate PCA that is then used to produce the 58 fragile contexts in the fragility framework.

The methodology is ambitious in its objectives but has limitations. By using PCA, the range of indicators can be reduced to two core components, thereby explaining most of the variance in the original data. However, in doing so information invariably is lost. The second stage of PCA (PCA Stage 2) exacerbates this loss of information. In short, the results of this approach are a summary of the initial indicators that is then interpreted in terms of fragility. Despite these limitations, this summary is both more informative and less arbitrary than any composite index based on the initial indicators.

Aside from the technical limitations, there are also certain practical limitations to what can be captured in any quantitative approach. The unit of analysis for the OECD fragility framework is country level. As a consequence, the framework is unable to capture macro-level drivers of fragility – drivers that spill over borders – or micro-level drivers that lead to localised pockets of fragility within states. Going forward, it would be useful to find ways to draw on subnational data and to link up regional and global data. Further, while data on governance are widely available, data on informal institutions are less so. While every effort has been made to include indicators of both of these, at this point the lack of quality data is a limiting factor for the model. Finally, the calculations exclude 27 countries and territories where there was insufficient data to feed into the analysis (Box A.1).

Box A A.1. Countries and territories not included in the fragility framework

Data availability is a key issue in calculating the OECD fragility framework. As the unit of analysis is the state or territory, it is important to select indicators that are comparable across those states and territories. While statistical imputation methods can be used to fill data gaps, such an approach is best used sparingly; preference should always be given to real-world data, even if it means dropping indicators or countries and territories that otherwise would have been included. The fragility framework methodology aims to strike a balance between the number of indicators, the contexts covered and the amount of imputation that would be required to build a complete data set. A criterion for inclusion in the OECD framework was at least 70% of the required data had to be available for a country or context. As a result, only 172 contexts could be included in the calculations.

This does not mean that the excluded contexts are not fragile. Indeed, many of those excluded are small island developing states that face unique challenges. The final list also excludes two territories with UN peacekeeping missions (Kosovo and Western Sahara) and several Pacific Island countries whose high levels of interpersonal violence are well known.

Table A A.1. countries and territories excluded in 2018 due to insufficient data

Anguilla	Kiribati	Niue	Tonga
Antigua and Barbuda	"Kosovo"	Palau	Turks and Caicos Islands
Belize	Malta	Saint Helena, Ascension and Tristan da Cunha	Tuvalu
Cook Islands	Marshall Islands	Saint Kitts and Nevis	
Dominica	Mayotte	Wallis and Futuna	
Federated States of Micronesia	Saint Lucia	Western Sahara	
Grenada	Nauru	Tokelau	
Montserrat	Saint Vincent and the Grenadines	Samoa	

Indicator coverage and missing data

The choice of indicators has been driven by selection criteria in line with the OECD's fragility concept of high risk and low coping capacity. Normal technical criteria for selecting good indicators were used, but with a particular and added emphasis on selecting indicators based on their relationship to fragility – that is, are they a *cause* of fragility or an *outcome* of fragility? Indicators that represent outcomes of fragile contexts do not offer clear guidance as to policies that can reduce fragility. For example, infant mortality is an indicator used in several fragility measures. However, infant mortality is arguably more of an outcome of a fragile health context than a cause of it. In selecting indicators, then, the following factors were considered, in keeping with OECD concept of fragility:

- **Risk**. Do the indicators alter either likelihood or impact ex-ante?
- **Coping capacity**. What indicators would stop the risk cascading ex-post if the risk occurred

Using these criteria does not eliminate the challenge of separating some indicators into the category either of a risk or a coping capacity. For example, the level of armed personnel can be considered a coping capacity for dealing with insurgencies. It can also be considered a contributor to the risk of violence. Methodological decisions have been made to account for this challenge to produce the best approximation, given the limitations.

Further, some coping capacity indicators have been used in more than one dimension, introducing an unintended issue in aggregating the dimensions to provide the final 58 contexts used in analysing flows by fragility. Using indicators more than once essentially weights these indicators more than others. Statistical measures have been used to minimise this effect, and this method ultimately was chosen as the preferred alternative to dividing some of these indicators into one, and only one, dimension. For example, government effectiveness and rule of law are important not only for the security dimension but also for the environmental dimension. Forcing them into a single dimension arbitrarily creates an incomplete picture of the interconnectedness of coping capacities. Therefore, the de facto weighting effect was considered justifiable, if not ideal, given cross-dimensional importance. Table A A.2 lists the indicators used in the 2018 fragility framework.

Table A A.2. Indicators of Fragility

Dimension	Type	Indicator name	Source	Description
Societal	Risk	Gini coefficient	V-DEM	Distribution of income expressed as a Gini coefficient
	Risk	Gender inequality	UNDP/HDI	Measures gender inequalities in reproductive health (maternal mortality ratio and adolescent birth rates); empowerment (proportion of parliamentary seats occupied by females and proportion of adult females and males aged 25 years and older with at least some secondary education); and economic status (expressed as labour market participation and measured by labour force participation rate of female and male populations aged 15 years and older)
	Risk	Horizontal inequality	V-DEM	Do all social groups (distinguished by language, ethnicity, religion, race, region or caste) enjoy the same level of civil liberties or are some groups generally in a more favourable position?
	Risk	Uprooted people	INFORM	Combination of the number of refugees, returned refugees and internally displaced persons
	Risk	Urbanisation growth	WB	Annual urban population growth
	Coping	Core civil society index	V-DEM	Provides a measure of how robust a nation's civil society is
	Coping	Access to justice	V-DEM	Extent to which citizens enjoy secure and effective access to justice
	Coping	Voice and accountability	WGI	Reflects perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association and free media
Political	Risk	Regime persistence	Polity IV	Number of years polity has persisted (as measured by no change in any of the Polity IV measures)
	Risk	Political terror	PTS	Levels of state-sanctioned or state-perpetrated violence (e.g. political violence such as assassinations of political challengers and police brutality)
	Risk	Perception of corruption	TI	TI Transparency International (TI) Corruption Perceptions Index (CPI) ranks countries annually by their perceived levels of corruption, as determined by expert assessments and opinion surveys". The CPI generally defines corruption as "the misuse of public power for private benefit".
	Coping	Decentralised elections	V-DEM	Are there elected regional governments and, if so, to what extent can they operate without interference from unelected bodies at the regional level?
	Coping	Voice and accountability	WGI	Reflects perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association and free media
	Coping	Restricted gender physical integrity value	OECD	Measures prevalence of laws on rape and domestic violence and captures experience of violence
	Coping	Judicial constraints on executive power	V-DEM	To what extent does the executive respect the constitution and comply with court rulings, and to what extent is the judiciary able to act in an independent fashion?
	Coping	Legislative constraints on executive power	V-DEM	To what extent are the legislature and government agencies (e.g. comptroller general, general prosecutor or ombudsman) capable of questioning, investigating and exercising oversight over the executive?
Environmental	Risk	Natural hazard exposure	INFORM	Measures the exposure to disasters such as earthquake, tsunami, flood, tropical cyclone and drought
	Risk	Environmental health	Yale	Measure of health impacts, quality of air, water and sanitation

Dimension	Type	Indicator name	Source	Description
	Risk	Uprooted people	INFORM	Combination of the number of refugees, returned refugees and internally displaced persons
	Risk	Prevalence of infectious disease	GBD and CSIS	Infectious disease deaths per 100 000 population
	Risk	Socio-economic vulnerability	INFORM	Measures the (in)ability of individuals and households to afford safe and resilient livelihood conditions and well-being; combines indicators of development and deprivation, inequality and aid dependency
	Coping	Rule of law	WGI	Reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, in particular the quality of contract enforcement, property rights, police and courts, and the likelihood of crime and violence
	Coping	Government effectiveness	WGI	Captures perceptions of the quality of public services; the quality of the civil service and the degree of its independence from political pressures; the quality of policy formulation and implementation; and the credibility of the government's commitment to such policies
	Coping	Core civil society index	V-DEM	How robust is civil society?
	Coping	Food security	INFORM	Prevalence of undernourishment, average dietary supply adequacy, domestic food price index and domestic food price volatility
Economic	Risk	Resource rent dependence	WB	The sum of oil rents, natural gas rents, coal rents (hard and soft), mineral rents and forest rents
	Risk	General government gross debt	IMF	General government debt as a percentage of GDP
	Risk	NEET	ILO	Proportion of youth not in employment, education or training (NEET)
	Risk	Aid dependency	INFORM	Combination of net ODA as a percentage of GNI, total ODA per capita in the last two years and total humanitarian aid per capita in last two years
	Risk	Unemployment rate	WB	Unemployment rate
	Risk	Socio-economic vulnerability	INFORM	Combination of indicators related to development and deprivation, inequality, and aid dependency
	Risk	GDP growth rate	WB	Compound annual growth rate of GDP over the last five years
	Coping	Women in labour force	UNDP/HDI	Percentage of female participation in the labour force
	Coping	Males in labour force	UNDP/HDI	Percentage of male participation in the labour force
	Coping	Education	HDI	Measured by the mean of years of schooling for adults age 25 years and over and expected years of schooling for children of school age entering school
	Coping	Regulatory quality	WGI	Reflects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development
	Coping	Remoteness	EVI	Trade-weighted average distance from world markets
	Coping	Food security	INFORM	Prevalence of undernourishment, average dietary supply adequacy, domestic food price index and domestic food price volatility
Security	Risk	Violent conflict risk	INFORM	Statistical risk of violent conflict in the next 1-4 years based on 25 quantitative indicators from open sources.
	Risk	Homicide rate	UNODC	Intentional homicide rate per 100 000 population

Dimension	Type	Indicator name	Source	Description
	Risk	Level of violent criminal activity	IPD	Intensity of violent activities by underground political organisations: by criminal organisations (e.g. drug trafficking, arms trafficking, prostitution, etc.).
	Risk	Deaths by non-state actors per capita	UCDP-NS	Total of one-sided and non-state actor datasets, average per capita rate, 2013-16.
	Risk	Impact of terrorism	IEP/START	Global Terrorism Index score for a context in a given year accounts for the relative impact of incidents in the year. Four factors are counted: number of terrorist incidents; number of fatalities caused by terrorism; number of injuries caused by terrorism; and approximate level of total property damage from terrorist incidents in a given year. It is a five-year weighted average to capture lingering fear effects.
	Risk	Battle-related deaths per capita (log)	UCDP-BD	Total of battle-related deaths per capita, transformed using the logarithm function
	Coping	Police officers per 100 000	GPI	Police officers per 100 000 population
	Coping	Armed security officers per 100 000	GPI	Armed security officers per 100 000 population
	Coping	Rule of law	WGI	Reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, in particular the quality of contract enforcement, property rights, police and courts, and the likelihood of crime and violence
	Coping	Control over territory	V-DEM	Over what percentage of the territory does the state have effective control?
	Coping	Government effectiveness	WGI	Captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures; the quality of policy formulation and implementation; and the credibility of the government's commitment to such policies.
	Coping	Restricted gender physical integrity value	OECD	Measures prevalence of laws on rape and domestic violence and captures experience of violence
	Coping	Formal alliances	COW	Formal alliance between at least two states that falls into the class of defence pact, neutrality or non-aggression treaty, or entente agreement

Age of data

The 43 indicators selected do not cover all contexts and imputation techniques have been used to fill in data gaps. Lack of data is the primary reason why a context may not be included. At least 70% of data for a context had to be available for it to be included in the OECD fragility framework. In 2018, this yields a list of 172 contexts. It is possible to assume that contexts missing from the dataset have a certain value for some indicators. For example, those missing from the datasets for battle deaths and deaths by non-state actors can be assumed to have a value of 0. Where no reasonable assumption could be made, data are imputed using k-nearest neighbour (KNN) imputation that uses statistical inference to fill in missing data from the k most similar contexts. In the OECD fragility framework, this has been done using the 15 most similar contexts for each missing data point (Table A A.3).

Table A A.3. Indicator coverage

Indicator	Minimum year of data used	Maximum year of data used	Number of countries with available data	Imputation technique used
Access to justice	2016	2016	169	KNN
Aid dependency	2016	2016	172	KNN
Armed security officers per 100 000	2017	2017	161	KNN
Battle-related deaths per capita (log)	2016	2016	172	Missing countries assigned 0
Control over territory	2012	2015	164	KNN
Core civil society index	2016	2016	169	KNN
Deaths by non-state actors per capita	2016	2016	172	Missing countries assigned 0
Decentralised elections	2016	2016	169	KNN
Education	2015	2015	170	KNN
Environmental health	2016	2016	169	KNN
Food security	2016	2016	172	KNN
Formal alliances	2012	2017	172	KNN
GDP growth rate	2015	2015	165	KNN
Gender inequality	1995	2015	154	KNN
General government gross debt	2008	2016	164	KNN
Gini coefficient	2012	2015	148	KNN
Government effectiveness	2016	2016	172	KNN
Homicide rate	2008	2015	172	KNN
Horizontal inequality	2016	2016	169	KNN
Impact of terrorism	2016	2016	172	KNN
Judicial constraints on executive power	2016	2016	169	KNN
Legislative constraints on executive power	2016	2016	169	KNN
Level of violent criminal activity	2016	2016	140	KNN
Males in labour force	2015	2015	171	KNN
Natural hazard exposure	2016	2016	172	KNN
NEET	1995	2016	140	Combined OECD data with World Bank and ILO datasets
Perception of corruption	2016	2016	166	KNN
Police officers per 100 000	2017	2017	161	KNN
Political terror	2015	2015	172	KNN
Prevalence of infectious disease (deaths per 100 000)	2016	2016	172	KNN
Regime persistence	2016	2016	164	KNN
Regulatory quality	2016	2016	172	KNN
Remoteness	2005	2015	155	OECD countries assigned 0, KNN imputation for the remainder
Resource rent dependence	2007	2015	171	KNN
Restricted gender physical integrity value	2014	2014	144	OECD countries given OECD average, KNN imputation for the remainder
Rule of law	2016	2016	172	KNN
Socio-economic vulnerability	2016	2016	172	KNN
Unemployment rate	2016	2016	170	KNN
Uprooted people	2016	2016	172	KNN
Urbanisation growth	2011	2016	172	KNN
Violent conflict risk	2016	2016	172	KNN

Voice and accountability	2016	2016	172	KNN
Women in labour force	2015	2015	171	KNN

Creating a time series

States of Fragility 2018 extends previous OECD work by creating a time series for deeper analysis of improvements and deteriorations in previously identified fragile contexts. To do this, all data have been imputed and extended to a period spanning 2016 and 2017. Using only 2016 or 2017 data, PCA models were generated for all five dimensions and aggregate scores. These models were applied across different years to create a time series comparable from year to year.

Cluster analysis

Fragile contexts can be grouped based on their similar characteristics. In order to identify frequently repeating patterns across these contexts and to group them based on their performances, a clustering algorithm was carried out using a hierarchical clustering procedure. Hierarchical clustering has emerged as a useful baselining tool in political science studies (Wolfson, Madjd-Sadjadi and James, 2004[1]). The clustering procedure provides two results. First, each context is grouped with other contexts that have the highest possible similarity with one another. Second, it defines the profile of an average context for each group. The profiles highlight the relevant attributes and distinct profile of each group, making it possible to quantitatively differentiate among groups. Six groups or clusters have been identified and named. The main attributes of each cluster are defined by their unique quantitative behaviour.

The OECD uses the clustering procedure as an indicative aid to assist in the qualitative assessment of different types of fragility. The severity of factors and/or combination of factors have been assessed by experts. Within each dimension, clusters have been ranked on a six level severity scale:

1 = Severe fragility

2 = High fragility

3 = Moderate fragility

4 = Low fragility

5 = Minor fragility

6 = Non-fragile

Once grouped, each cluster is compared to every other cluster to determine what characteristics best define its specific fragility. To do this, a Tukey ANOVA test is used (Hinton, 2014[2]). This method takes the means of all indicators within each cluster and conducts a difference in means test, which compares the mean of indicators in every other cluster. A statistical significance criterion has been developed to identify indicators whose levels are unique to any cluster when compared to the rest of the world. This criterion identifies indicators where the mean for any one cluster is significantly different at 95% confidence levels from at least four of the remaining clusters. Broadly speaking, this criterion can be interpreted as highlighting indicators in each cluster that are statistically different to at least 80% of the rest of the world.[1]

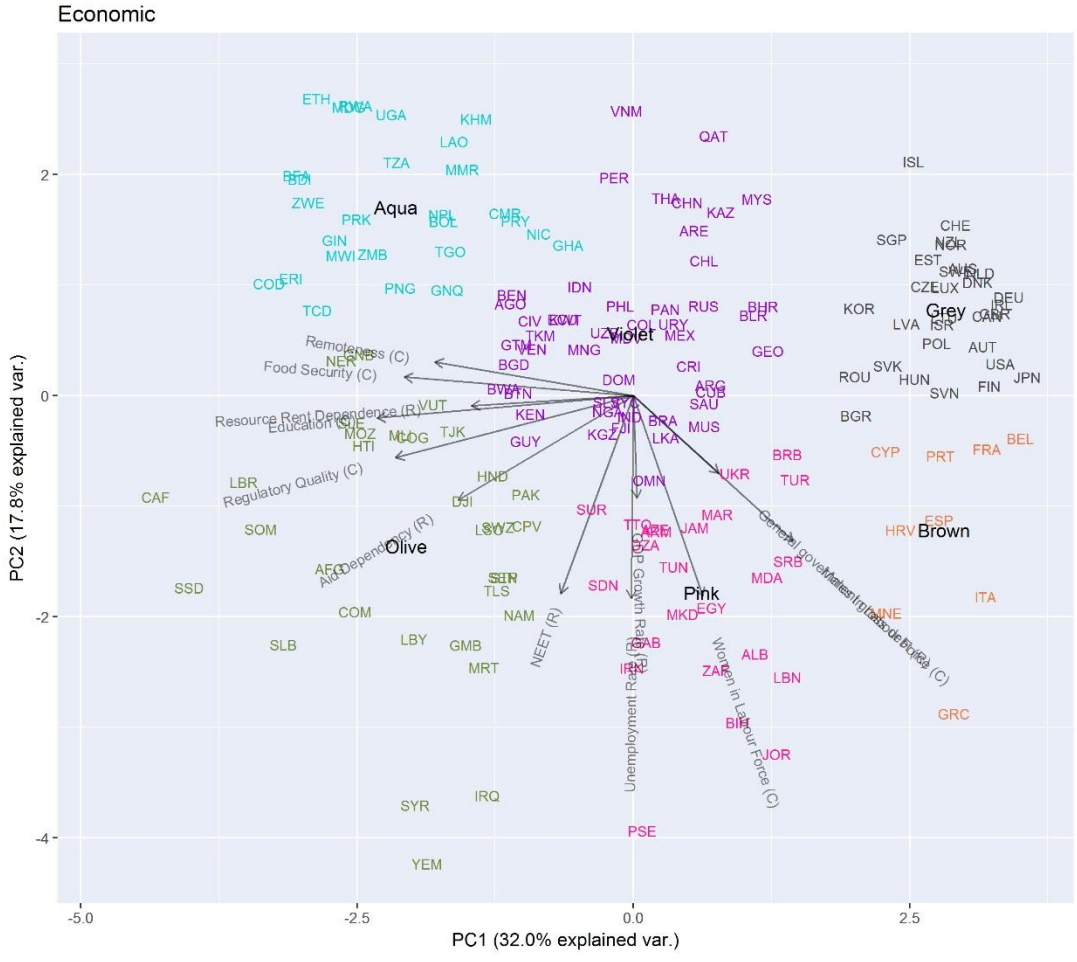
The next sections will show and describe the results of the cluster analyses for each of the five dimensions of the OECD's 2018 fragility framework.

Economic dimension

The economic dimension aims to capture the vulnerability to risks stemming from the weaknesses in economic foundations and human capital including macroeconomic shocks, unequal growth, high youth unemployment, etc.

Figure A A.2 shows the economic dimension biplot with each cluster in a different colour. The results of the Tukey ANOVA test for significance suggest that the aqua-coloured cluster is distinguished by higher participation of men and women in the workforce. However, this cluster is weaker in regulatory quality, food security, education, socio-economic vulnerability and dependence on resource rent. The olive-coloured cluster shares the same weaknesses, with additional weaknesses in NEET and aid dependence.

Figure A A.2. Economic dimension typology

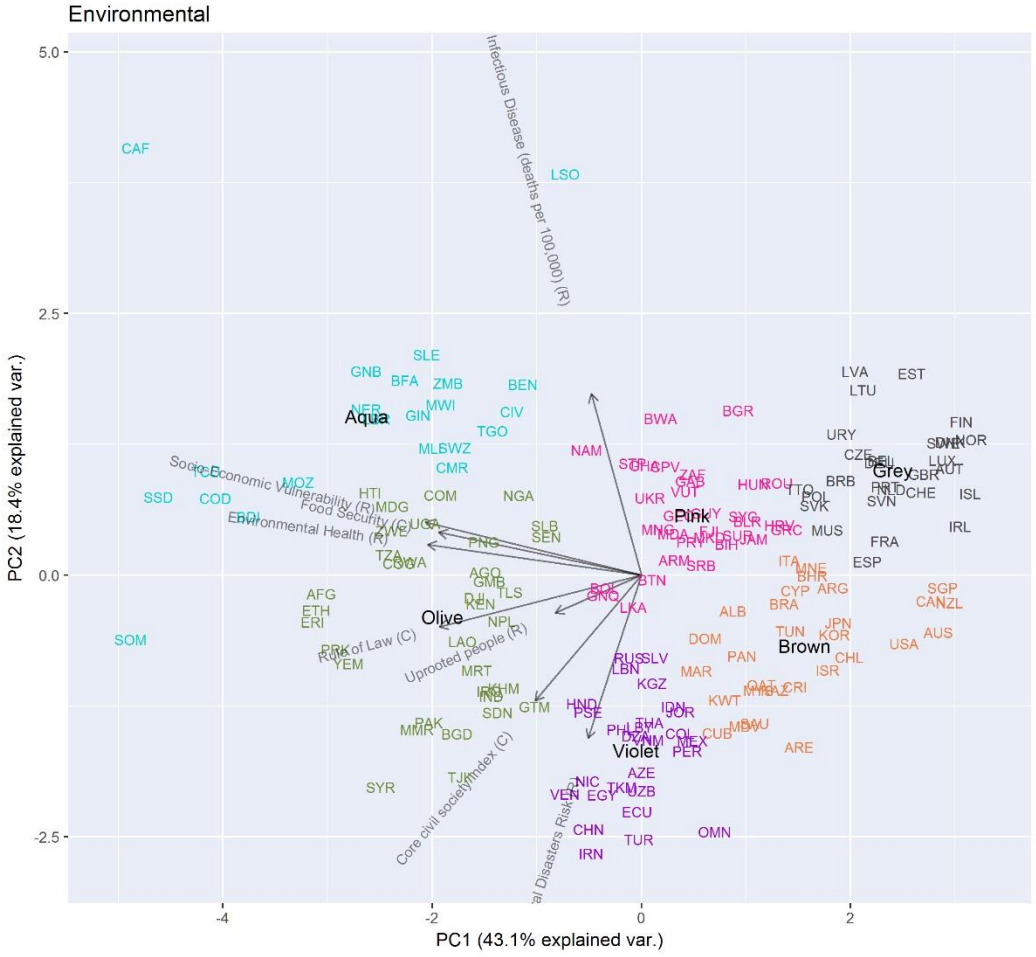


Environmental dimension

The environmental dimension aims to capture the vulnerability to environmental climactic and health risks to citizens' lives and livelihoods. This includes exposure to natural disasters, pollution and disease epidemics.

Figure A A.3 shows the biplot with each cluster in a different colour. The results of the Tukey ANOVA test for significance suggest that the aqua-coloured cluster is distinguished by low environmental health and high prevalence of disease and socio-economic vulnerability. The violet cluster is distinguished by high exposure to natural disaster. The grey cluster is strong in rule of law and government effectiveness and has low socio-economic vulnerability and lower levels of environmental health.

Figure A A.3. Environmental dimension typology

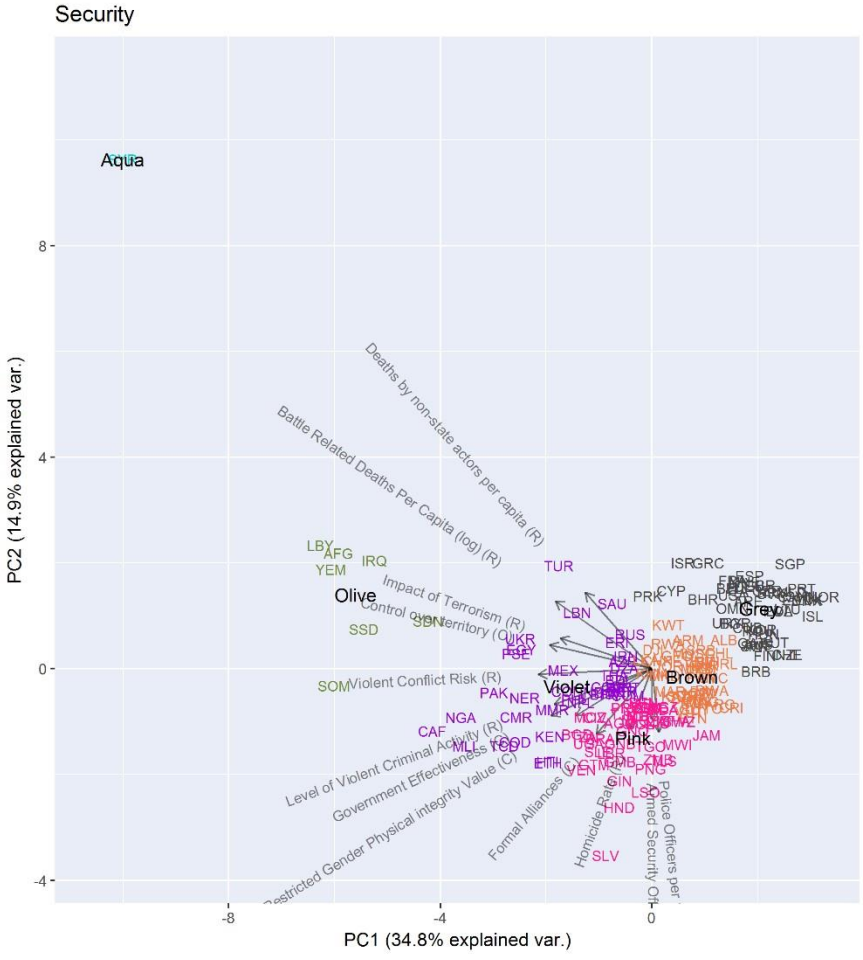


Security dimension

The security dimension aims to capture the vulnerability of citizen security emanating from social and political violence. As such it includes indicators of citizen exposure to direct political and social violence.

Figure A A.4 shows the security dimension biplot with each cluster in a different colour. The results of the Tukey ANOVA test for significance suggest that the aqua-coloured cluster is distinguished by higher deaths by non-state actors, higher battle-related deaths and low control of territory. However, this cluster has stronger coping capacities than other clusters. The olive cluster is distinguished by higher levels of interpersonal and political violence. It is weak in coping capacities relating to rule of law and government effectiveness. The grey cluster is stronger in government effectiveness, rule of law and formal alliances, which lead to lower risk of conflict and violent crime.

Figure A A.4. Security dimension typology

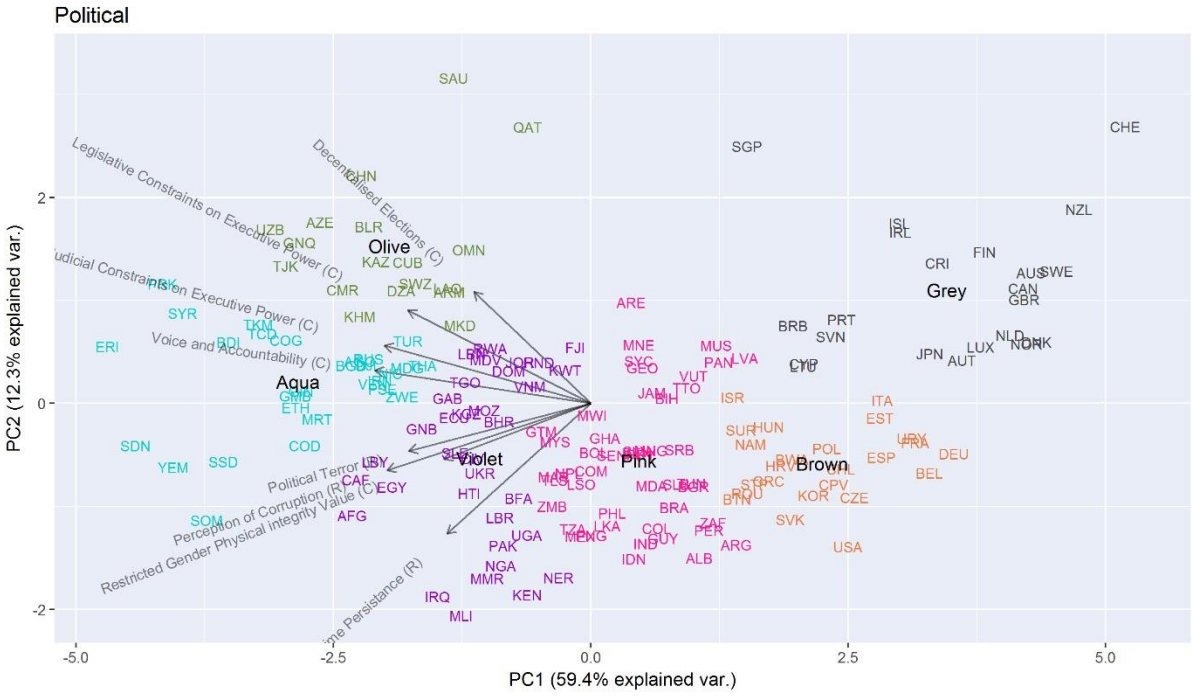


Political dimension

The political dimension aims to capture the vulnerability to risks inherent in political processes, events or decisions, to its political inclusiveness (incl. elites) and transparency (corruption) and to its ability to accommodate change and avoid oppression.

Figure A A.5 shows the biplot coloured by cluster. The results of the Tukey ANOVA test for significance suggest that the aqua-coloured cluster is distinguished by having higher political terror and perception of corruption. It is also weak in coping capacities relating to voice and accountability, gender physical integrity, and constraints on executive power. Conversely, the olive cluster is weak in all but one of the coping capacities but does not have the same presence of risk factors as can be seen in the aqua cluster. The brown and grey clusters have strong coping capacities coupled with low levels of risk factors.

Figure A A.5. Political dimension typology

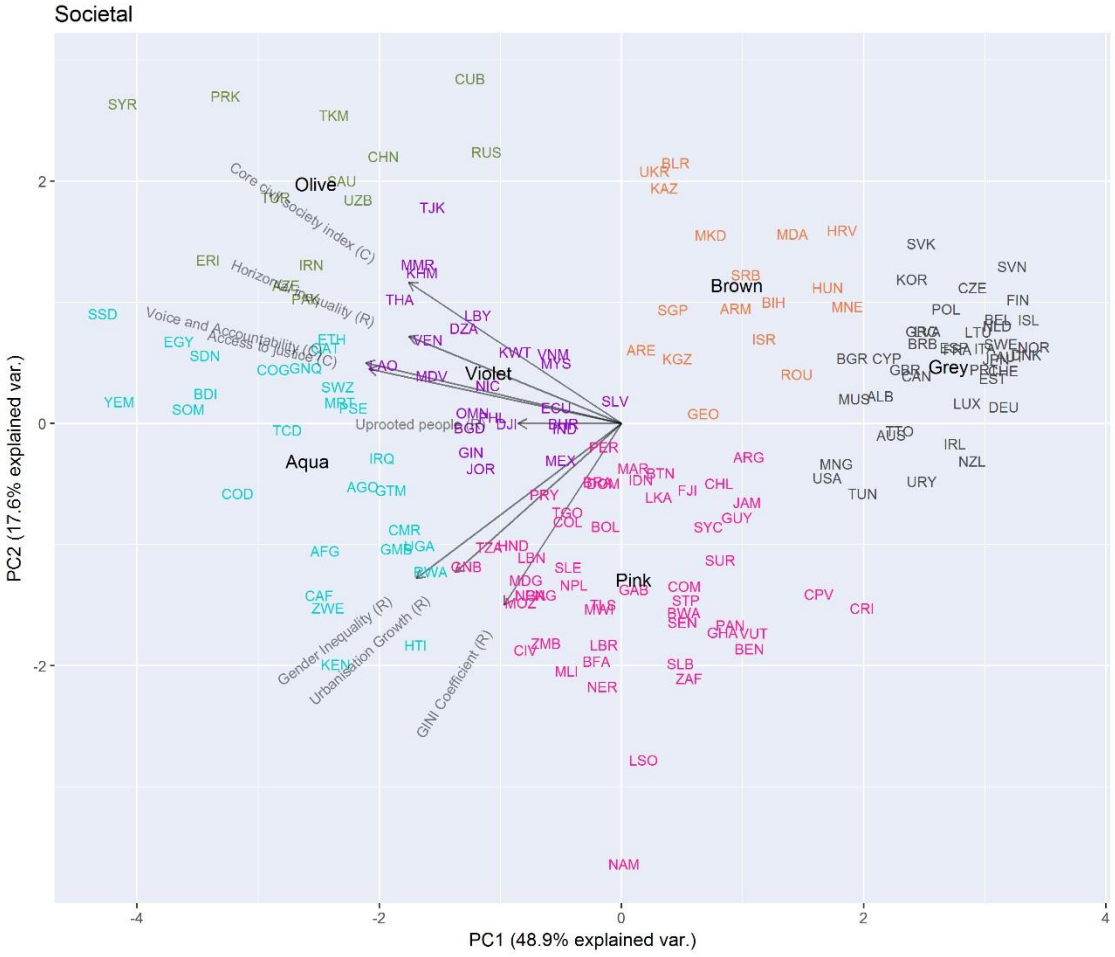


Societal dimension

The societal dimension aims to capture the vulnerability to risks affecting societal cohesion that stem from both vertical and horizontal inequalities (inequality among culturally defined [or constructed] groups), social cleavages, etc.

Figure A A.6 shows the biplot coloured by cluster. The results of the Tukey ANOVA test for significance suggest that the aqua-coloured cluster is distinguished by having lower coping capacities in voice and accountability and access to justice. It is also faced with high risks through urbanisation growth, uprooted people and both gender and income inequality. The olive cluster is distinguished by low levels of all coping capacities and high horizontal inequality. The grey cluster is strong in coping capacities and faces lower levels of risk.

Figure A A.6. Societal dimension typology



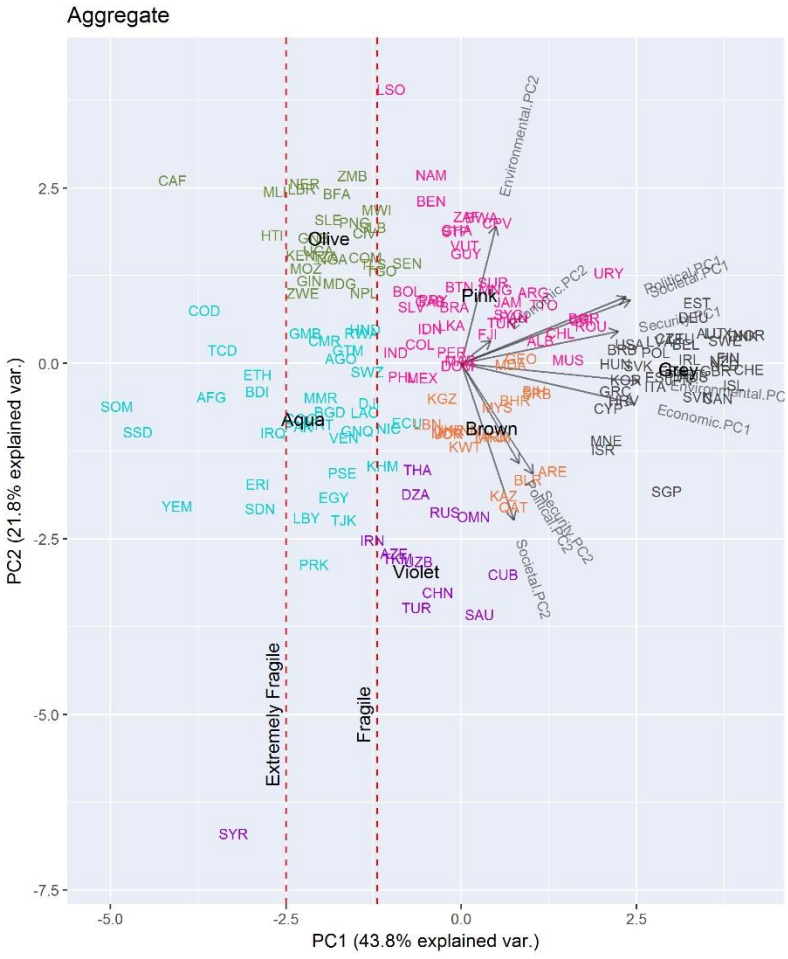
Aggregate fragility

The second part of the OECD methodology aggregates all of the information to arrive at an overall picture of combinations of fragilities. This second tier aggregate analysis generated the group of the 58 most fragile contexts, which are classified as extremely fragile and fragile.

The second tier PCA generated six fragility clusters that, are differentiated not only by their extent of fragility but also in the dominant characteristics of that fragility. This is shown in Figure A A.7. The first dimension of the PCA represents coping capacities. The second dimension represents the types of fragility. To arrive at the 58 most fragile contexts, two cut-offs have been selected. In order for a context to be classified as extremely fragile, it has to score less than -2.5 on the first principal component of the aggregate PCA shown in Figure A A.7. In order to be classified as fragile, a context must score between -1.2 and -2.5 on the first principal component.

The biplot of the aggregate can be split by contexts above and below the x-axis. Those above the x-axis are dominated by economic factors and the contexts below the x-axis are dominated by fragilities in the political, societal and/or security dimensions. Fragility in the environmental dimension can be found in contexts above and below the x-axis.

Figure A A.7. Biplot for aggregate fragility



Notes

[1] This report includes 172 countries grouped into 6 clusters for each dimension. By conducting the Tukey ANOVA test at 95% confidence for all our indicators, we are comparing the indicators' means of each cluster to the indicators' means of the other clusters. If any mean is statistically different from the means of at least four of the remaining five clusters, it is considered a defining characteristic. Significance in this case can broadly be interpreted as indicators' means for each cluster being statistically different to approximately four-fifths (80%) of the rest of the world.

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States of Fragility 2018

Three years into the 2030 Agenda it is already apparent that those living in fragile contexts are the furthest behind. Not all forms of fragility make it to the public's eye: fragility is an intricate beast, sometimes exposed, often lurking underneath, but always holding progress back. Conflict, forced displacement, violent extremism, famine etc. are all causes and consequences of fragility. Hence the need to better understand, anticipate and respond to fragility.

States of Fragility 2018 exposes the critical challenge posed by fragility in achieving the aspirations of the 2030 Agenda, sustainable development and peace. It highlights twelve key aspects of fragility, defying common assumptions and simplistic categorisation. It documents progress made in fragile situations on attaining sustainable development, unveiling exit doors from the fragility trap. It then illustrates the current state of financing to address fragility and suggests more effective approaches, accounting for its multidimensionality.

Above all, the report aims to strike a balance between fragility's inherent complexity and the degree of simplicity that is required for efficient policy and decision making, namely through systems-based thinking; longer-term, consistent aid plans; the financing of peace; and a persistent focus on human beings.

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